



TUVALU TRUST FUND

**ANNUAL REPORT
2021**

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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 2021 Annual Report of the Tuvalu Trust Fund for the financial year ending 30 September 2021. 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 2021, the Market Value of the Fund has increased from A\$183.25 million in 2020 to A\$205.66 million. This included an additional capital contribution from the Australian Government of A\$2 million. Maintained value over the year grew from A\$185.64 million to A\$193.25 million as at 30 September 2021

The Fund recovered significantly after the March 2020 market crash due to the Covid-19 pandemic. Despite these challenges, the Fund finally reached its \$200 million target in May 2021 with an available distribution of \$12.41 million as at 30 September 2021. A stark contrast from the previous year where there was no available distribution.

Many changes of the Fund lay before us but we must be mindful that financial markets fluctuate and that we remain vigilant to these fluctuations. I commend the Fund Managers for their hard work and for helping us reach the \$200 million target after many years.

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:

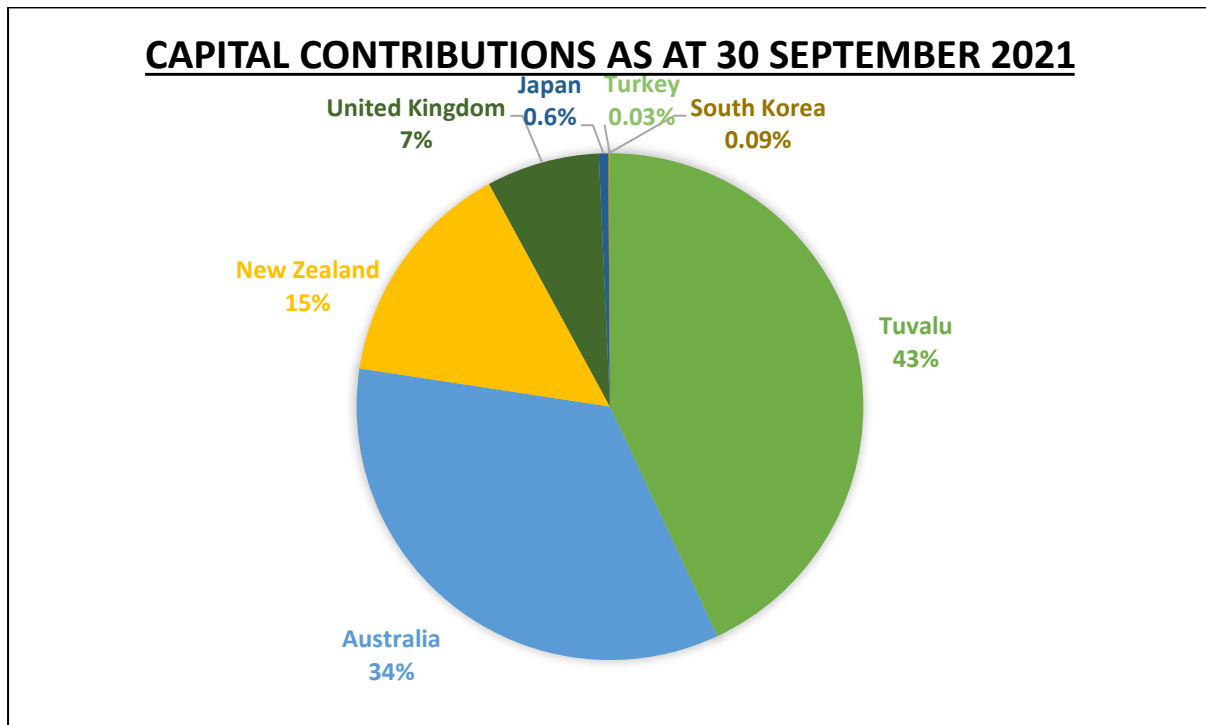
- a) assist the Government to achieve greater financial autonomy in the management of its recurrent budget;
- b) enable the Government to maintain, and if possible, improve existing levels of social infrastructure and services;
- c) enhance the capacity of the Government to receive and effectively utilize 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 2021. In June 2021, the Australian Government contributed A\$2 million.

