

TUVALU TRUST FUND



Annual Report

2015

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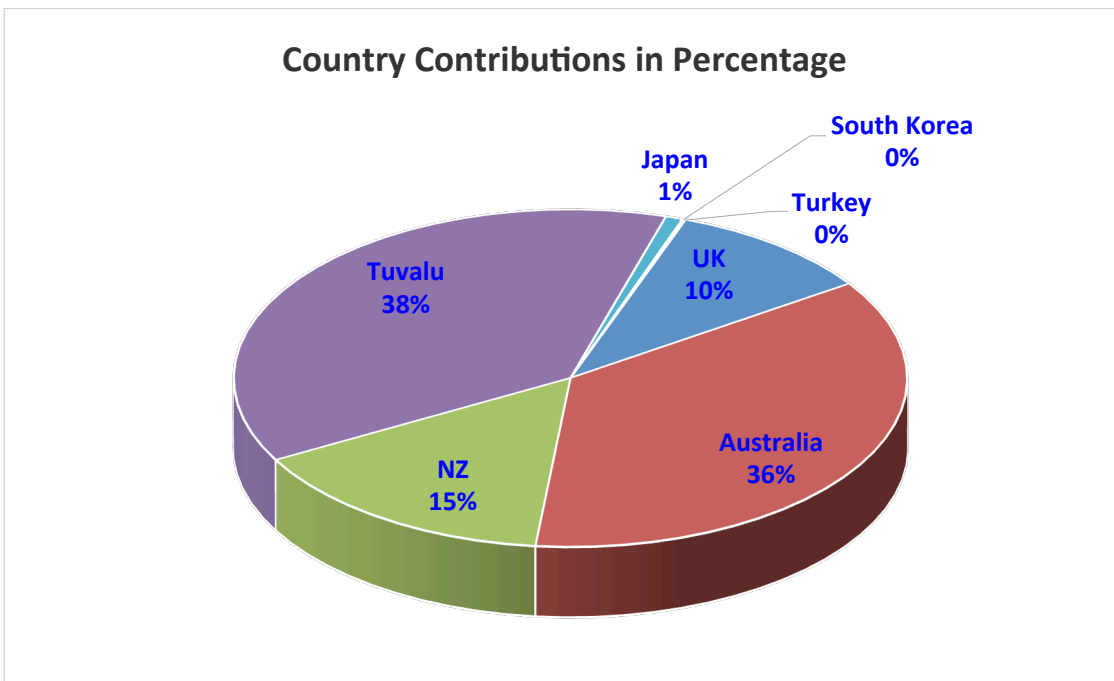
Abbreviations & Acronyms

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

Historical Note

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

Figure: 1 Contribution by Country into the Fund



Purpose of the Fund

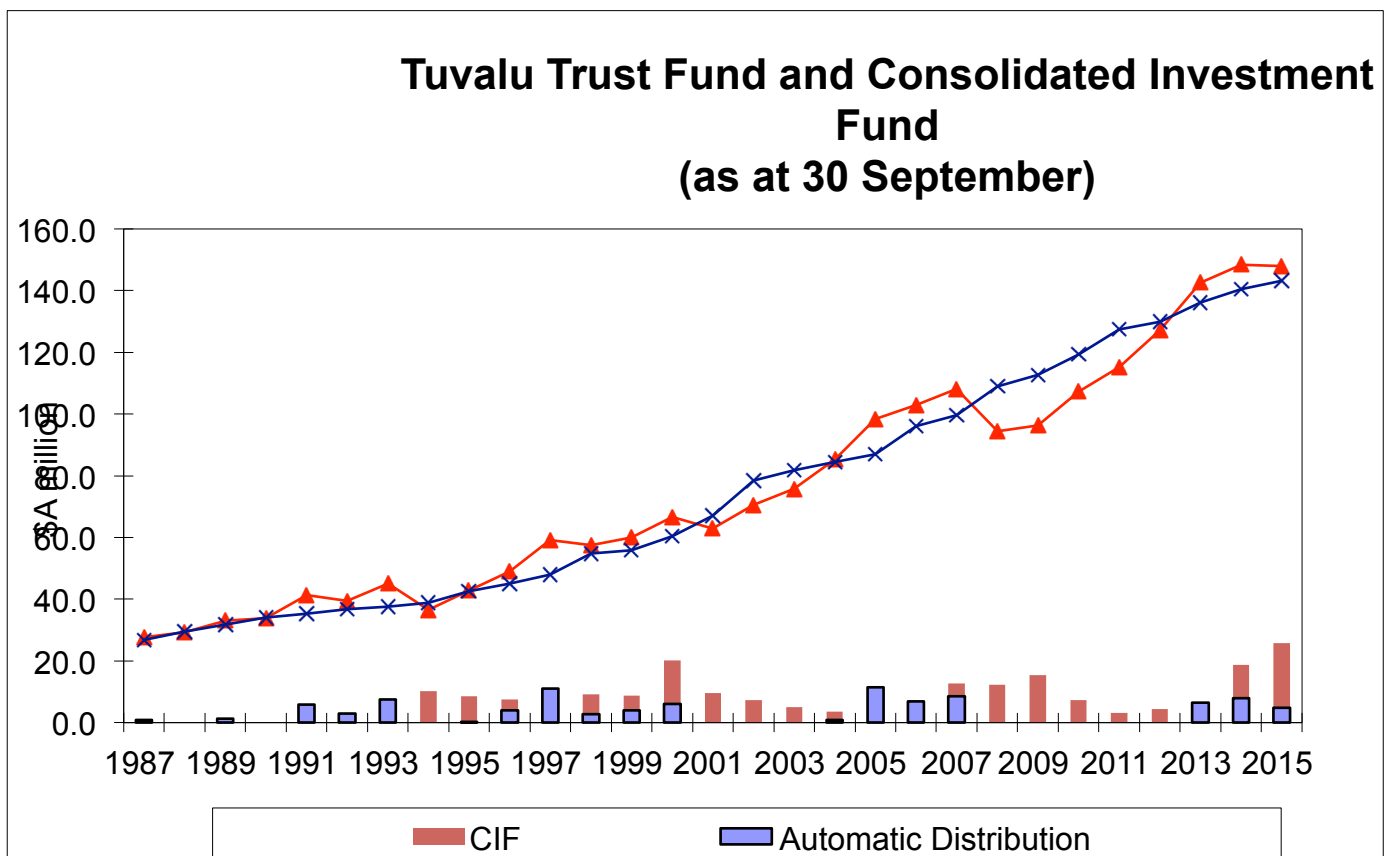
As set out in Part I, Article 2 of the agreement, the Fund has the following specific purposes:

