



TUVALU TRUST FUND

ANNUAL REPORT

2020

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Abbreviations & Acronyms

A\$	Australian Dollar
CIF	Consolidate Investment Fund
CPI	Consumer Price Index
GoT	Government of Tuvalu
IC	Investment Committee
NZ	New Zealand
TTF	Tuvalu Trust Fund
TTFAC	Tuvalu Trust Fund Advisory Committee
UK	United Kingdom

Chairman's Report

I am honoured to present the 2020 Annual Report of the Tuvalu Trust Fund for the financial year ending 30 September 2020. 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 2020, the Market Value of the Fund has increased from A\$180.8 million in 2019 to A\$183.2 million. This included additional the capital contribution from the Australian Government of A\$1.03 million. Maintained value over the year grew from A\$183.3 million to A\$185.6 million as at 30 September 2020.

Over the course of the year, the world went through challenging times due to the Covid-19 pandemic. This spilled over to markets and the Fund was affected during the March 2020 market crash. The Fund recovered quickly as fast as it declined yet at the end of the financial year for the first time in seven years, the Market Value has not exceeded the Maintained Value and saw no distribution for the year.

Despite this minor fallback we must bear in mind that markets may turn against us any time. I commend the Fund Managers for taking protective measures in advance to ensure the Fund was not heavily affected. It is evident following the market crash how rapidly the Fund recovered and the challenge now is to ensure the Fund continues to grow 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.

Tuvalu Trust Fund Background

Historical Note

The Tuvalu Trust Fund (TTF) 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 (NZ), Australia and the United Kingdom (UK) as the original parties.

Purpose of the Fund

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

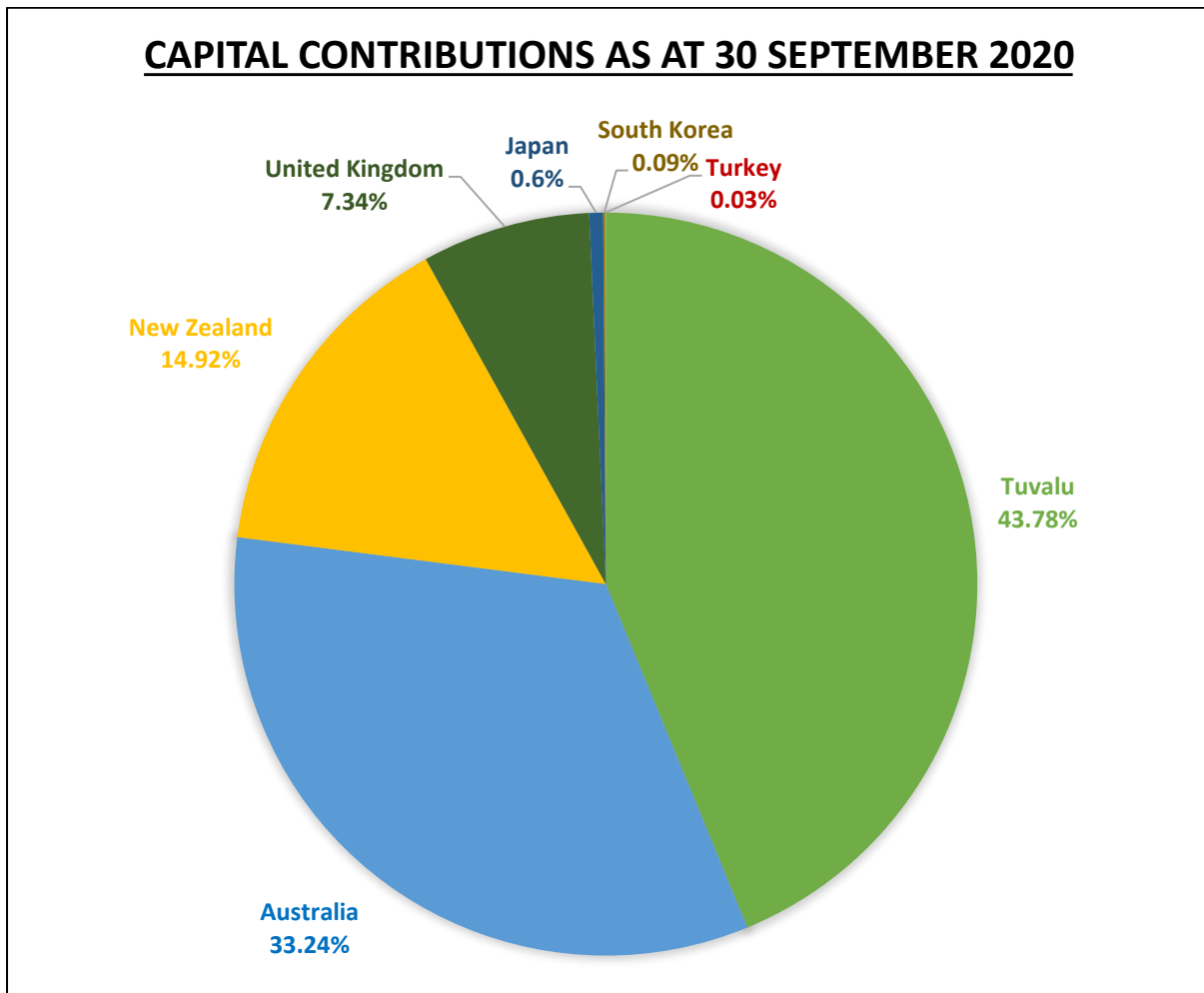
- a) assist the Government to achieve greater financial autonomy in the management of its recurrent budget;
- b) enable the Government to maintain, and if possible, improve existing levels of social infrastructure and services;
- c) enhance the capacity of the Government to receive and effectively utilize 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