Figure 1: Contribution by Country into the Fund



As at 30 September 2021, the total capital contributions to the Fund from each party is as follows: Tuvalu - A\$50.7 million; Australia - A\$40.5 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.

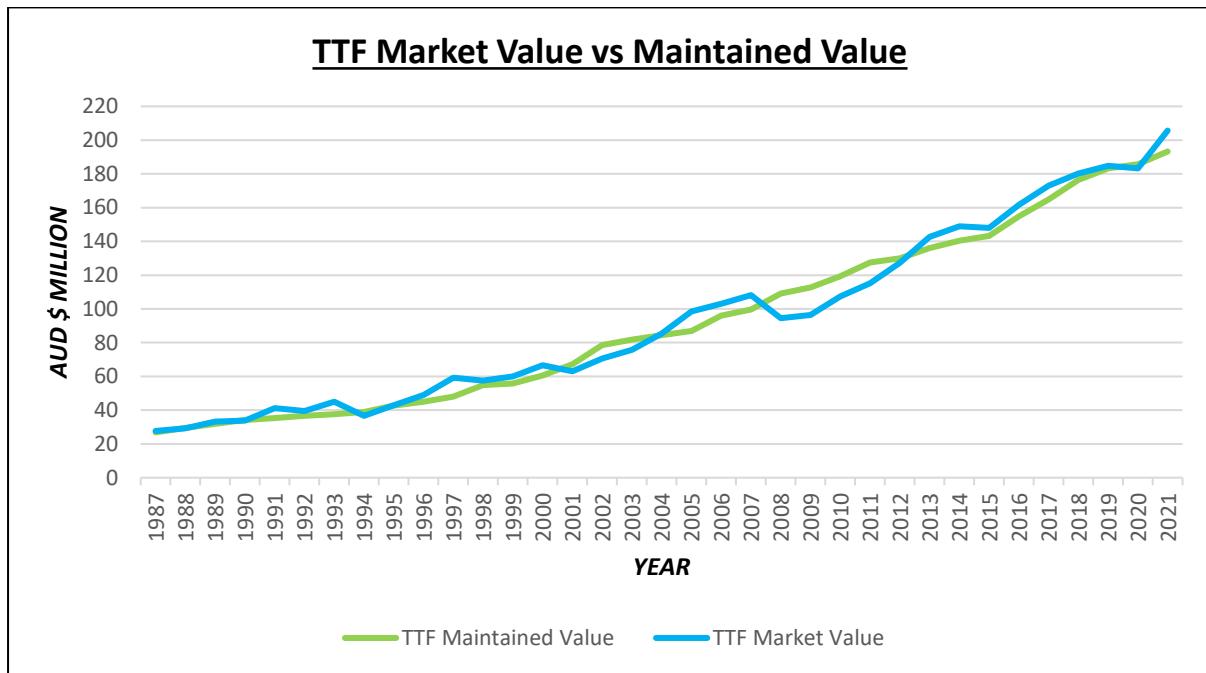
The Growth of the Tuvalu Trust Fund

The Market Value of the Fund as at 30 September 2021 stood at A\$205.7 million compared to A\$183.25 million at 30 September 2020. At the end of May 2021, the Fund finally reached its \$200 million target totaling \$200.3 million.