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

The Growth of the Tuvalu Trust Fund

As at 30 September 2015, the Fund's value in the financial markets decreased to A\$148,002,255.00 compared to A\$148,850,512.00 at the end of 2014.

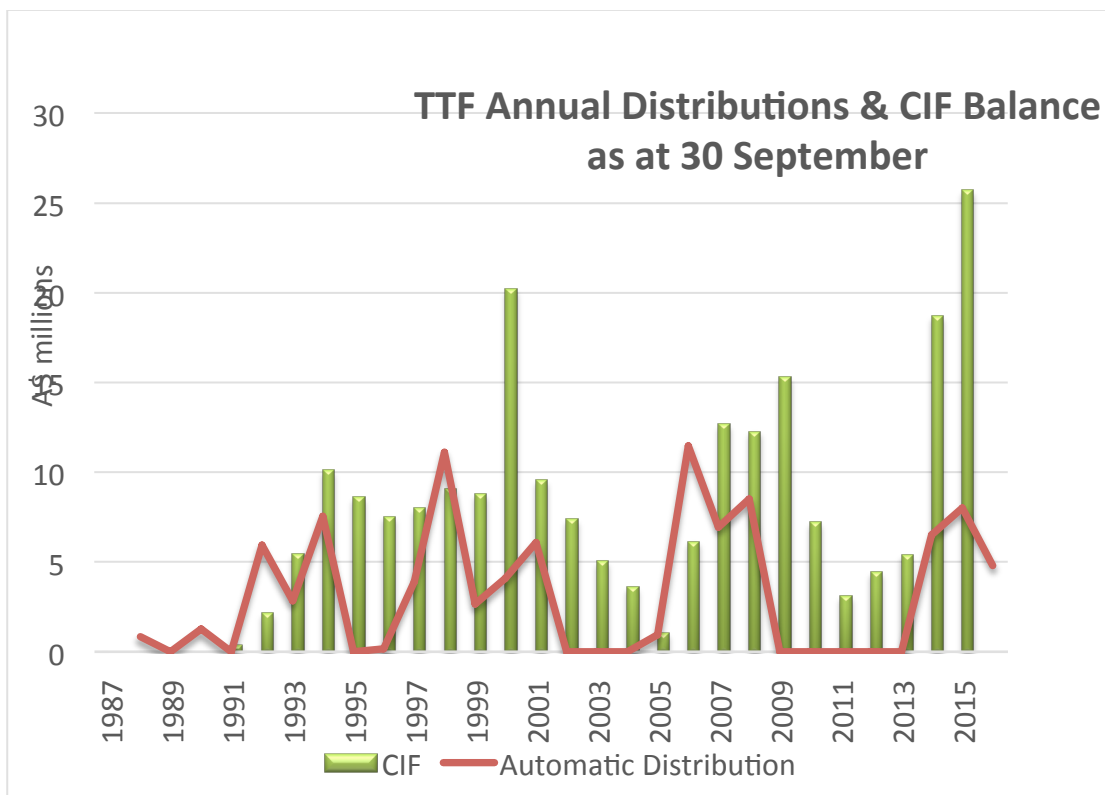
The chart below shows the Fund's Market Value compared to its Maintained Value since inception to 30 September 2015.