Contributions to the Fund

On 21 August 1987, the Fund was invested with an initial value of A\$26.4 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. Soon after the Agreement was signed the Governments of Japan and South Korea made contributions to Fund of A\$0.7 million and A\$0.03 million respectively. This increased the initial investment to A\$27.1 million. The Government of Turkey contributed \$0.03 million to the Fund as well in 2014.

Since inception, the Fund has continued to receive additional contributions from the parties to the Fund. The chart below (Figure 1) summarises the contributions by each country from the establishment of the Fund up to 30 September 2020. In June 2020, the Australian Government contributed A\$1.03 million.

Figure 1: Contribution by Country into the Fund



As at 30 September 2020, the total capital contributions to the Fund from each party is as follows: Tuvalu - A\$50.7 million; Australia - A\$38.5 million; New Zealand – A\$17.3 million; United Kingdom – A\$8.5 million; Japan – A\$0.7 million; South Korea – A\$0.1 million; and Turkey – A\$0.03 million.

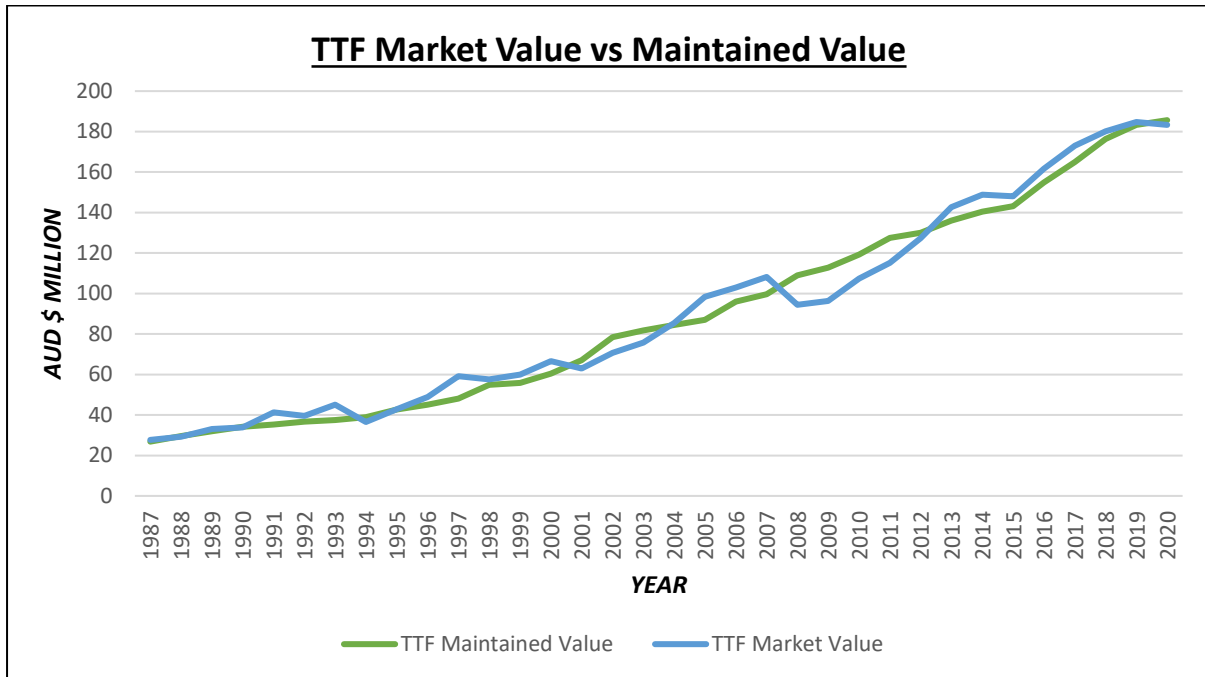
The Growth of the Tuvalu Trust Fund

The Market Value of the Fund as at 30 September 2020 stood at A\$183.25 million compared to A\$184.74 million at 30 September 2019.