The Maintained Value of Fund as at 30 September 2021 stood at A\$193.25 million compared to A\$185.65 million at 30 September 2020. This included the capital contribution from Australia of A\$2 million in June 2021. The investment performance for the year was 11.3%

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

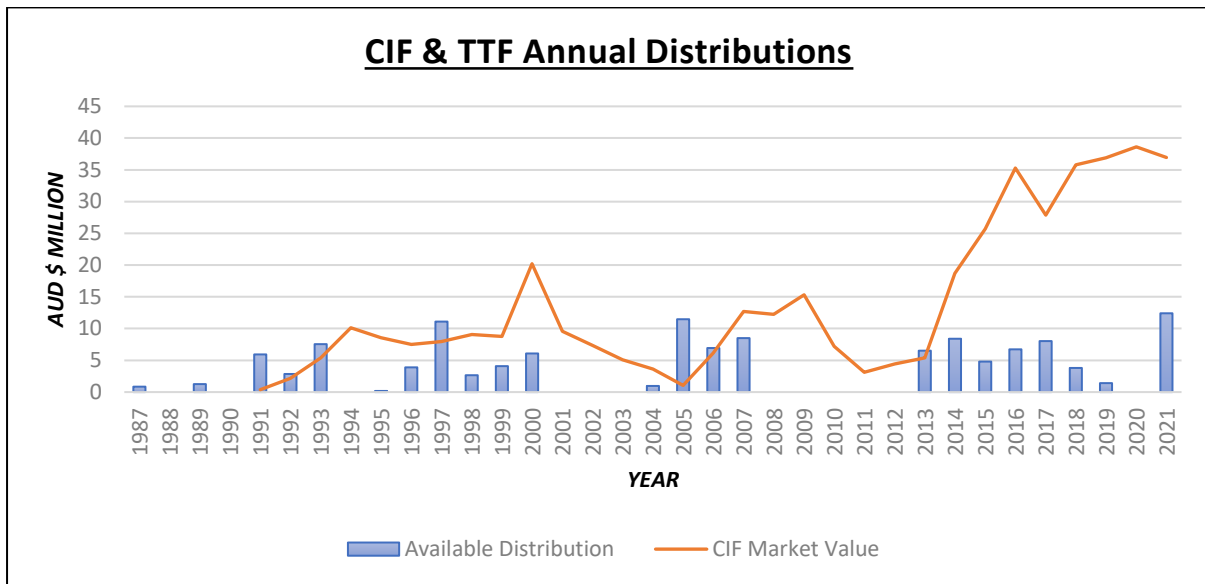
Figure 2: TTF Market Value vs. Maintained Value



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 2021, the CIF’s value stood at A\$36.9 million compared to A\$38.62 million at the end of 2020. In September 2021, the Government made the decision to draw down \$5 million due to its low cash flow at the time. 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 2022)

Service Providers

Investment Committee:

Ms. Nalayini Brito – NZ Advisor/Chair

Mr. Niuatui Niuatui – Tuvalu Advisor

Mr. John Eliopoulos – Australia 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

TTF Asset Classes Portfolio

At the 72nd TTF Board Meeting the decision was made based on advice provided by the Fund Monitor and the IC, to change the TTF asset portfolio back to its former strategy – Strategic Asset Allocation (SAA) Strategy. This was due to the current strategy – Objective Based Asset Allocation (OBAA) – has been underperforming in the long term.

A Special Board Meeting was held on 27 May 2021 where the IC presented various Implementation Options to the Board for their consideration. The Board approved the 'Multiple Single Asset Class Funds through an Implemented Consultant. The Board instructed the IC to carry out an invite-only procurement process with the assistance of a procurement consultant.

Fund Performance

The TTF benchmark is CPI +4.5% and the Fund return for the year was 11.3%, 3.7% above the Fund benchmark. In the long term the Fund has been underperforming i.e., since inception of OBAA in 2012, the Fund has underperformed by -0.5% below its benchmark.