Creation of the Consolidated Investment Account – the Buffer Account

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

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



Governance of the Fund

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

Board of Directors

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

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

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

Annual Reports

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

Board Directors



Hon. Maatia Toafa

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



Ms Joanne Choe

Director
Counselor, Development Cooperation, DFAT (Australia High Commission)
for the Government of Australia
(2013 to present)



David Nicholson

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

Service Providers

Fund Managers

Schroders Investment Management - Ms Clare Offwood - Institutional Business Development Manager,

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

Investment Committee

Mr. David Hutton - *Chairman*

Ms Nalayini Brito - *Member*

Advisory Committee

Mr Michael Hyndman – Consultant for the Government of Australia

Mr Pete Rodger– Consultant for the Government of New Zealand

Mr Malcolm Ponton – Consultant for the Government of Tuvalu

Fund Monitor

Mr Jonathan Eriksen – Managing Director, Eriksens & Associates Ltd

Fund Auditor

Mr Michael-Yee Joy – Partner, KPMG

Secretariat

Mr Lee Faiva Moresi – Secretary (*on study leave*)

Ms Salai Sualo – Acting Secretary

Chairman's Report

I am deeply honored to present the Annual Report of the Tuvalu Trust Fund for the financial year ending 30 September 2015. I am pleased to report that the affairs, activities and management of the Tuvalu Trust Fund during the 2015 financial year were in accordance with the International Agreement.

This year the market value of the Fund was above the maintained value by \$4.7 million. This is the third consecutive year for the Government of Tuvalu to receive distributions from the Fund. Therefore, the Government of Tuvalu is very pleased with the performance of the Fund. In addition this is the first year for the Board to agree to re-invest the automatic distribution and the Government of Tuvalu supported the Board's agreement to re-invest the distribution of \$4.7 million as the Government of Tuvalu's continuous support to the Fund. However, the challenge now is to make sure this success is continued to the future and I have every faith that the Fund is well placed to achieve this.

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

Tuvalu mo te Atua.

Highlights of the Year

Tuvalu Trust Fund

Fund Performance

At the end of the 2015 the Fund invested 50.1% in AMP Capital Extended Multi-Asset Fund and 49.1% with Schroders while the remaining balance, 0.8% was held in cash with the Westpac account. The market value of the Fund decreased by \$1.7 million from 30 September 2014 to 30 September 2015. Even though market value declined, this total market value of the Fund was still above its maintained value by \$4.8 million.

Market Value

The closing market value of the TTF, as at 30 September 2014, was A\$148,459,537. The closing market value of the TTF, as at 30 September 2015, was A\$148,002,254 and was split between the two Fund Managers as follows (in AUD):

Schroders Investment Management	\$72,639,159
AMP Multi-Asset Capital	\$74,104,321

Maintained Value

The maintained value as at 30 September 2015 is the sum of the maintained value as at 30 September 2014, 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\$143,219,687**.

Automatic Distribution in 2015

On the basis of the above Maintained and Market Values as at 30 September 2015, the market value was above the maintained value by \$4,782,567 million. However, the Board in its annual meeting agreed to re-invest the automatic distribution and the Government of Tuvalu approved as its contribution to the Fund.

Secretariat Internal issues – Low-light

During April 2015, the National Bank of Tuvalu discovered that the volunteer clerk forged some of the authorised signatories on the cheques issued by the Secretariat. This is the first time for a fraud incident to happen within the operation and the management of the Fund. The case was handled by the Secretariat together with the Ministry of Finance & Economic Development and the Office of the Auditor General. All embezzled funds have been recovered and paid into the Secretariat's operational account. (The Auditor's report is attached as an appendix to this report). The Secretariat has worked in conjunction with the Auditors to improve internal controls to ensure no such incidents occur in future.

Consolidated Investment Fund

The closing market value of the CIF, as at 30 September 2014, was A\$ 18,788,929.28.

The closing market value of the CIF, as at 30 September 2015, was A\$25,415,214.

During the financial year 2015, the CIF received budget support contributions of A\$1.5 million from Australia and A\$542,854 from New Zealand. Over the same period the Government of Tuvalu drew down \$4.5 million from the CIF. All of the investment was in cash, held by Schrodgers Real Return CPI + 3.5% Fund. This is the first financial year for the CIF to invest in Schrodgers Real Return CPI + 3.5% Fund.

TUVALU TRUST FUND

Statement of the Directors

To the Government of Tuvalu

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

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

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

Hon. Maatia Toafa
Chairman

Mr David Nicholson
Director

May, 2015.
