

TUVALU TRUST FUND



DRAFT

Annual Report

2011

CONTENT

Abbreviation & Acronyms	2
Historical Notes	3
Board of Directors	8
Service Providers	9
Chairman's Report	11
Highlights of the Year	12
Directors Report	15
Financial Statement	17
Independent Auditor's Report	

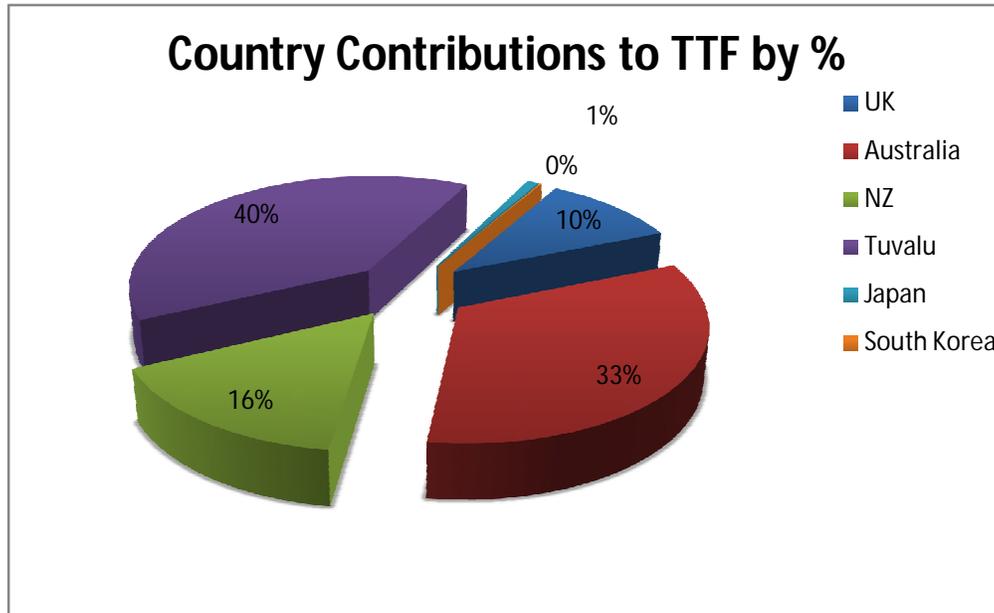
Abbreviations & Acronyms

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 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 more recently South Korea. The graph (figure 1) and the table below summarizes contributions by each country up to 30 September 2011, including the initial contributions at the establishment of the Fund:

Figure: 1 Contribution by Country into the Fund



Contributions into the Fund (A\$000's) up to 30 September 2011

TUVALU	AUSTRALIA	NZ	UK	JAPAN*	S. KOREA*	TOTAL
31,885	26,901	12,579	8,450	695	101	80,611

Purpose of the Fund

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

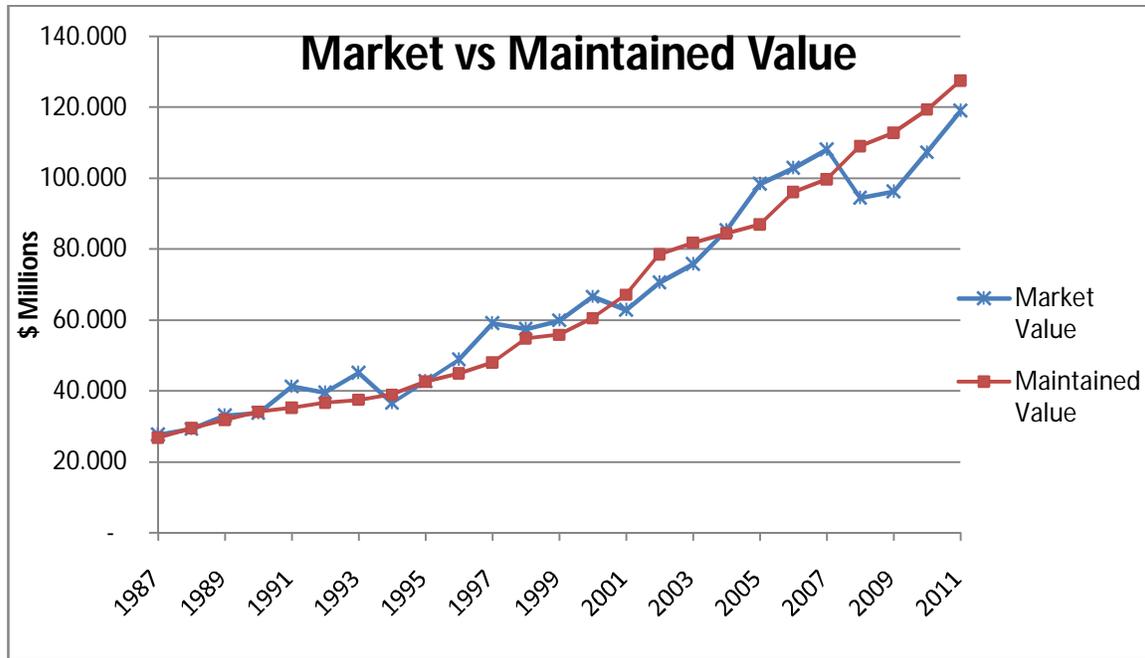
- a) assist the Government to achieve greater financial autonomy in the management of its recurrent budget;
- b) enable the Government to maintain, and if possible, improve existing levels of social infrastructure and services;
- c) enhance the capacity of the Government to receive and effectively utilize 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 2011, the Fund's market value stood at A\$119.12 million.