The target objective for the AMP Extended Multi-Asset Fund (Wholesale) changed from CPI +5.75% to CPI + 4.5% on 30 June 2021 and the target objective for the Schrodgers Real Return changed from CPI +5.5% to CPI +4.5% p.a on 1 March 2021. Schrodgers returned 10.2% and AMP 12.5%.¹

Market Value

As at 30 September 2021, the TTF Market Value was A\$205,665,607 which is split between the following Fund Managers:

Schroder Investment Management	103,068,387
AMP Capital	102,587,220
TOTAL	205,665,607

Based on the above figures 50.12% is invested with Schrodgers and 49.88% is invested with AMP Capital.

The Fund recovered significantly since the March 2020 market crash caused by Covid-19. Financial markets performed well in the past 12 months as at 30 September 2021 with the Fund reaching its best performance since 2007.²

¹ Investment results sourced from Russell Investment's Quarterly Performance Report as at 30 September 2021 (3rd Quarter)

² Investment results sourced from the IC Report as at 30 September 2021

Maintained Value

As at 30 September 2021, the TTF Maintained Value was A\$193,252,181 including the additional contribution from Australia of A\$2 million and all adjusted for inflation³ for the financial year.

Annual Distribution 2021

As at 30 September 2021, the Market Value was above the Maintained Value by A\$12,413,426. The Government of Tuvalu decided to re-invest \$5 million and draw down the remaining of \$7,413,426 and invest it into the CIF.

Consolidated Investment Fund

The CIF benchmark is CPI + 1.5% and is invested into the Schrodgers Real Return CPI + 3-4% (formerly CPI +3.5%). The Fund return for the year was 8.5% and was 3.9% above the Fund benchmark.

The Market Value of the CIF as at 30 September 2020 was A\$38,620,890 and decreased to A\$36,954,420 as at 30 September 2021. The CIF Value is 19% of the TTF Maintained Value, above the target of 16%. The decrease in Market Value was due to the A\$5 million that was approved to draw down in September 2021 to cover the Government's low cash flow.

Other Activities of the Fund

Board Meetings

As per the usual operations of the Fund, two Board Meetings were held during the financial year (1 October 2020 to 30 September 2021). An additional Special Board Meeting was added to the schedule. However, due to the Covid-19 pandemic, travel was restricted therefore both meetings were held via the video communication software Zoom.

The first meeting (71st Board Meeting) was held on 20th November 2020. The second (72nd Board Meeting) was held on 13th May 2021. A Special Board Meeting was held on 27th May 2021 to determine the Implementation Option for the approved SAA Strategy.

TTF Advisory Committee

TTFAC carried out its missions in April/May 2021 and September/October 2021 virtually due to Covid-19 and travel restrictions. As of November 2020, the TTFAC follows the new Terms of Reference (ToR) where it identified the primary objective of missions to be sharpened to reflect assessment of the Government of Tuvalu's policy reform agenda.

³ Measured by the Australian Consumer Price Index (CPI) All Groups Index.

Investment Committee

The NZ IC Advisor, Ms. Nalayini was appointed IC Chair. In March 2021, the IC welcomed the new Australian IC Advisor, Mr. John Eliopoulos.

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

Secretariat

During the year the Secretariat worked together with a consultant to identify an External Support Service (ESS). The appointed ESS is to develop the capacity of the Secretariat function for the benefit of the TTF and its associated funds. These include drawing up a Risk Framework Programme, Fund Record Assessment, Financial Statement Procedures, Fund Administration & Processes, Annual Report and Formal Investment Training Programme. The ESS will be employed for a limited time period.

Financial Statements

The 2021 audit report completed in May 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 2022

Annex 1: TTF 2021 Financial Statements

**TUVALU TRUST FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2021**

**TUVALU TRUST FUND
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**TUVALU TRUST FUND
DIRECTORS' STATEMENT TO THE GOVERNMENT OF TUVALU
FOR THE YEAR ENDED 30 SEPTEMBER 2021**

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 2021;
- (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 2021;
- (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 2021;
- (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 2021;
- (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 31 day of May 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 2021**

