



The Republic of Nauru

INTERGENERATIONAL TRUST FUND FOR THE PEOPLE OF THE REPUBLIC OF NAURU



ANNUAL REPORT
2020

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2020 ANNUAL REPORT

2 December 2020

Dear Sirs

In pursuant to Paragraph 17 Clause 1 of the current Memorandums of Understanding, I am pleased to present to the Governments of Nauru, Australia, New Zealand and the Republic of China (Taiwan) the Annual Report of the Intergenerational Trust Fund for the People of the Republic of Nauru (the Fund), for the financial year ended 30 June 2020.

As required in the Memorandums of Understanding, the Annual Report includes the Fund's audited financial statements, along with investment, management and decisions information.

The Fund was established on 6 November 2015 with the main objective to generate future investment earnings that can be used to provide a source of revenue to the Republic of Nauru post 2033 (or at a time sooner as determined by the Committee) for investments in education, health, environment and infrastructure. The Fund will help smooth out income streams in the medium term and replace all, part or supplement volatile future revenue.

Yours faithfully

A handwritten signature in blue ink, appearing to be 'M. Hunt', written over the typed name.

Hon Martin Hunt MP

Chairman

2020 HIGHLIGHTS

Financial Highlights | 1 July 2019 - 30 June 2020

Cash contributions greater than \$30m as follows:

- Government of Nauru - \$23.9 million*
- Government of Australia - \$2.9 million**
- Government of the Republic of China (Taiwan) - \$3.0 million
- Government of New Zealand - \$0.9 million

* includes \$6.7 million pre-payment of intended 2020-21 contribution

** includes \$1.5 million pre-payment of intended 2020-21 contribution

Investment Income

- \$7.0 million

Total investments at market value

- \$142.0 million

Total net assets

- \$138.5 million

Fund Performance

- 1.6%

Key Outputs Delivered

A positive return for the Fund during COVID-19 times and falling markets

Continuing to work towards the 85/15 investment strategy

Continuing the commitment to the investment in Private Equity

Other Highlights

The Fund was valued at more than \$138 million for the 2020 year

A contribution of \$1.4 million made to the Private Equity investment during August 2020

CHAIRMAN'S REPORT

2020 was the fourth full year of operation since its establishment in 2015. As we are all aware, 2020 has been a challenge for everyone worldwide with COVID-19. I am pleased to advise that even with the impact of COVID-19 on financial markets and the economy as a whole, the Fund was able to return a positive result as at 30 June 2020.



Even through these tough times, our respective Governments were able to make the proposed annual contributions to the Fund. The Fund's investments are now at \$142 million at 30 June 2020. It is continuing to meet its investment objectives of achieving growth in the fund in the early years, even with the impact of COVID-19. I am pleased to report a \$28 million increase in the Fund from the 2019 financial year.

During the 2020 financial year, the GON contributed \$23.9 million to the Fund resulting in total contributions from establishment to 30 June 2020, of \$85.7 million. In order to take advantage of the current market situation, GON's contributions included a pre-paid amount of \$6.7 million relating to the 2021 financial year. GOA contributed \$2.9 million resulting in \$16.4 million since establishment (which also included a pre-paid contribution of \$1.5 million for the 2021 financial year); ROC (Taiwan) contributed \$3.0 million resulting in \$16.4 million since establishment; and GONZ contributed \$0.9 million resulting in \$3.7 million since commencing contributions to the Fund during the 2018 year. We are also grateful to the Asian Development Bank for providing \$2.634m on initial setup of the Fund.

During June 2019 we contributed to a Mercer private equity investment as part of our current investment strategy. This investment has returned positive results in both AUD and USD terms, which is an extremely positive outcome during our present economic environment. We have an ongoing commitment to this investment and contributed a further \$1.4 million during August 2020.

It is promising for the Republic of Nauru to know that the Fund is continuing to grow even through the tough times that everyone is experiencing. It is a testament that our current investment strategy is working and the Fund is continuing to generate future investment earnings which will provide a future revenue source to the Republic of Nauru.

We are continuing to work closely with our investment advisors and independent consultant to ensure our current investment strategy for long term growth is still appropriate based on what is happening throughout the world. This is constantly being monitored and reviewed to ensure the Fund continues to move toward an 85% growth strategy and 15% defensive strategy. As the Fund is not making any distributions until well into the future, we are confident that any fall in markets at this time will not have an ongoing impact on the Fund.