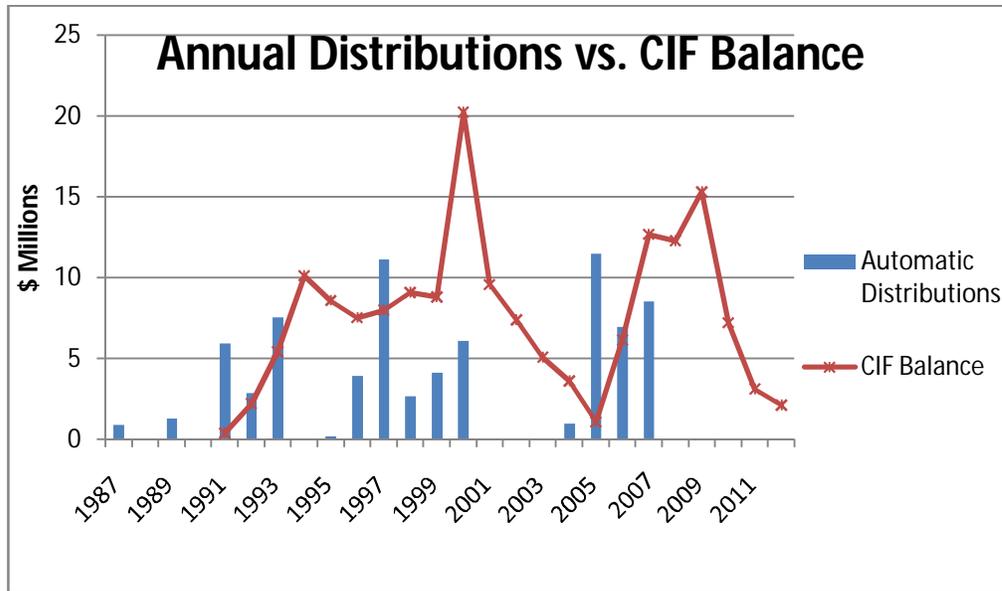
The chart below shows the Funds Market value compared to its maintained value since inception to 30 September 2011.

* not a party to the Agreement



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

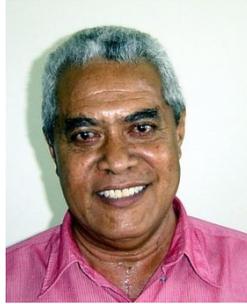
In accordance with Part II, Article 6 of the Agreement, the Fund has a Board of Directors, in which all powers of the Fund are vested in, and exercised by the Board. The Directors of the Fund are:

- a) a Director appointed by the Government of Tuvalu, who is Chairman of the Board;
- b) one Director appointed by each other 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 Industries
for the Government of Tuvalu
(2006 to present)



Ms Sarah Goulding
Director
for the Government of Australia
(2010 to present)



Dr. Brian Bell
Director
for the Government of New Zealand
(2002 to 2011)

Service Providers

Fund Managers

Ms Jessica Howe, Client Services, -Aberdeen Asset Management Limited

Ms Belinda Gorgievski, 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

Ms Susan Miller, Client Services, Blackrock Global Investors

Ms Clare Offwood, Client Services, Schrodgers Investments.

TTF Investment Committee

Mr Brian Bell, NZ Adviser and Chairman

Mr Tim Henaghan, Australian Adviser and 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 Maroun Younes - Investment Adviser, Towers Watson

Ms Amy The – Investment Consultant, Towers Watson

Fund Auditor

Mr Sikeli Tuinnuma- Partner, Ernst & Young

Secretariat

Mr Lee Faiva Moresi - Secretary

Ms Salai Sualo – Assistant Secretary

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 2011. I am pleased to report that the affairs, activities and management of the Tuvalu Trust Fund during the 2011 financial year were in accordance with the International Agreement.

The year 2011 can best be described as volatile with a lot of uncertainty. While not nearly as bad as the height of the Global Financial Crisis of 2008, most of the earlier gains were evaporated in the later half of the year. This was mainly as a result of the markets' reaction to uncertainties in Euro zone sovereign debts. On the positive side, the steady performances of the Australian economy and an improvement in US data, saw investments in these economies fairing better than the rest. While these recoveries weren't sufficient to move the TTF Investments' market value above their Maintained value, the gap nevertheless narrowed from that of the previous year.