	Notes	2021 \$A'000	2020 \$A'000
Assets			
Cash and cash equivalents	9	163	161
Trade and other receivables	5	-	-
Financial assets held at fair value through profit and loss	4	<u>205,656</u>	<u>183,250</u>
Total Assets		<u>205,819</u>	<u>183,411</u>
Liabilities			
Trade and other creditors	6	<u>66</u>	<u>68</u>
Total Liabilities		<u>66</u>	<u>68</u>
Net Assets		<u>205,753</u>	<u>183,343</u>
Equity Account		<u>205,753</u>	<u>183,343</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 2021**

	Notes	2021 \$A'000	2020 \$A'000
Balance as at 1 October		183,343	185,047
Contributions received	8(a)	2,000	1,030
Total comprehensive income / (loss)		20,410	(1,319)
Distributions to the Government of Tuvalu	8(b)	-	(1,415)
		<hr/>	<hr/>
Net increase / (decrease) for the year		<u>22,410</u>	<u>(1,704)</u>
Balance as at 30 September		<u><u>205,753</u></u>	<u><u>183,343</u></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 2021**

	Note	2021 \$A'000	2020 \$A'000
Revenue			
Investment income		7,796	4,886
Increase in fair value of financial assets		13,989	-
Other income		4	-
Interest income	2	<u>1</u>	<u>-</u>
		21,790	4,886
Expenditure			
Audit fees		(14)	(19)
Decrease in fair value of financial assets		-	(4,995)
Fund monitor's fee		(197)	(100)
Management fee		(1,022)	(997)
Other expenses	3	<u>(147)</u>	<u>(94)</u>
		<u>(1,380)</u>	<u>(6,205)</u>
Profit / (Loss) from Ordinary Activities		20,410	(1,319)
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income / (loss) for the year		<u>20,410</u>	<u>(1,319)</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 2021**

	Notes	2021 \$A'000	2020 \$A'000
Cash flow from operating activities			
Interest income		1	-
Operating expenses paid		<u>(356)</u>	<u>(177)</u>
Net cash flows used in operating activities		<u>(355)</u>	<u>(177)</u>
Cash flow from investing activities			
Purchase of new investment units		(2,000)	(3,940)
Redemption of units		<u>357</u>	<u>192</u>
Net cash flows used in investing activities		<u>(1,643)</u>	<u>(3,748)</u>
Cash flow from financing activities			
Contributions received		2,000	3,872
Distribution to the Government of Tuvalu		<u>-</u>	<u>(1,222)</u>
Net cash flows from financing activities		<u>2,000</u>	<u>2,650</u>
Net increase / (decrease) in cash and cash equivalents		2	(1,275)
Cash and cash equivalents at the beginning of the year		<u>161</u>	<u>1,436</u>
Cash and cash equivalents at the end of the year	9	<u><u>163</u></u>	<u><u>161</u></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 2021

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 2021 were authorised for issue in accordance with a resolution of the directors on 31 May, 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 utilise 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 Standards 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 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Standards issued not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 October 2020 and earlier application is permitted; however, the Company has not early adopted the new and amended standards in preparing these financial statements. The following new and amended standards are not expected to have a significant impact on the Company's financial statements:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3).
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- Disclosure of Accounting Policies (Amendments to IAS 21 and IFRS Practice Statement 2).
- Definition of Accounting Estimates (Amendments to IAS 8).

e) 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.

f) Expenditure and outgoings

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

g) 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.

h) 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.

**TUVALU TRUST FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Financial assets and financial liabilities (continued)

(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 recognised 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 recognised in profit or loss. The Fund derecognises 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 realise 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 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) 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.

j) Cash and cash equivalents

Cash and cash equivalents comprise of cash at bank at balance date. Cash and cash equivalents are short-term, highly liquid investments with original maturity term of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

k) 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.

l) Trade and other creditors

Trade and other payables are stated at amoritsed cost.

m) Goods and services tax (GST)

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

n) 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.

o) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

(i) As a lessee

The Fund recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or the site on which it is located, less any lease incentives received.

