

TUVALU TRUST FUND



Annual Report

2009

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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

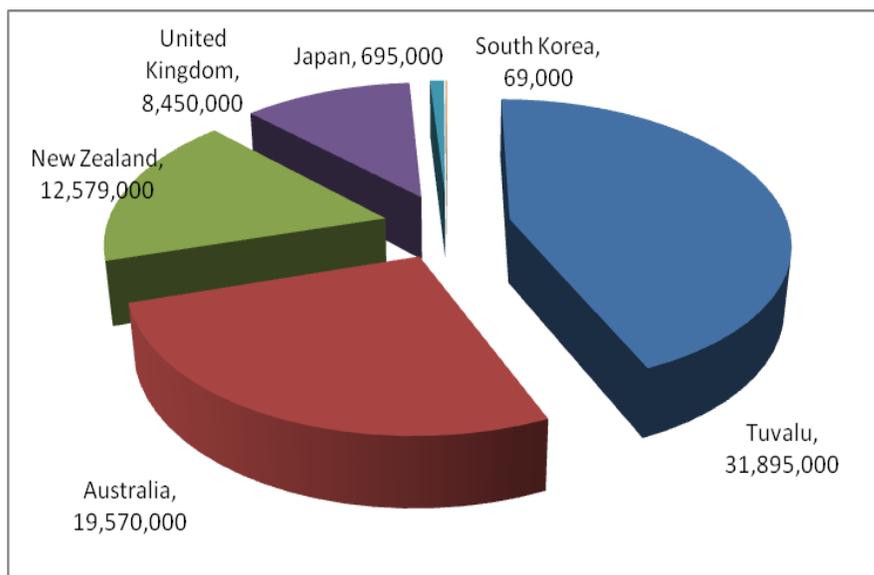
Historical Note

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 and bar graph below summarizes contributions by each country up to 30 September 2009, including the initial contributions at the establishment of the Fund:

Contributions into the Fund (A\$000's) up to 30 September 2009

TUVALU	AUSTRALIA	NZ	UK	JAPAN*	S. KOREA*	TOTAL
31,895	19,570	12,579	8,450	695	69	73,258

Chart: 1 Contribution by Country into the Fund



* not a party to the Agreement

Purpose of the Fund

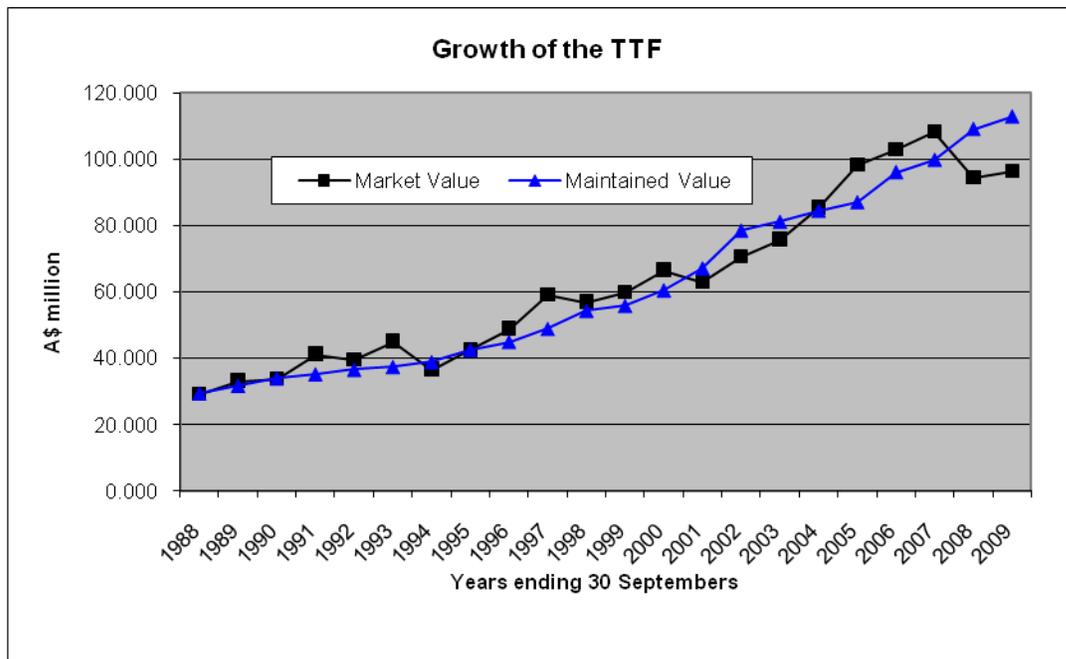
As set out in Part I, Article 2 of the agreement, the Fund has the following specific purpose:

- 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 2009, the Fund's value on the stock market stands at A\$97.561 million.

The chart below shows the Funds Market value compared to its maintained value since inception to 30 September 2009.

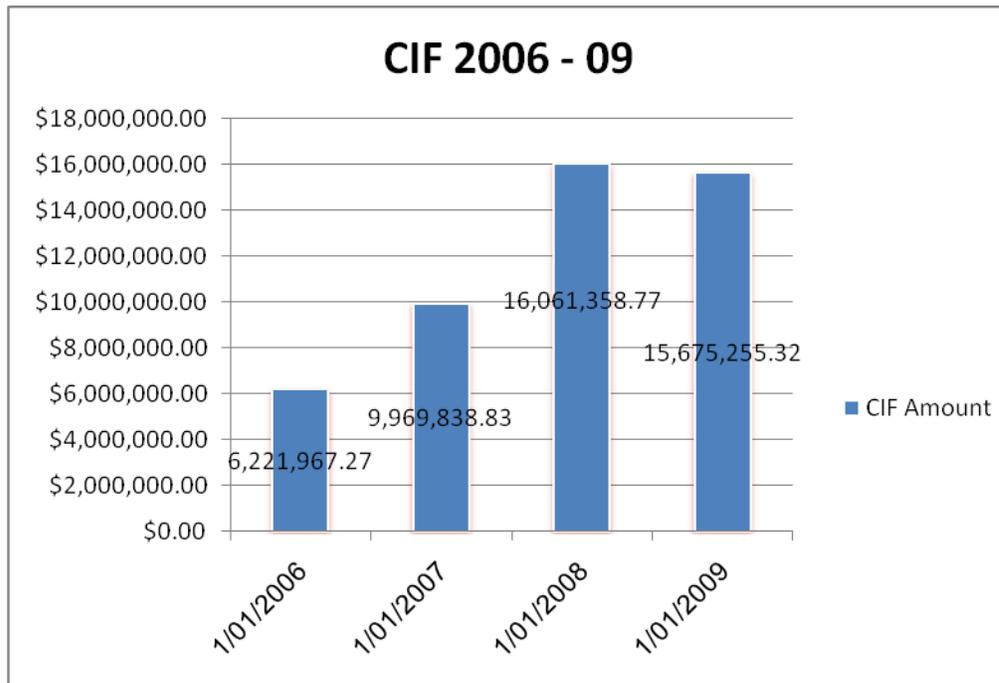


Creation of the Consolidated Investment Account - the Buffer Account

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.

Table 2: Growth of CIF 2006-09.



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 original 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 Fund Monitor, Auditor, and Advisory Committee.

Board of Directors

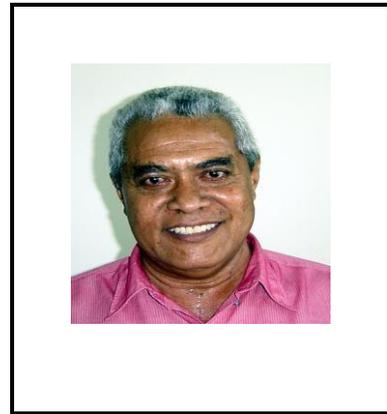
Hon Lotoala Metia

Chairman

Minister of Finance, Economic

Planning and Industry,

for the Government of Tuvalu



Mr Brian Bell

Director

for the Government of New Zealand



Mr James Sweeting

Director

for the Government of Australia



Service Providers

Fund Managers

Mr Ben Bell, Client Services,-Aberdeen Asset Management Limited

Mr Rhiannon Sharpe, Client Services-Deutsche Asset Management
(RREEF Global Property Securities Fund)