Again, I would like to thank my fellow Committee members, development partners and the broader team responsible for the administration and investment requirement of the Fund. With the continued growth of this Fund, it requires constant review and ongoing support and it is with great pleasure that I am able to work with a team that is ensuring the Fund's continued success, and as a result, the ability to provide a future revenue source for the GON and its people.

I personally am looking forward to being part of the Fund's growth during these challenging times.

Hon Martin Hunt MP

Chairman

HISTORY AND DIRECTION

The Government of the Republic of Nauru (GON) has pursued establishing a trust fund since 2009 to provide a stream of revenue to replace or supplement various volatile and possibly terminating, revenue sources.

The *Nauru National Sustainable Development Strategy 2005-25: Partnerships for Quality of Life* (as revised in 2019) identified the establishment of a trust fund as one of the seven strategies to stabilise the macroeconomic environment conducive to private investment. The aim was to have a trust fund provide supplementary funds to the budget as of 2030, mainly to replace dwindling phosphate royalty revenues. Parliament passed the *Nauru Trust Fund Act 2012* to authorise the establishment of a trust fund.

Since that time, Nauru's economic structure and GON's revenue streams have improved. For the period between FY2010-11 and FY2019-20, domestic revenue has significantly increased. Donor budget support and other donor-sponsored development expenditure have remained at sizeable amounts but are a reduced portion of the overall budget.

The increase can be explained by:

- 1) Fisheries revenue has increased as a result of fishing vessels using Nauru's Exclusive Economic Zone and a new fisheries agreement is in effect. The fisheries revenue is expected to be at higher levels but is volatile;
- 2) Australian Regional Processing Centre (RPC) revenues continue at a high-level. The transition of the management of the operations of the RPC has commenced and will continue to support the revenues for at least the 2020-21 FY; and
- 3) At the same time, responding to these primary revenue increases, tax, customs, and tariff and other revenue streams have also increased, including external aid assistance which remains at high levels and makes up about one-third of all revenue.

The GON conducted discussions with various development partners, including Australia, New Zealand, Government of Republic of China (Taiwan), and the Asian Development Bank (ADB), regarding the structure of the Fund to include its purpose, management, and administration, accountability and other legal and operational aspects.

The ADB was instrumental in their support of the establishment of the Fund with the funding of the consultant for the establishment process, including the tendering for support services and the initial Executive Administration role. The ADB also provided an initial contribution to the Fund. The Memorandums of Understanding (MOUs) are now in place for all the Fund's development partners. These MOUs set forth the structure and governance of the Fund.

The GON will contribute a portion of annual revenue to the Fund based on a formula agreed to in the MOUs. GON's development partners intend to contribute annually to the Fund. Other contributors may also enter into an agreement with the GON based on the parameters outlined in the MOU.

The Fund is intended to be a perpetual fund meaning its principal will be secured over the long term by eventual annual distributions that are less than the annual estimated long-term investment return rate.

As set out in Paragraph 5 of the MOU, the Fund has the following specific purpose:

"The purpose of the Fund is to provide a source of revenue to the Republic of Nauru post-2033, or at a time sooner as determined by the Committee, for investments in education, health, environment, and infrastructure. The Fund will help smooth out windfall income streams in the medium term and replace all or part or supplement questionable future revenue."

The initial investment strategy of the Fund was to build up the capital base and once achieved, review the ongoing investment strategy of the Fund. The future direction of the Fund takes into account its purpose and expected long term investment horizon.



Above: Aerial view of construction of a climate-resilient international port for Nauru.

GOVERNANCE

As set out in the Memorandums of Understanding (MOUs) for the Fund, the Committee is the governing body for the Fund.

Committee Members



Hon Martin Hunt MP (GON)



Ms Rhona McPhee (GOA)



Mr Richard Griffith (GONZ)



Ambassador Wang (ROC - Taiwan)

Service Providers

Executive Administrator



Investment Advisor



Auditor



Review Consultant



Operational Controls

The Committee uses Chartered Accountants BDO as the Executive Administrator to assist with the operational controls on a day to day basis as governed by the MOUs. Decisions are made at the quarterly Committee meetings and BDO provides the independence to effect those decisions.