The Maintained Value of Fund as at 30 September 2020 stood at A\$185.65 million compared to A\$183.33 million at 30 September 2019. This included the capital contribution from Australia of A\$1.03 million in June 2020. The investment performance for the year was -0.6%

The chart below (Figure 2) shows the Fund’s Market Value compared to its Maintained Value since inception to 30 September 2019.

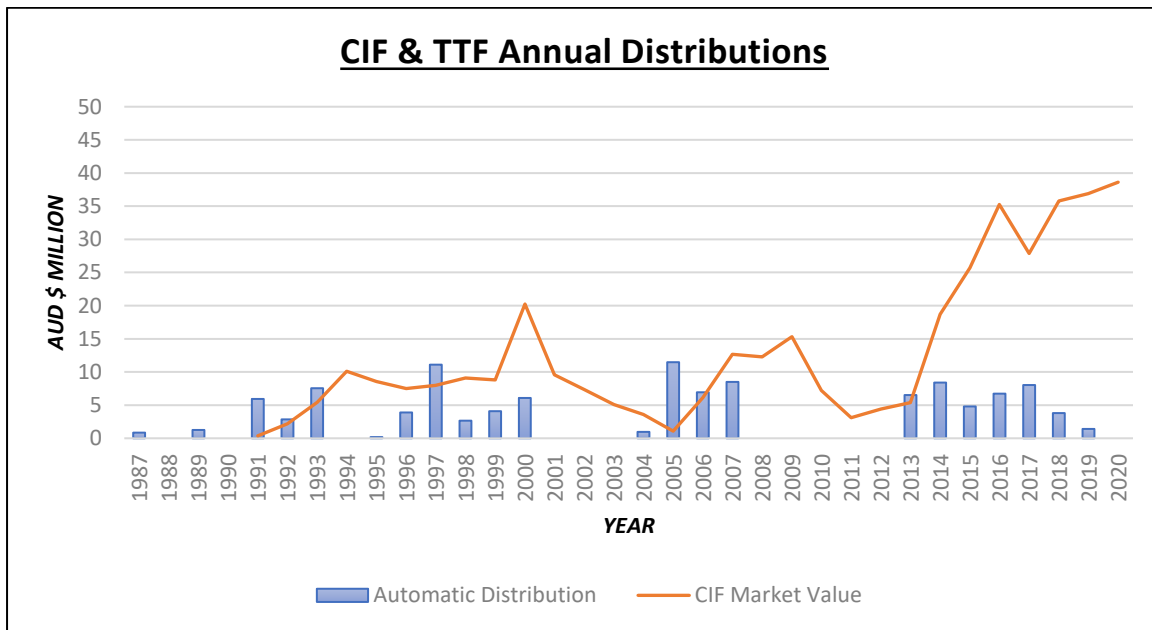
Figure 2: TTF Market Value vs. Maintained Value



Consolidated Investment Fund (CIF)

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.

As at 30 September 2020, the CIF’s value stood at A\$38.62 million compared to A\$36.9 million at the end of 2019. The chart below (Figure 3) shows the CIF balance and the annual distributions from the TTF since inception to 30 September 2020.

Figure 3: CIF Balance & TTF Annual Distributions

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 UK – are the members of, and those responsible for, the Tuvalu Trust Fund. Following its regional program review, the UK withdrew its membership of the Tuvalu Trust Fund Board and the Advisory Committee in 2004.

Appointment of 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. Seve Paeniu

Chairman

Minister of Finance

for the Government of Tuvalu

(2019 to present)

Mr. Matthew Fehre

Director

Counselor, Development Cooperation, DFAT

for the Government of Australia

(2018 to present)

H.E. Matthew Howell

Director

New Zealand High Commissioner to Tuvalu

for the Government of New Zealand

(2017 to present)

Service Providers

Investment Committee:

Mr. David Hutton – Australia Advisor/Chair

Ms. Nalayini Brito – NZ Advisor

Mr. Faivatala Lee Moresi – Tuvalu Advisor

Advisory Committee:

Mr. Siliga Kofe – Tuvalu Government Consultant

Mr. Pete Rodger – NZ Government Consultant

Mr. Stuart Schaefer – Australia Government Consultant

Fund Monitor/Investment Consultant:

Russell Investments – Mr. Matthew Arnold – Director

Russell Investments – Mr. Guy Fisher – Senior Consultant

Fund Managers:

Schroder Investment Management – Mr. Paul Raih – Institutional Sales Manager

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

Fund Auditor:

KPMG – Mr. Michael Yee Joy – Partner

Secretariat:

Ms. Fatiau Teikausi – Secretary

Ms. Violeti Auega Fauila – Assistant Secretary

Highlights of the Year

Appointment of new Fund Monitor/Investment Consultant

TTF appointed its new Fund Monitor/Investment Consultant, Russell Investments (based in Auckland, NZ) after a vigorous tender process. Russell Investments was founded in 1936 in Tacoma, Washington and expanded its services with offices based around the globe including New Zealand. With 85 years in business, Russell Investments has more than 50 years of experience in institutional investment consulting.¹

The consulting agreement was formally signed by the Minister of Finance/Chairman and the TTF Secretary on behalf of the Fund. The commencement of the agreement is 1 July 2020 for a 3-year term.

Fund Performance

The TTF benchmark is CPI +4.5% and the Fund return for the year was -0.6% while inflation (as measured by the Australian Consumer Price Index [CPI] All Groups Index) was 0.7%. The Fund performance for the year was -5.8% below the Fund target.

The target return for the AMP Extended Multi-Asset Fund (Wholesale) is CPI +5.75% and the target return for the Schrodgers Real Return is CPI +5%. Schrodgers returned 0.3% and AMP -1.5%.²

Market Value

As at 30 September 2020, the TTF Market Value was A\$183,249,548 which is split between the following Fund Managers:

Schroder Investment Management	91,900,281
AMP Capital	91,349,267
TOTAL	183,249,548

Based on the above figures 50.15% is invested with Schrodgers and 49.85% is invested with AMP Capital.

The Fund reduced significantly in March 2020 due to the market crash in February/March 2020 caused by Covid-19. This was followed by a significant recovery in share markets.³ This was evident of the Fund's monthly valuations following March's market crash. The table below shows the quarterly Market Value for the quarters December 2019, March 2020 and June 2020:

December 2019	187,067,867
---------------	-------------

¹ Overview of Russell Investments provided from website <https://russellinvestments.com/nz/about-us/where-we-began>

² Investment results sourced from Russell Investment's Quarterly Performance Report as at 30 September 2020 (3rd Quarter)

³ Investment results sourced from the IC Report as at 30 September 2020

March 2020	172,745,875
June 2020	181,197,610

The A\$1,414,721 that was approved for distribution based on the September 2019 valuation (Market Value above Maintained Value) was withdrawn in September 2020 and invested into the CIF. A distribution reduces Market Value but not Maintained Value.

Maintained Value

As at 30 September 2020, the TTF Maintained Value was A\$185,645,303 including the additional contribution from Australia of A\$1,030,000 and all adjusted for inflation for the financial year.

The June 2020 Quarter, the Australian CPI was negative by -1.89% which would decrease the Maintained Value. The IC and Russell Investments recommended if there is a negative CPI, the Maintained Value should be decreased since the aim is to maintain real value. The Board approved this recommendation in the November 2019 at TTF 70th Board Meeting.

Annual Distribution 2020

As at 30 September 2020, the Market Value was below the Maintained Value by A\$2.36 million (-1.3%) therefore no distribution for 2020.

Consolidated Investment Fund

The CIF is invested into the Schrodgers Real Return CPI+3.5% and the Fund return for the year was 1.1%. The CIF performance for the year was -1.1% below the Fund target.

As at 30 September 2019, the Market Value of the CIF was A\$36,879,933 and increased to A\$38,620,890 as at 30 September 2020. The CIF Value is 20.6% of the TTF Maintained Value above the target of 16%. The increase in Market Value was due to the A\$1.4 million that was approved for distribution and was invested into the CIF. The transaction did not take place until September 2020.

Other Activities of the Fund

Board Meetings

As per the usual operations of the Fund, two Board Meetings were held during the year. However, due to the Covid-19 pandemic, travel was restricted therefore both meetings were held via the video communication software Zoom.

The first meeting (70th Board Meeting) was held on 18th May 2020. The second and annual meeting (71st Board Meeting) was held on 20th November 2020.

TTF Advisory Committee

TTFAC bid farewell to their Tuvalu member Mr. Taufia Patolo in July 2020 and welcomed Mr. Siliga Kofe in September 2020.

TTFAC did not carry out an April/May 2020 mission as advised by the Chair since the Government of Tuvalu (GoT) was still assessing the Covid-19 pandemic situation. However, it became one of the main agenda items for the September/October mission. For the first time, the September/October mission was carried out virtually since the Australian and NZ members could not travel to Tuvalu due to travel restrictions.

The Board endorsed the new Terms of Reference (ToR) in the November 2020 Board Meeting. The ToR identifies the primary objective of missions to be sharpened to reflect assessment of the GoT's policy reform agenda.