Mr Le Tao, Relationship Associate,-State Street Global Advisors

Ms Joel Connell, Relationship Manager,-Bell Asset Management Fund
(Bridgewater Fund)

Mr Jo White, Head of Client Services, BT Investment Management
Limited

Ms Clare Marlow, Portfolio Administrator, JF Capital Partners Limited

Mr Ryan Felsman, Client Services, MIR Investment Management Pty
Limited

Ms Tracy Newhouse, Client Services, Blackrock Global Investors

TTF Investment Committee

Mr Brian Bell,- Chairman

Mr Tim Henaghan,- Member

TTF Advisory Committee

Mr Michael Hyndman- Consultant for the Government of Australia

Mr David Abbott- Consultant for the Government of New Zealand

Mrs Nicky Wrighton- Consultant for the Government of Tuvalu

Fund Monitor

Mr Simon Theresia- Investment Consultant, Watson Wyatt

Fund Auditor

Mr Sikeli Tuinnuma- Partner, Ernst & Young

Board Secretariat

Mr Talavai Iona- Tuvalu Trust Fund

Chairman's Report

It gives me great pleasure to present the Annual Report of the Tuvalu Trust Fund (TTF) for the financial year ending 30 September 2009. I am pleased to report that the affairs, activities and management of the Tuvalu Trust Fund during the 2009 financial year were in accordance with the International Agreement.

The year 2009 was not as bad as last year. The negative returns from 2008 due to a recession in the Global Financial market, continued into the first two months of 2009. With the strong performances of the Australian economy in 2009 coupled with recoveries from other major developed economies such as US, Europe and Japan, the Tuvalu Trust Fund was fortunate to record a return of 0.2% net of fees for the 12 months up to September 2009.

The market value of the TTF was below its maintained value so like 2008 there was no distribution for this year. The Government of Tuvalu was however, mindful of the impact of the world recession, and maintained its prudent financial management strategy on its scarce financial resources. It was only able to utilize \$2m from the Tuvalu Consolidated Investment Fund (TCIF) in 2009 despite the sustainable drawdown was around \$4.5m. In 2009 TCIF was able to achieve its minimum target balance when it recorded \$17m on 31st July 2009.

The Fund would have been badly affected by the world recession, but thanks to the hard working efforts and professional skills of the Fund Managers, Investment Consultant, the TTF Investment Committee, TTFAC, the Board of Directors and the secretariat for the successful management of the fund.

Tuvalu mo te Atua

Highlights of the Year

Global Overview

After initial fears that we could be headed for a recession, the Australian economy showed plenty of resilience in 2009, recording one of the strongest performances of any developed world economy. Interest rates were cut to a low of 3% during April and remained at that level for the majority of the year.

The Australian share market bounced back after a disastrous 2008, up 8.5% for the year to 30 September 2009, as measured by the S&P/ASX 300 Accumulation Index. The majority of sectors recorded positive returns, with Information Technology increasing by 32.0%.

The Australian listed property market began to show signs of stabilising during throughout the second half of 2009, primarily due to improved investor confidence, enticing valuations and recapitalised balance sheets. The S&P/ASX 300 Property Accumulation Index returned -23.0% for the year to 30 September 2009.

The international economy also seems to have left the worst behind it, with the US, Euro-zone and Japanese economies all appearing to emerge from recessions. After an initial slowdown in economic growth, the Chinese economy accelerated in the second half of 2009.

Global share markets were down for the 12 months to September 2009. However they had begun to show signs of improvement, rebounding strongly during the September quarter. The robust appreciation of the Australian dollar against most global currencies throughout 2009 resulted in weaker returns on unhedged international investments relative to hedged investments for Australian investors. The MSCI World ex-Australia Index in Australian dollars (unhedged) returned -13.4% for the twelve months, while the return on hedged international shares was -7.2%.