Mercer is the Investment Advisor that is responsible for payment of all invoices after approval by the Committee. There is a minimum of two signatures required for approval of all invoices for payment. BDO also provides an independent review before authorising Mercer to make any payments.

Risk Management Systems

To assist with minimising risk the Committee has worked closely with Mercer to develop an appropriate investment policy. Consideration has been given to the expected life of the Fund and the most appropriate risk exposure for the investments. Tolerance levels are established to take into account market risk, liquidity risk and the flexibility of the portfolio.

Quarterly reviews are undertaken to ensure risk levels remain appropriate and to instigate any changes deemed necessary by the Committee and the Investment Advisor.

An independent advisor from Vinstar Limited assists the Committee by monitoring the results of the Mercer investments and providing quarterly reports on targets met. A review of any targeted changes by Mercer is undertaken at the time and comments provided accordingly for Committee consideration.

Santiago Principles

The Santiago Principles are a voluntary set of principles and practices originally developed by the International Working Group of Sovereign Wealth Funds (the Working Group) during 2008 and which today are at the heart of the International Forum of Sovereign Wealth Funds (IFSWF).

The Santiago Principles identify a framework of generally accepted principles and practices that properly reflect appropriate governance and accountability arrangements. It identifies the conduct of investment practices that properly reflect appropriate governance and accountability arrangements as well as the conduct of investment practices by Sovereign Wealth Funds (SWFs) on a prudent and sound basis.

The IFSWF was established as a voluntary group of SWFs in 2009, to build on the efforts of the Working Group, to meet, exchange views on issues of common interest, and facilitate an understanding of the Santiago Principles and SWF activities.

The Fund has completed a self-assessment in line with the Santiago Principles with the detail contained in Appendix 1.

International Forum of Sovereign Wealth Funds (IFSWF)

On 6th September 2017, the Fund became a member of the International Forum of Sovereign Wealth Funds (IFSWF). This places the Fund as a peer to many of the largest sovereign funds in the world.

INVESTMENT PERFORMANCE

2019/2020 Progress

The Intergenerational Trust Fund for the People of the Republic of Nauru has been established with the purpose of generating future investment earnings that can be used to provide a source of revenue to the Republic of Nauru, for investments in education, health, environment and infrastructure. The Fund will help to smooth out windfall income streams in the medium term and replace all or part or supplement volatile future revenue.

The Trust Fund Committee has acknowledged that the Fund has a long term investment horizon. The long term horizon allows a high exposure to growth assets so as to generate strong real investment returns. The investment strategy for the Fund will be undertaken in the following stages (years stated are approximate timings) with the Fund currently positioned within Stage 2:

- Stage 1 - years 0 - 3 (completed): The objective of stage 1 is to build the capital base of the Fund by investing within a diversified investment option with an allocation of 70-75% to growth assets.
- Stage 2 - years 4 - 15 (current): The objective will be to increase the allocation to growth assets through a more bespoke asset allocation to increase the real return potential of the Fund.
- Stage 3 - years 16 - 20: The Fund will gradually reduce the allocation to growth assets as it approaches maturity. Sufficient liquidity will be required as the Fund prepares for distributions to begin.
- Stage 4 - years 20 and beyond: Consistent with stage 3 a significant proportion of the fund will be retained in growth assets with ongoing review to ensure sufficient liquidity to enable annual distributions of earnings.

The agreed investment return objective of the Fund for stage 2 is as follows:

- *To achieve a total return of 4.5%pa (after fees) over inflation (as measured by the Australian Consumer Price index) over rolling 10 year periods.*

The 2020 financial year will be remembered as one of the more extreme with regard to market volatility. Global financial markets had finished the 2019 calendar year with strong performance for risk assets while safer asset classes exhibited lower or even negative returns. At the close of 2019, there was an expectation that global economic growth was stabilizing and that by the end of 2020, the global economy would return to trend levels of growth. The partial resolution of the US-China Phase 1 trade deal and clarity over Brexit following Boris Johnson's resounding election victory provided some levels of certainty to the economic outlook. Increased trade and accommodative monetary conditions were expected to be the main catalyst for bringing growth back to trend, promoting business investment whilst the consumer remained strong. As December closed in 2019, the outbreak of a coronavirus in China represented a small risk.