Investment Committee

The IC bid farewell to Australia Advisor/IC Chair, Mr. David Hutton, who has been with TTF since 2012. The TTF Board expressed its gratitude to Mr. Hutton for his services to the betterment of the TTF.

IC Meetings were held in March, May, September and November. Due to the travel restrictions in relation to the Covid-19 pandemic, the IC Meetings in March and September to be held in Sydney were cancelled and carried out virtually.

Secretariat

During the year the Secretariat bid farewell to Secretary Ms. Tavau Siamua in May 2020. Assistant Secretary Ms. Fatiau Teikausi was Acting Secretary until her confirmation as the new TTF Secretary in August 2020.

In October 2020, the Administration Officer Ms. Lise Moedalofa renewed her contract for another three years and welcomed the new TTF Assistant Secretary Ms. Violeti Auega Fauila.

Financial Statements

The 2020 Financial Audit completed in January 2022 is provided in Annex 1.

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 2020, 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. Seve Paeniu
Chairman



Mr. Mathew Fehre
Director

May 2021

Annex 1: TTF 2020 Financial Statements

**TUVALU TRUST FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

**TUVALU TRUST FUND
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**TUVALU TRUST FUND
DIRECTORS' STATEMENT TO THE GOVERNMENT OF TUVALU
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

In the opinion of the directors of Tuvalu Trust Fund ("the Fund"):

- (a) the accompanying statement of financial position of the Fund is drawn up so as to give a true and fair view of the state of affairs of the Fund as at 30 September 2020;
- (b) the accompanying statement of changes in equity of the Fund is drawn up so as to give a true and fair view of the changes in equity of the Fund for the year ended 31 September 2020;
- (c) the statement of profit or loss and other comprehensive income of the Fund is drawn up so as to give a true and fair view of the results of the Fund for the year ended 30 September 2020;
- (d) the accompanying statement of cash flows of the Fund is drawn up so as to give a true and fair view of the cash flows of the Fund for the year ended 30 September 2020;
- (e) the accompanying financial statements have been prepared in accordance with the Trust Agreement;
- (f) at the date of this statement there are reasonable grounds to believe the Fund will be able to pay its debts as and when they become due and payable; and
- (g) all related party transactions have been adequately recorded in the books of the Fund.

Dated at Funafuti this 26 day of January 2022.

Signed in accordance with a resolution of Directors of the Tuvalu Trust Fund Board.



Director



Director

**TUVALU TRUST FUND
STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2020**

	Notes	2020 \$A'000	2019 \$A'000
Assets			
Cash and cash equivalents	8	161	1,436
Trade and other receivables	5	-	2,843
Financial assets held at fair value through profit and loss	4	<u>183,250</u>	<u>180,801</u>
Total Assets		<u>183,411</u>	<u>185,080</u>
Liabilities			
Trade and other creditors	6	<u>68</u>	<u>33</u>
Total Liabilities		<u>68</u>	<u>33</u>
Net Assets		<u>183,343</u>	<u>185,047</u>
Equity Account		<u>183,343</u>	<u>185,047</u>

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements on pages 7 to 16.

**TUVALU TRUST FUND
STATEMENT OF CHANGES IN EQUITY
AS AT 30 SEPTEMBER 2020**

	Notes	2020 \$A'000	2019 \$A'000
Balance as at 1 October		185,047	180,454
Contributions received	8(a)	1,030	3,943
Total comprehensive (loss)/income		(1,319)	4,439
Distributions to the Government of Tuvalu	8(b)	(1,415)	(3,789)
Net (decrease)/increase for the year		<u>(1,704)</u>	<u>4,593</u>
Balance as at 30 September		<u>183,343</u>	<u>185,047</u>

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements on pages 7 to 16.

TUVALU TRUST FUND
STATEMENT PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2020

	Note	2020 \$A'000	2019 \$A'000
Revenue			
Investment income		4,886	3,233
Increase in fair value of financial assets		-	2,270
Interest income	2	<u>-</u>	<u>9</u>
		4,886	5,512
Expenditure			
Audit fees		(19)	(17)
Decrease in fair value of financial assets		(4,995)	-
Fund monitor's fee		(100)	(69)
Management fee		(997)	(853)
Other expenses	3	<u>(94)</u>	<u>(134)</u>
		<u>(6,205)</u>	<u>(1,073)</u>
(Loss)/Profit from Ordinary Activities		(1,319)	4,439
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive (loss)/income for the year		<u>(1,319)</u>	<u>4,439</u>

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements on pages 7 to 16.