The Australian fixed interest market posted a robust positive result for 2009. Bond yields rose throughout the year as expectations of a recovery for the Australian economy set in. The UBSA Composite Bond Index (All Maturities) returned 7.1% for the twelve months ending September 2009.

International fixed interest markets outperformed the Australian fixed interest market, with the Barclays Capital (formerly Lehmann Brothers) Global Aggregate Index (hedged to Australian dollars) returning 12.0% for the twelve months ending 30 September 2009.

Fund Performance

Tuvalu Trust Fund status

The Tuvalu Trust Fund returned 0.2% (net of fees) for the 12 months to 30 September 2009 in absolute terms. This resulted in a relative performance of -0.3% against the benchmark over the year ending 30 September 2009. Over this period, the Fund experienced weak relative performance from MIR and RREEF which underperformed their respective benchmarks. The Bridgewater All Weather Fund and the BT Global Real Return Fund also underperformed their composite and absolute return benchmarks respectively. On a positive note, JFCP, SSgA, Aberdeen and the Bridgewater Pure Alpha Fund posted positive relative performance which partly offset these losses.

Market Value

As at the end of 30 September 2009, the market value of the Tuvalu Trust Fund's investments was A\$ 96,343,362 compared to \$108 million on 30 September 2008.

Maintained Value

The Tuvalu Trust Fund investment's maintained value as at end of 30 September 2009 was A\$112,729,115.43 compared to A\$109 million on 30 September 2008.

CIF Closing Value in 2009

The value of the Tuvalu Consolidated Investment Fund as at end of 30 September 2009 was A\$15,308,022.67 compared to A\$15,360,876.00 on 30 September 2008. Seventy three percent of the investment was in fixed interest while 25% was invested in cash with Craigs Investment Partners.

Automatic Distribution

In 2009, there was no automatic distribution from TTF into CIF as the TTF market value was below its maintained value.

Drawdown from CIF

The sustainable level of drawdown available during the year to the Government of Tuvalu was around 4.5% of its maintained value. However, only \$2 million was drawn down in August 2009.

Active Fund Managers and Shares in 2009

Manager	\$
JFCP Australian Shares	7,825,569
MIR Australian Shares	5,915,817
BGI International Hedged Shares	12,767,401
SSgA Wealth Weighted Global Equities	12,349,526
Bridgewater All Weather ¹	1,868,192
BT Global Return	2,296,410.08
Bridgewater Pure Alpha	5,715,566.82
Duetsche/RREEF Global Property	3,783,259.91
BGI Enhanced Australian Bond	24,518,239.02
Barclays Overseas Bond Index	10,383,632.07
Aberdeen Inflation Linked Bonds	8,966,735.57

Major Changes to Fund Managers

Here were the major changes that took place in the Tuvalu Trust Fund line up of Fund Managers in 2009:

- October 2008: Appointed the BGI Hedged International Equity Index Fund to replace the BGI Fission Hedged International Equity Index Fund in October 2008 which closed down.
- July 2009: Appointed SSgA Wealth Weighted Global Equities Index NL Trust (retained investment in SSgA Wealth Weighted Global Equities Index Trust but all cashflows directed to the non-lending version)
- August 2009: Appointed Bridgewater All Weather following the wind-up of the BT Global Real Return Fund

¹ Includes a distribution amount of approximately \$909,000 from BT which was not yet invested as at 30 September 2009.

TUVALU TRUST FUND

Director's Report

The Directors of the Tuvalu Trust Fund present their report along with the financial statements of the Fund for the year ended 30 September 2009 including the auditor's report.

Directors

The Directors of the Tuvalu Trust Fund at the date of this report are:

Hon. Lotoala Metia (Chairman)

Mr Brian Bell

Mr James Sweeting

Performance of the Fund

Four Fund Managers underperformed their benchmarks. They were MIR, RREEF, Bridgewater All Weather Fund and BT Global Real Return Fund. The other four made positive performance during the year.

Unfortunately, the fund was unable to make an automatic distribution during the year.

Statement of the Directors

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 2009, 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.

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

Financial Statements