Global financial markets then proceeded to start the new decade with the worst quarter since the last quarter of 2008, as the coronavirus became a global (COVID-19) pandemic, triggering unprecedented and synchronized shutdowns across parts of the world economy. As the pandemic took hold, global nominal bond yields dropped sharply as investors crowded into safe havens while central banks aggressively cut benchmark rates and reinitiated quantitative easing. Equity markets were heavily sold off, moving into bear market territory towards the end of March.

The response from both fiscal and monetary policy to the pandemic has extraordinary. Coordinated global monetary policy has resulted in outright and unlimited easing in the US as never seen before with a number of other countries acting simultaneously. Interest rates across

most regions are now at their effective lower bound. Fiscal policy has ramped up and governments have implemented meaningful spending programs to reduce downside economic growth risks by providing cash and credit lines to businesses and consumers. This is expected to lead to deficits of above 10% of GDP in a number of countries.

The policy response and varying success against the pandemic across the globe produced levels of optimism over economies reopening and some business activity starting to return to normal. Markets rebounded strongly in the June quarter although this optimism was moderated towards the end of the quarter by concerns over resurges of the virus in parts of the world including a sizable number of US states that led to reopening plans being delayed and restrictions being re-imposed in some cases.

Whilst FY 2020 will be considered one of the most volatile for some time, the Fund managed a positive return over the past 12 months and remains ahead of its return objective since inception.

Performance to 30 June 2020	Fund	Objective (CPI + 4.5%)
1 Year	1.6%	4.2%
Inception (April 2016)	7.2% pa	5.8% pa

The combination of portfolio returns and ongoing contributions (\$19.3m) has seen the Fund exceed \$140m as 30 June 2020. The Fund continues its transition to its target weight of 85% growth assets with FY 2020 marking the Fund's allocating further to illiquid asset classes such as Global Unlisted Infrastructure (\$10m) and Private Equity (\$US1.4m). These illiquid asset classes have been shown to benefit long term investors and are an integral component of sovereign wealth funds.

FINANCIAL STATEMENTS

The Intergenerational Trust Fund for the People of the Republic of Nauru

Financial Statements

For the year ended 30 June 2020

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The Intergenerational Trust Fund for the People of the Republic of Nauru

Statement of Comprehensive Income

For the Year Ended 30 June 2020

	Notes	30 Jun 2020 \$'000	30 Jun 2019 \$'000
Investment income			
Net gains/ (loss) on financial assets at fair value through profit or loss	5	(4,717)	100
Distribution income	6	6,605	5,235
Management fee rebates		356	174
Unrealised foreign exchange gains/(losses)		52	(22)
Contributions	7	25,622	21,376
Total income		27,918	26,863
Expenses			
Accounting fees		21	18
Audit fees	13	10	10
Executive administrator fees		26	39
Investment expenses	8	96	328
Meeting costs		22	12
Membership fees		19	18
Review consultant fees		23	20
Total operating expenses		217	445
Profit from ordinary activities		27,701	26,418
Other comprehensive income		-	-
Total comprehensive income for the period		27,701	26,418

The above statement should be read in conjunction with the accompanying notes.

The Intergenerational Trust Fund for the People of the Republic of Nauru

Statement of Financial Position

As At 30 June 2020

	Notes	30 Jun 2020 \$'000	30 Jun 2019 \$'000
Assets			
Cash and cash equivalents		62	43
Financial assets at fair value through profit or loss	9	142,063	110,814
Mercer distributions receivable		4,650	3,137
Management fee rebate receivable		27	17
Total assets		146,802	114,011
Liabilities			
Trade and other payables	10	21	26
Income received in advance	11	8,235	3,140
Total liabilities		8,256	3,166
Net assets		138,546	110,845
Equity			
Retained Surplus		138,546	110,845
Total Equity		138,546	110,845

The above statements should be read in conjunction with the accompanying notes.

The Intergenerational Trust Fund for the People of the Republic of Nauru

Statement of Changes in Equity

For the Year Ended 30 June 2020

	Notes	Retained Surplus \$'000	Total \$'000
Balance 1 July 2019		110,845	110,845
Comprehensive Income			
Profit for the period		27,701	27,701
Balance as at 30 June 2020		138,546	138,546

	Notes	Retained Surplus \$'000	Total \$'000
Balance 1 July 2018		84,427	84,427
Comprehensive Income			
Profit for the period		26,418	26,418
Balance as at 30 June 2019		110,845	110,845

The above statements should be read in conjunction with the accompanying notes.