With the market value of the TTF below its maintained value, there was no distribution for this year. Fortunately for the Government of Tuvalu, the large distributions from the better years saw some funds remain in the Consolidated Investment Fund, CIF, from which it was able to access and utilize for its pressing financial needs. The Fund would have been badly affected by the continuing downturn in world markets, 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

Review of TTF Investment Strategy and its Governing Structures

At its Board meeting in May 2011, the Fund decided to commission a review of the Fund, its governing structures and in particular its investment strategies. This mainly came about as a result of the Investment Committee recommending to the Board that a new investing strategy be adopted. With assistance from the New Zealand Ministry of Foreign Affairs and Trade, MFAT, this review was duly undertaken.

The findings of this review were presented to the Board in December, 2011. The report made numerous recommendations but its main recommendation was that the proposed new Investing strategy was suitable for the Tuvalu Trust Fund. Consequently, the investments under the old strategy of Static Asset Allocation were redeemed and applied to two new investment Funds employing the new strategy of Objective Based Asset Allocation.

Amongst its various other recommendation was the establishment of a Reserve Fund within the Fund to act as a buffer for the Consolidated Investment Fund. While the Board did not make a decision on this, it was agreed that the Tuvalu representative takes the issue up with the Government of Tuvalu (i.e. Cabinet), then report back to the Board.

Perhaps as a sign of confidence in the structures and governance of the Trust Fund, the report stated that the current bodies within the structure of the Fund are performing well and serving the purpose of the Fund well.

Global Markets Overview.

The year started well with continuing moderate growth from the previous year appearing to indicate recovery from the global financial crisis of 2008. However, in the March to June quarter, the effects of the tsunami in Japan coupled with indications of a slight slowing in the Chinese economy saw the markets retracting earlier gains.

In the latter half of the year, political uncertainty and bi-partisan disagreement in the US Congress lead to the US credit rating being downgraded from AAA to AA+ with a negative outlook.

This coupled with further deterioration in European Sovereign debts saw all likely possibilities of a recovery wiped away from the global economy and prior gains evaporating.

As a consolation for TTF investments, the Australian domestic bond market rallied due to increasing investors risk aversion prompted by the US and European developments.

Overall, this had the effect of devaluing TTF investments by 3.36% (before fees and CPI adjustments) for the quarter. By comparison, the MCSI Global Equities index fell 14.8% for the same period.

Fund Performance

Tuvalu Trust Fund status

The Tuvalu Trust Fund returned 7.2% (gross of fees) for the 12 months to 30 September 2011. This equates to a relative performance of -0.8% against the benchmark over the year ending 30 September 2011. Most of the Funds experienced negative returns relative to the benchmark over this period. The Bridgewater All Weather Fund, Blackrock and Aberdeen Inflation linked bonds all performed better than their composite and absolute return benchmarks respectively.

Market Value

As at the end of 30 September 2011, the market value of the Tuvalu Trust Fund's investments was A\$ 115 million compared to \$107 million on 30 September 2010.

Maintained Value

The Tuvalu Trust Fund investment's maintained value as at end of 30 September 2011 was A\$127,481,925.00 compared to \$127,481,925.00. This includes an additional contribution of A\$4.0 million from Australia to the Trust Fund paid in June 2011.

CIF Closing Value in 2011

The value of the Tuvalu Consolidated Investment Fund as at end of 30 September 2011 was A\$3.12 million compared to A\$7.2 million on 30 September 2010. One hundred percent of the investment was in cash, held by Craigs Investment Partners. The GoT withdrew \$4 million from the CIF in the period from October 2010 to September 2011, with the difference being interest earned over the same period.

Automatic Distribution

In 2011, there was no automatic distribution from TTF into CIF as the TTF market value was below its maintained value.

Active Fund Managers and Shares of TTF portfolio in 2011.

In 2011 TTF investments were held in 11 different funds with 8 Fund managers. Their relative holdings are shown below.

Manager	\$'000
JFCP Australian Shares	7,974
Schroders Australian Equities	7,978
Blackrock Int'l Equities Index	15,353
SSgA Wealth Weighted Global Equities	12,994
Bridgewater All Weather	5,410
BT Global Return	470
Bridgewater Pure Alpha	8,976
Van Guard Global Property	4,473
Blackrock Enhanced Australian Bond	29,302
Blackrock Overseas Bond Index	10,122
Aberdeen Inflation Linked Bonds	10,368
Total	115,127

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 2011 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 (New Zealand)

Ms Sarah Goulding (Australia)

Performance of the Fund

There were no significant outstanding or under performances from the Fund Managers relative to the rest of the market with the exception of the Blackrock All Weather Fund which performed better than the rest of the other funds.

Due to the intended changes in Investment strategy no portfolio rebalancing were effected for the year 2011.

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.

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

Financial Statements

...auditor yet to release a draft report.