

TUVALU TRUST FUND



Annual Report

2017

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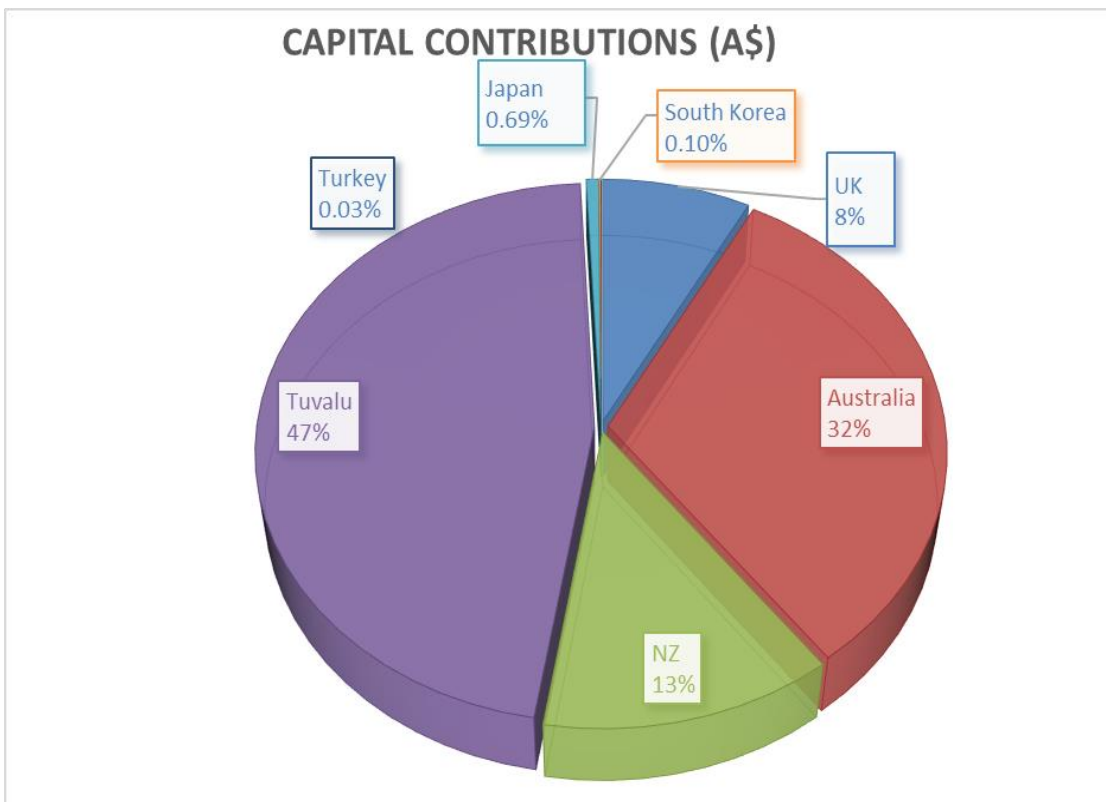
Abbreviations & Acronyms

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\$57,877,360 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 2017 including the initial contributions at the establishment of the Fund.

Figure: 1 Contribution by Country into the Fund



Purpose of the Fund

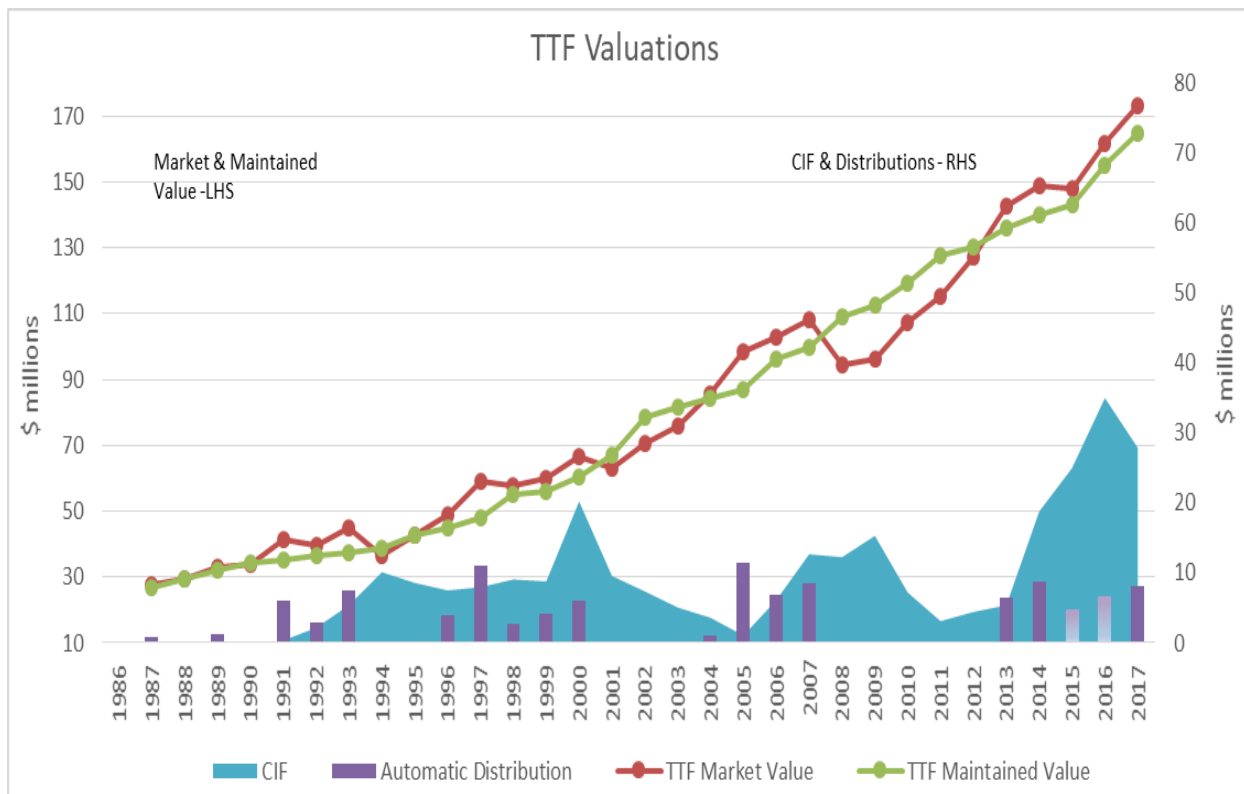
As set out in Part I, Article 2 of the agreement, the Fund has the following specific purposes:

- 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 2017, the Fund's value in the financial markets stood at A\$172,967,991 compared to A\$161,582,321 at the end of 2016. This included new capital contributions of A\$2.18 million from all the major partners in the Fund.

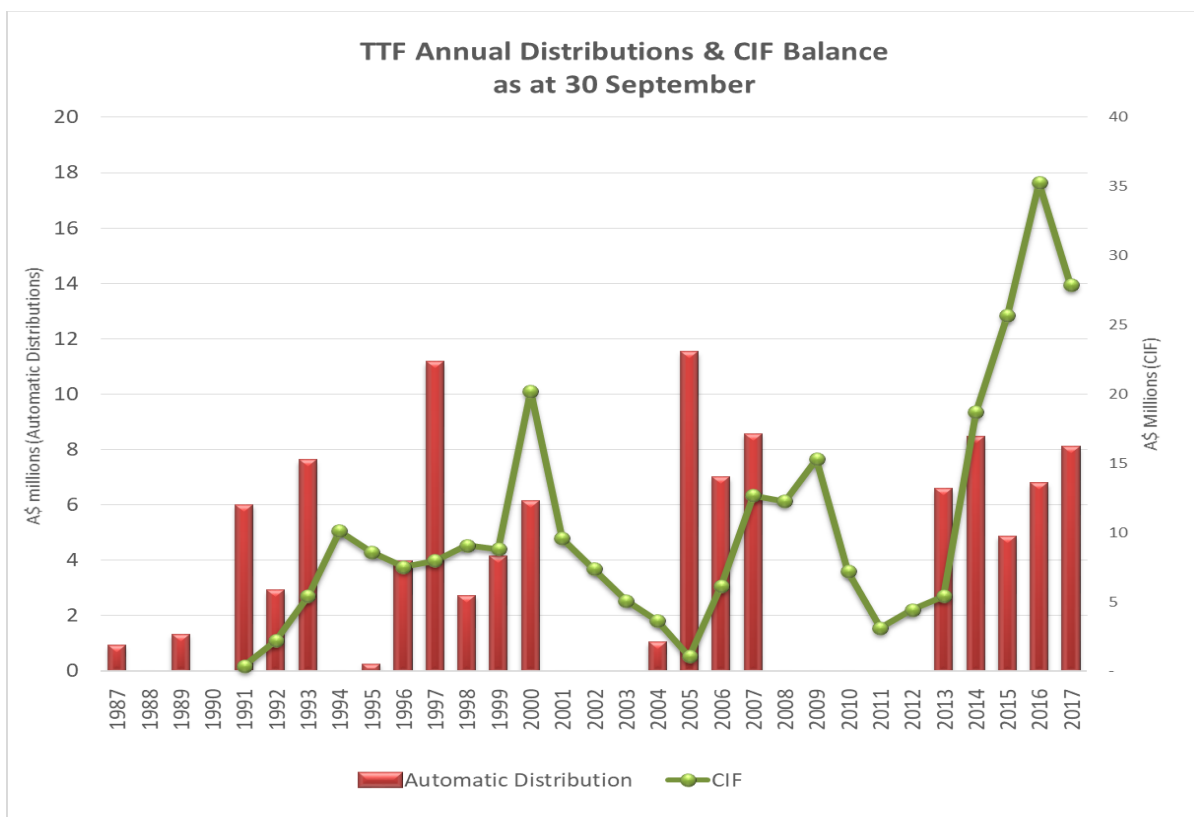
The chart below shows the Fund's Market Value compared to its Maintained Value since inception to 30 September 2017.



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 2017.