The Intergenerational Trust Fund for the People of the Republic of Nauru

Statement of Cash Flows

For the Year Ended 30 June 2020

	Notes	30 Jun 2020 \$'000	30 Jun 2019 \$'000
Cash flows from operating activities			
Interest received		-	-
Contributions received		145	120
Payment to suppliers		(126)	(113)
Net cash flows used in operating activities	12	19	7
Net increase in cash and cash equivalents		19	7
Cash and cash equivalents at the beginning of the period		43	36
Cash and cash equivalents at the end of the year		62	43

The above statements should be read with the accompanying notes.

The Intergenerational Trust Fund for the People of the Republic of Nauru
Notes to the Financial Statements
For the Year Ended 30 June 2020

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The Intergenerational Trust Fund for the People of the Republic of Nauru

Notes to the Financial Statements

For the Year Ended 30 June 2020

1 General information

The Intergenerational Trust Fund for the People of the Republic of Nauru (the Fund) has been established (on 6 November 2015) to provide a source of revenue to the Government of Nauru post 2033 for investments in education, health, environment and infrastructure. The Fund will help to smooth out income streams in the medium term and replace all or part or supplement future revenue. It is governed by Memorandum of Understandings which allows governments to make annual contributions to the Fund. There is a Memorandum of Understanding (MOU) between the Government of the Republic of Nauru (GON) and the Government of Australia (GOA) entered into on 6 November 2015 to contribute to the long-term budgetary self-reliance of the Republic of Nauru. There are also MOU between the Government of the Republic of Nauru (GON) and the Government of the Republic of China (Taiwan) (ROC – Taiwan) entered into on 4 April 2016 and GON with the Government of New Zealand (GONZ) entered into on 28 May 2019, to contribute on the same basis.

The Fund is exempt from currency and exchange restrictions and income tax as per the International Organisations (Privileges and Immunities—Nauru Trust Fund) Regulation 2015 (Select Legislative Instrument No. 235, 10 December 2015).

The Executive Administrator of the Fund is BDO (Qld) Pty Ltd ACN 134 242 434 (BDO).

The Investment Manager is Mercer Investments (Australia) Limited ABN 66 008 612 397 (Mercer).

The Fund has a management committee (the Committee) that operates under the Memorandum of Understandings. The Committee has a representative from Nauru, Australia, Taiwan and New Zealand (refer to Note 12).

The Review Consultant for the Fund is Vinstar Limited.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to from date of establishment, unless otherwise stated in the following text.

2.1 Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and other authoritative pronouncements issued by the Australian Accounting Standards Board and the applicable MOUs. The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards – Reduced Disclosure Requirements.

All amounts are presented in Australian dollars and have been rounded to the nearest thousand dollars unless otherwise indicated.

These financial statements were prepared on the basis of historical cost, except for financial assets at fair value through profit or loss.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within twelve months, except for financial assets at fair value through profit or loss. The amount expected to be recovered or settled within twelve months after the end of each reporting period cannot be reliably determined.

2.1.1 New and amended standards adopted by the Fund

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2019 that would be expected to have a material impact on the Fund. No Australian Accounting Standards have been early adopted for the 2020 financial year.

The Intergenerational Trust Fund for the People of the Republic of Nauru

Notes to the Financial Statements

For the Year Ended 30 June 2020

2 Summary of significant accounting policies (continued)

2.2 Financial instruments

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Fund's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Fund has applied the practical expedient, the Fund initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)*
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss*.

*These are the financial assets most relevant to the Fund.

Financial assets at amortised cost (debt instruments)

The Fund measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Fund's financial assets at amortised cost includes receivables. Refer to Note 2.5 for further details.

Financial assets at fair value through profit or loss

The Fund's financial assets at fair value through profit or loss include financial assets mandatorily required to be measured at fair value. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the profit or loss based on the exit price as reported by the managers of the trusts.