**TUVALU TRUST FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

	Notes	2020 \$A'000	2019 \$A'000
Cash flow from operating activities			
Interest income		-	9
Management fees and operating expenses paid		<u>(177)</u>	<u>(217)</u>
Net cash flows used in operating activities		<u>(177)</u>	<u>(208)</u>
Cash flow from investing activities			
Purchase of new investment units		(3,940)	-
Redemption of units		<u>192</u>	<u>4,063</u>
Net cash flows used in/(from) investing activities		<u>(3,748)</u>	<u>4,063</u>
Cash flow from financing activities			
Contributions received		3,872	1,100
Distribution to the Government of Tuvalu		<u>(1,222)</u>	<u>(3,789)</u>
Net cash flows from/(used in) financing activities		<u>2,650</u>	<u>(2,689)</u>
Net (decrease)/increase in cash and cash equivalents		(1,275)	1,166
Cash and cash equivalents at the beginning of the year		<u>1,436</u>	<u>270</u>
Cash and cash equivalents at the end of the year	9	<u>161</u>	<u>1,436</u>

The Statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements on pages 7 to 16.

TUVALU TRUST FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This financial report is a general purpose financial report and has been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB). A summary of significant accounting policies adopted by Tuvalu Trust Fund (“the Fund”) is set out in this note. Unless stated otherwise the accounting policies are consistent with those applied in the previous financial year. The financial statements of Tuvalu Trust Fund for the year ended 30 September 2020 were authorized for issue in accordance with a resolution of the directors on 26 January 2022.

a) General information

The Fund was established on 16 June 1987 as an international organization by Treaty among the Governments of Tuvalu, Australia, New Zealand and the United Kingdom and has the legal capacity to enter into contracts.

The stated objectives of the Tuvalu Trust Fund are:

- (i) to assist the Government of Tuvalu to achieve greater financial autonomy in the management of its affairs;
- (ii) to enable the Government to maintain, and if possible, improve, existing levels of social infrastructure and services;
- (iii) to enhance the capacity of the Government to receive and effectively utilize costs of social and economic infrastructure and services;
- (iv) to ensure that revenue is available to cover long term maintenance and operating costs of social and economic infrastructure and services; and
- (v) to permit the Government to participate directly in the development of the economy.

b) Basis of preparation

The financial statements are presented in Australian dollars, rounded to the nearest dollar. They are prepared on a historical cost basis, except for the valuation of investments in financial assets, which have been measured at fair value. The accounting policies have been consistently applied by the Fund.

c) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standard issued by the International Accounting Standards Board.

TUVALU TRUST FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Changes in accounting policies

New standards and interpretations adopted

Apart from the adoption of IFRS 16 Leases, a number of new standards, amendments to standards and interpretations are effective for annual period beginning on 1 October 2019 and have not been applied in preparing these financial statements. None of these new standards and interpretations are expected to have a material effect on the financial statements of the Fund.

New standards not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 October 2019 and have not been applied in preparing these financial statements.

New interpretations, standards or amendments	Effective date
Amendments to References to Conceptual Framework in IFRS Standards	1 October 2019
Definition of Material (Amendments to IAS 1 and IAS 8)	1 October 2019
Definition of a Business (Amendments to IFRS 3)	1 October 2019

The Fund does not intend to apply these amendments and interpretations until their effective dates and the impact of these amendments and interpretations on the financial statements of the Fund has not yet been fully determined.

IFRS 16 Leases

The Fund initially applied IFRS 16 Leases from 1 October 2019. As a result the Fund has changed its accounting policy for lease contracts as detailed below.

The Fund applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 October 2019. Accordingly, the comparative information for 2019 is not restated - i.e., it is presented, as previously reported under IAS 17 and related interpretations. The details of the changes in accounting policy are discussed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

i. Definition of a lease

Previously, the Fund determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Fund assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Fund elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 October 2019.

**TUVALU TRUST FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Changes in accounting policies (continued)

IFRS 16 Leases (continued)

ii. As a lessee

As a lessee, the Fund previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Fund. Under IFRS 16, the Fund recognises right-of-use assets and lease liabilities for most leases – i.e., these leases are on-balance sheet.

The Fund decided to apply recognition exemptions to short-term leases of space. For leases of other assets, which were classified as operating under IAS 17, the Fund recognised right-of-use assets and lease liabilities.

Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Fund's incremental borrowing rate as at 1 October 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Fund did not apply this approach; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Fund applied this approach to all leases.

The Fund used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

iii. Impact on financial statements

There were no impact on transition to IFRS 16 Leases on retained earnings at 1 October 2019.

d) Revenue recognition

Income from investments is taken to account as follows:

- (i) Fixed interest – on the date due and receivable; and
- (ii) Dividend income – on the date the dividends are declared.

e) Expenditure and outgoings

Expenditure and outgoings are taken to account on an accruals basis.

f) Foreign currency

Transactions in foreign currencies are translated to Australian currency at the foreign exchange rate ruling at the date of the transactions. Amounts receivable and payable denominated in foreign currencies at the reporting date are converted to Australian currency at the foreign exchange rate ruling at that date.