**TUVALU TRUST FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Leases (continued)

(i) As a lessee (continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Fund by the end of the lease term or the cost of the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Fund uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; and
- the exercise price under a purchase option that the Fund is reasonably certain to exercise, lease payments in an optional renewal period if the Fund is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Fund is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Fund's estimate of the amount expected to be payable under a residual value guarantee, or if the Fund changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets and lease liabilities separately in the statement of financial position.

The Fund used the following practical expedients when applying IFRS 16:

- 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.

(ii) As a lessor

The Company does not have any leases where it acts as a lessor.

**TUVALU TRUST FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Comparative figures

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

2. INTEREST INCOME

	2021	2020
	\$A'000	\$A'000
Interest	<u>1</u>	<u>-</u>

3. OTHER EXPENSES

Salary	73	50
Travel	-	-
Rent	6	6
Others	<u>68</u>	<u>38</u>
	<u>147</u>	<u>94</u>

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

	Market Value	Market Value
	2021	2020
	\$A'000	\$A'000
Defensive assets	94,396	85,932
Diversified assets	40,103	33,862
Growth assets	<u>71,157</u>	<u>63,456</u>
	<u>205,656</u>	<u>183,250</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 or indirectly observable from market data.

TUVALU TRUST FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2021

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

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.

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 categorised:

	Level 1	Level 2	Level 3	Total
	\$A'000	\$A'000	\$A'000	\$A'000
Local listed equities	205,656	-	-	205,656
Balance as at 30 September 2021	205,656	-	-	205,656

	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

5. TRADE AND OTHER RECEIVABLES

	2021	2020
	\$A'000	\$A'000
Government of Tuvalu	-	-
Withholding tax receivable deducted on investment income	-	15
Less allowance for doubtful debts	-	(15)
	<u>-</u>	<u>-</u>

6. TRADE AND OTHER CREDITORS

Auditors' remuneration	14	19
Sundry accruals	4	1
Fund monitor fee	48	48
	<u>66</u>	<u>68</u>

**TUVALU TRUST FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2021**

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.

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

	2021 \$A'000	2020 \$A'000
Australia	2,000	1,030
New Zealand	-	-
	<u>2,000</u>	<u>1,030</u>

(b) Distribution from Fund

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

Cash at bank	<u>163</u>	<u>161</u>
	<u>163</u>	<u>161</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 summarised as follows:

		Distribution \$A'000	Amounted owed by \$A'000
Government of Tuvalu	2021	-	-
	2020	1,415	-

**TUVALU TRUST FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2021**

11. COMMITMENTS AND CONTINGENCIES

Commitments and contingent liabilities amounted to nil (2020: nil).

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.

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.

The carrying amount of financial assets represents the maximum credit exposure.

Cash and cash equivalents

The Fund held cash at bank of \$163,000 (2020: \$161,000). Cash are held with banks which are rated AA- and B- based on Standard & Poor's ratings.

Financial assets held at fair value through profit and loss

The Fund held investment of \$205,656,000 (2020: \$183,250,000). Investment are held with fund managers which are rated A+ and BBB- based on Standard & Poor's ratings.

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.

**TUVALU TRUST FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2021**

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

15. SIGNIFICANT EVENTS DURING THE YEAR

Global effects of COVID-19 continue to have effects on the Fund's investment return. During the current year, the social and economic effects of COVID-19 continued as a result of emergence and spread of new variants, the roll-out of vaccines and the evaluation of local and global responses, including lockdowns and social restrictions, and prudential industry and economic measures taken by the governments and regulators worldwide. As such, the Fund is actively monitoring the extent of the impact to its operations, financial accounting and reporting.

16. SUBSEQUENT EVENTS

There has not arisen in the interval between the end of the 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 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 2021, 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 16.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 30 September 2021, 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 statement, 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 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 May, 2022