The Intergenerational Trust Fund for the People of the Republic of Nauru

Notes to the Financial Statements

For the Year Ended 30 June 2020

2 Summary of significant accounting policies (continued)

2.2 Financial instruments (continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Fund's statement of financial position) when:

- The rights to receive cash flows from the asset have expired or
- The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Fund continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

Classification

The Fund's investments are classified as at fair value through profit or loss. They are comprised of financial instruments designated at fair value through profit or loss upon initial recognition.

Financial assets designated at fair value through profit or loss, upon initial recognition are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategies.

Recognition / derecognition

The Fund recognises financial assets and financial liabilities on the date they become party to the contractual agreement (trade date).

Investments are derecognised when the right to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

Measurement

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in profit or loss.

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 at the measurement date.

Investments in unlisted unit trusts and Investments in private equity are recorded at the exit price as reported by the managers of the trusts.

The foreign private equity investments are translated into the Fund's functional and presentation currency (see Note 2.3.1).

The Intergenerational Trust Fund for the People of the Republic of Nauru

Notes to the Financial Statements

For the Year Ended 30 June 2020

2 Summary of significant accounting policies (continued)

2.3 Foreign currency translation

The financial statements are presented in Australian dollars, which is the Fund's functional and presentation currency.

2.3.1 Foreign currency transactions and balances

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined. Translation differences on assets and liabilities carried at fair value are reported in the statement of comprehensive income on a net basis within net gains/(losses) on financial instruments at fair value through profit or loss.

2.4 Cash and cash equivalents

For the purpose of presentation in the statement of financial position and the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Fund's main income generating activities.

2.5 Receivables

Contributions are accrued when there is reasonable assurance that the Fund will comply with any conditions under the MOU and that the monies will be received.

Trust distributions and management fee rebates are accrued when the right to receive payment is established.

2.6 Trade and other payables

The amounts represent liabilities for services provided to the Fund prior to the year-end balance date and remain unpaid at that time. The amounts are unsecured and are usually paid within 30 days of recognition.

2.7 Income

Investment income

Interest income is recognised in profit or loss for financial assets at amortised cost using the effective interest method and includes interest from cash and cash equivalents.

Distribution income from unlisted trust distributions and private equity investments from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income within distribution income when the right to receive payment is established.

Management fee rebates from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income. They are provided on a monthly basis and reduce the effective fee on the investments held in financial instruments.

Other changes in fair value for such instruments are recorded in accordance with the policies described in Note 2.2 to the financial statements.

The Intergenerational Trust Fund for the People of the Republic of Nauru

Notes to the Financial Statements

For the Year Ended 30 June 2020

2 Summary of significant accounting policies (continued)

2.7 Income (continued)

Contributions

Contributions are recognised when there is reasonable assurance that the Fund will comply with any conditions under the MOU and that the monies will be received. As per AASB 120 Accounting for Government Grants and Disclosure of Government Assistance, the total contribution is recognised as income through profit or loss in the current period as the contributions relate directly to the financial instruments held with no related costs in future years.

2.8 Income tax

The Fund is exempt from income tax as per the International Organisations (Privileges and Immunities—Nauru Trust Fund) Regulation 2015.

2.9 Use of estimates

The Fund individually holds investments in unlisted trusts and private equity investments. The investment managers of these funds may use estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year.

2.10 New and revised accounting standards

All Australian accounting standards and interpretations with future effective dates are either not applicable to the Fund's activities, or have no material impact on the Fund.

2.11 Comparatives

Comparatives include the full financial year, being 1 July 2018 to 30 June 2019.

3 Financial risk management

The Fund's activities expose it to a variety of financial risks: market risk (including price risk, currency risk, and interest rate risk), credit risk and liquidity risk.

This note presents information about the Fund's exposure to each of the above risks, as well as the Fund's objectives, policies and processes for measuring and managing the risk.

The disclosures are prepared on the basis of the Fund's direct investments and not on a look-through basis to the underlying investments of the unlisted funds that the Fund primarily holds.

(a) Risk management framework

The Fund maintains positions in unlisted unit trusts and private equity investments (unlisted funds) managed by Mercer in accordance with the Fund's investment strategy.

The Fund's overall risk management program focuses on ensuring compliance with the MOU and seeks to maximise the returns derived for prudent levels of risk. The primary method of mitigating or controlling risks to the Fund's investment portfolio is diversification.