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 program 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 Christina Munzer
Director

Counselor, Development Cooperation, DFAT
for the Government of Australia
(2015 to present)



Matthew Howell
Unit Manager

Unit Manager, Samoa, Tonga, Tuvalu
Pacific Development Division
for the Government of New Zealand
(2017 to present)

Service Providers

Fund Managers

Schroders Investment Management - Mr Paul Raih - Institutional Sales Manager

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

Investment Committee

Mr. David Hutton - *Chairman*

Ms Nalayini Brito – *Member*

Mr. Lee Faivatala Moresi - *Member*

Advisory Committee

Mr Matthew Morris – 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 FK Moresi – Secretary (until November 2017)

Ms Tagifoe T Taomia – Acting Secretary (December 2016 to present)

Chairman's Report

I am again honored and delighted to present the Annual Report of the Tuvalu Trust Fund for the financial year ending 30 September 2017. 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 2017, the market value of the Fund has increased from \$161.58 million in 2016 to \$173.0 million. This included additional capital contributions from New Zealand of \$0.48 million, and \$1.7 million from the Australian Government. An additional of \$7.18 million or 4.2% injected into the Trust Fund. Maintained value over the year grew from \$154.85 million to \$164.94 million as at 30 September 2016. This is the fifth consecutive year that Market Value exceeded Maintained Value for the Fund which translates to a possible distributions for the Government of Tuvalu from the Fund. In addition this is the third year in a row for the Board to agree to re-invest the automatic distribution back into the Fund. At the 2017 annual meeting of the Board, Directors, with guidance from the Government of Tuvalu agreed for \$6.0 million to be reinvested. This further shows the Government's commitment to reach our target of \$200 million maintained value by the year 2020. However, let us not be complacent but bear in mind that the markets may turn against us at any time therefore the challenge now is to ensure our current 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

Fund Performance

At the end of the 2017 the Fund invested 51.6% in AMP Capital Extended Multi-Asset Fund and 48.4% with Schrodgers. The market value of the Fund as at 30 September 2017 was \$172,967,991 compared to a market value of \$161,582,321 as at 30 September 2016. This is an increase of \$11.39 million but \$7.18 million of this was from new capital contributions. Over the Financial year October 2016 to September 2017 capital contributions included \$5 million of reinvested distributions, \$1.7 million from the Australian Government and \$0.48 million from the NZ Government.

Market Value

The closing market value of the TTF, as at 30 September 2016, was A\$161,582,321. The closing market value of the TTF, as at 30 September 2017, was **A\$172,967,991** split between the two Fund Managers as follows (in AUD):

Schrodgers Investment Management	\$83,660,037
AMP Capital	<u>\$89,307,953</u>
	<u>\$172,967,991</u>

Maintained Value

The maintained value as at 30 September 2017 is the sum of the maintained value as at 30 September 2016, 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\$164.9 million**.

Automatic Distribution in 2017

On the basis of the above Maintained and Market Values as at 30 September 2016, the market value was above the maintained value by **\$8,032,900 million**. The Board in its annual meeting agreed to re-invest \$6 million back into the Fund and a \$2 million draw down will be applied to the Tuvalu Survival Fund. The balance will be applied to meeting the operational costs of the TTF Secretariat and other TTF services.

Consolidated Investment Fund

The closing market value of the CIF, as at 30 September 2017, was **A\$27.8 million**. The closing market value of the CIF, as at 30 September 2016, was A\$35.3 million. There were drawdowns from the CIF over the financial year 2016/2017 which decreased the fund slightly over 20%. All of the CIF is invested in the Schrodgers Real Return CPI + 3.5% Fund. This is the third financial year for the CIF to be invest in Schrodgers Real Return CPI + 3.5% Fund and it returned 4.2% post fees for the period.

Other Activities of the Fund.

Board meetings:

As per the usual operations of the Fund, the Board held two meetings during the year with the first meeting held on the 15th of May in Suva Fiji. The second meeting which was also the TTF's Annual meeting was held at Funafuti, and the proper commemorations of the 30th Anniversary took place. The actual date falls on the 16th of June, and a celebration which includes the Government, TTF partners and Secretariat in the cocktail with cutting of the cake. There were activities organised which included a radio programme by the Secretariat, and the Chairman's speech was aired on radio Tuvalu.

The 30th Anniversary was a success, and it was witnessed by a number of audiences included TTF members and partners, Government and friends of the TTF. The launching of the TTF Website and the 30th Anniversary Profile booklet also took place during the celebration which are planned events/activities to mark the occasion.

Changes of Directors.

During the Financial year 2016/2017 the Fund said farewell to Mr. David Nicholson, (NZ) and welcomes on board his replacement Mr. Matt Howell, (NZ). The Board acknowledges the contributions made by Mr. Nicholson, and Mr. Vinayak Nagaraj, NZ director for his contribution to TTF during the May meeting.

Staff changes

During the year the new Assistant Secretary, Ms Tagifoe Taomia commenced work in December and the new position of the Admin officer was filled in July by Ms Lise Moealofa. The Fund welcomes both staffs in their new appointment.

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 2017, 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

Ms Christina Munzer
Director

May, 2017