Foreign exchange differences arising on translation are recognised in profit or loss.

TUVALU TRUST FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Financial assets and financial liabilities

(i) Recognition and initial measurement

Financial assets at fair value through profit or loss are recognised initially on the trade date, which is the date that the Fund becomes a party to the contractual provisions of the instrument. Other liabilities are recognised on the date they are originated.

Financial assets at fair value through profit or loss are recognised initially at fair value, with the transaction costs recognised in profit or loss. Financial liabilities not at fair value through profit or loss are recognised initially at fair value plus transaction cost that are directly attributable to their acquisition or issue.

(ii) Classifications

The Fund classifies financial assets and financial liabilities into the following categories:

Financial assets:

- Measured at fair value through profit or loss – Listed equity investments; and
- Measured at amortised cost – cash and cash equivalents, other receivables.

Financial liabilities at amortised cost

- Other liabilities – trade and other creditors.

Financial assets are subsequently measured at fair value with all changes in fair value recognised in profit or loss.

(iii) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and the measurement date in the principal or, in its absence, the most advantageous market to which the fund has access at that date.

When available, the Fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as “active” if transactions for the asset or liabilities take place with sufficient frequency and volume to provide pricing information on an on-going basis.

(iv) Derecognition

The Fund derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial asset. Any interest in such transferred financial assets that is created or retained by the Fund is recognized as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset and consideration received is recognized in profit or loss. The Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

(v) Offsetting

Financial assets and liabilities are offset and net amount presented in the statement of financial position when, and only when, the Fund has a legal right to offset the amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis when permitted under IFRSs, e.g. for gains and losses arising from a group of similar transactions, such as gains and losses from financial instruments at fair value through profit or loss.

**TUVALU TRUST FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Fund account

The fund account consists of initial and subsequent contribution made, plus subsequent net earnings, less any withdrawals including transfers made between the Tuvalu Trust Fund and the Consolidated Investment Fund account.

(i) Cash and cash equivalents

For the purposes of the Statement of Cash Flow, cash and cash equivalents includes cash at Funds and liquid assets, both in the secretariat account as well as in the investment fund. These comprise cash at Funds.

(j) Trade and other receivables

Trade and other receivables are stated at amortised cost less impairment losses. The carrying amount of these assets are reviewed at each reporting date to determine whether there is any indication of impairment. The recoverable amount of trade receivables is the estimated future cash flows expected from the asset.

(k) Trade and other creditors

Trade and other payables are stated at amoritsed cost.

(l) Goods and services tax (GST)

Where applicable, GST incurred by the Fund, that is not recoverable from the Australian Taxation Office, has been recognized as part of the expense to which it applies.

(m) Going concern

The financial statements of the Fund have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realization of assets and settlement of liabilities in the ordinary course of business.

(n) Comparative figures

Where necessary, the comparative figures have been adjusted to confirm with changes in the current period.

TUVALU TRUST FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

2. INTEREST INCOME

	2020	2019
	\$A'000	\$A'000
Interest	-	9

3. OTHER EXPENSES

Salary	50	74
Travel	-	16
Rent	6	7
Others	38	37
	<u>94</u>	<u>134</u>

4. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

	Market Value	Market Value
	2020	2019
	\$A'000	\$A'000
Defensive assets	85,932	91,182
Diversified assets	33,862	32,800
Growth assets	63,456	56,819
	<u>183,250</u>	<u>180,801</u>

Investments are recognised at their fair value.

Determining fair values

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in active market for an identical instrument.

Level 2: Valuation technique based on observable inputs, either directly (i.e. as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active market for similar instrument; quoted prices for identical or similar instrument in the market that are considered less than active; or other valuation techniques where all significant inputs are directly inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted price for similar instruments where significant unobservable adjustments or assumption are required to reflect differences between the instruments. Fair values of financial assets that are traded in active markets are based on quoted prices or dealer price quotations. For unlisted equity investments the Fund determines fair values using valuation techniques. Some or all of the significant inputs these valuations use may not be observable in the market and are derived from market prices or rates or are estimated based on assumptions.

TUVALU TRUST FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

4. FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The table below analyses financial assets measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	Level 1	Level 2	Level 3	Total
	\$A'000	\$A'000	\$A'000	\$A'000
Local listed equities	183,250	-	-	183,250
Balance as at 30 September 2020	183,250	-	-	183,250
Local listed equities	180,801	-	-	180,801
Balance as at 30 September 2019	180,801	-	-	180,801

5. TRADE AND OTHER RECEIVABLES

	2020	2019
	\$A'000	\$A'000
Government of Tuvalu	-	2,843
Withholding tax receivable deducted on investment income	15	15
Less allowance for doubtful debts	(15)	(15)
	<u>-</u>	<u>2,843</u>

6. TRADE AND OTHER CREDITORS

Auditors' remuneration	19	17
Sundry accruals	1	2
Fund monitor fee	48	14
	<u>68</u>	<u>33</u>

7. INCOME TAX

The Fund has been granted exemption from direct taxation on its investment in the participating countries: Tuvalu, Australia, New Zealand and the United Kingdom.

**TUVALU TRUST FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

8. FUNDS

In accordance with the objectives of the Fund the following amounts were paid to the Government of Tuvalu and/or to the Fund:

(a) Contribution to Fund

	2020	2019
	\$A'000	\$A'000
Australia	1,030	1,100
New Zealand	-	2,843
	<u>1,030</u>	<u>3,943</u>

(b) Distribution from Fund

Distribution to the Government of Tuvalu	<u>1,415</u>	<u>3,789</u>
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9. CASH AND CASH EQUIVALENTS

Cash at bank	<u>161</u>	<u>1,436</u>
	<u>161</u>	<u>1,436</u>

Cash at bank earns interest at floating bank rates based on daily bank deposit rates.

10. RELATED PARTY TRANSACTIONS

The names of the directors during the period were:

Hon. Seve Paeniu (Chairman)
Mr. Matthew Howell (New Zealand Director)
Mr. Matthew Fehre (Australia Director)

Transactions with related parties are as follows:

Transactions with related parties during the year ended 30 September with transaction value are summarized as follows:

		Distribution	Amounted owed by
		\$A'000	\$A'000
Government of Tuvalu	2020	1,415	-
	2019	3,789	2,843

11. COMMITMENTS AND CONTINGENCIES

Commitments and contingent liabilities amounted to nil (2019: nil).

**TUVALU TRUST FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

12. FINANCIAL INSTRUMENTS

The investments of the Fund (other than cash held for liquidity purposes), are monitored on behalf of the Trustee by Russel Investments and include investments placed with two principal fund managers:

- AMP Capital; and
- Schroders.

Russel Investments was appointed as the new fund monitor by Board approval effective from 1 October 2019. Eriksen & Associates Ltd was the previous fund monitor till 30 September 2019.

The Trustee has determined that appointment of these managers is appropriate for the Fund and is in accordance with the Fund's investment strategy.

The Trustee obtains regular reports from each investment manager on the nature of the investments made on its behalf and the associated risks.

13. FINANCIAL RISK MANAGEMENT OBJECTIVES

Principal financial liabilities comprise trade payables. The Fund has various financial assets and cash which arise directly from its operations.

The main risk arising from the Fund's financial statements are interest rate risk, credit risk, and liquidity risk.

Interest rate risk

Interest rates on financial assets and liabilities are fixed over the terms of the relevant contracts, thereby minimising the risk of mismatches in interest rates.

Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the fund. The fund has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from default, the fund's exposure and the credit ratings of its counterparties are continuously monitored. Credit exposure is controlled by dealing with reputable managers and these are monitored by the Fund Monitor and are reviewed and approved by management and the Board of Director on a regular basis.

Liquidity risk

The fund manages liquidity risk by maintaining adequate funding and by continuously monitoring forecast and actual cash flows. However, liquidity risk is minimal as the fund only has trade payables which are all current.

14. TRUST DETAILS

The Tuvalu Trust Fund was incorporated under the International Organisations (Privileges and Immunities) Act 1964 which was enacted by the administrator of the Government of the Commonwealth of Australia on 16 June 1987.

Registered Office

Ministry of Finance and Economic Development
Headquarters Division
Vaiaku
Funafuti
Tuvalu

Number of employees – 3

**TUVALU TRUST FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

15. SUBSEQUENT EVENTS

Apart from the continuing impact of COVID-19, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect significantly the operations of the Fund, the results of those operations, or the state of the affairs of the Fund, in subsequent financial years.



Independent Auditors' Report

To the Members of Tuvalu Trust Fund

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Tuvalu Trust Fund (“the Fund”), which comprise the statement of financial position as at 30 September 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out in notes 1 to 15.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 30 September 2020, and of 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 International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Directors' report, but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

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



Independent Auditors' Report To the Members of Tuvalu Trust Fund

Report on the Audit of the Financial Statements - continued

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 International Standards on Auditing (ISAs) 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 these financial statements.

As part of an audit in accordance with ISAs, 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 Fund'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 Fund'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 Fund 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.

We 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
Chartered Accountants

Suva, Fiji
31 January, 2022