The Fund's investment manager has been given a discretionary authority to manage the assets in line with the Fund's investment objectives and employs a disciplined approach to the management of risk. The Fund's portfolio is constructed utilising investments that provide exposure to different asset classes, the returns from which have low correlation, so as to strengthen diversification and consequently reduce the overall effect on asset specific risk.

The Fund's investment portfolio and the performance of the investments are monitored by the Committee and the Review Consultant on a quarterly basis. In instances where the portfolio diverges from the DAA ranges, the Fund's investment manager is obliged to take actions to rebalance the portfolio in line with the established ranges, within prescribed time limits.

The Intergenerational Trust Fund for the People of the Republic of Nauru

Notes to the Financial Statements

For the Year Ended 30 June 2020

3 Financial risk management (continued)

(b) Market risk

(i) Price Risk

The Fund is exposed to securities price risk. This arises from investments held by the Fund for which prices in the future are uncertain, in particular the investments in unlisted funds. Investments are classified in the statement of financial position as at fair value through profit or loss. All investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

As outlined earlier, the Fund's investment manager mitigates price risk through diversification and a careful selection of investments.

The following table summarises the impact on the Fund's net assets of an increase/decrease in the value of the Fund's investment in unlisted funds. The analysis is based on the assumptions that the unlisted funds' net asset values increased by 10% and decreased by 10% with all other variables held constant.

Impact on operating profit / net assets attributable to unitholders	30 Jun 2020	30 Jun 2019
	\$'000	\$'000
Fair value of investments in unlisted funds increased by 10%	14,206	11,081
Fair value of investments in unlisted funds decreased by 10%	(14,206)	(11,081)

The sensitivity analysis presented is based upon the portfolio composition as at 30 June. The composition of the Fund's investment portfolio may change over time. The sensitivity analysis prepared as at 30 June is not necessarily indicative of the effect on the Fund's net assets of future movements in the value of the investments in unlisted funds.

The 10% change in unlisted funds' net asset values has been determined based on management's best estimate. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of and/or correlation between the performances of economies, markets and securities in which the Fund has exposure. As a result, historic variations in risk variables should not be used to predict future variations in risk variables.

(ii) Foreign exchange risk

Foreign exchange risk arises as the value of monetary securities denominated in other currencies will fluctuate due to changes in exchange rates.

When the investment manager formulates a view on the future direction of foreign exchange rates and the potential impact on the Fund, the investment manager factors that into its portfolio allocation decisions.

While the Fund has no direct exposure to foreign exchange rate changes, the Fund may be indirectly affected for example, by the impact of foreign exchange rate changes on the investments held by the unlisted funds in which the Fund primarily invests. No sensitivity analysis has been prepared, however this may not necessarily indicate the effect on the Fund's net assets of future movements in foreign exchange rates. Please refer to Note 3(b)(i) for further details pertaining to the sensitivity of the investments in unlisted funds.

(iii) Cash flow and fair value interest rate risk

The Fund is exposed to cash flow interest rate risk on financial instruments with variable interest rates. Financial instruments with fixed rates expose the Fund to fair value interest rate risk.

The Fund's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The Intergenerational Trust Fund for the People of the Republic of Nauru

Notes to the Financial Statements

For the Year Ended 30 June 2020

3 Financial risk management (continued)

(b) Market risk (continued)

(iii) Cash flow and fair value interest rate risk (continued)

The Fund has direct exposure to interest rate changes on the valuation and cash flows of its interest bearing assets and liabilities, namely its holdings in cash and cash equivalents. However, as there is no direct impact on the Fund's operating profit and net assets attributable to unitholders through changes in fair value or changes in future cash flows as a result of any change in the year end interest rates, no sensitivity analysis has been prepared.

However, the Fund may be indirectly affected for example, by the impact of interest rate changes on the investments held by the unlisted funds in which the Fund primarily invests. No sensitivity analysis has been prepared for this exposure, however this may not necessarily indicate the effect on the Fund's net assets of future movements in interest rates. Please refer to Note 3(b)(i) for further details pertaining to the sensitivity of the investments in unlisted funds.

(c) Credit risk

The Fund is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when they fall due.

The main concentration of credit risk, to which the Fund is exposed, arises from the Fund's investments in unlisted funds. The Fund is also exposed to a counterparty credit risk on cash and cash equivalents and other receivables.

(i) Unlisted funds

The credit risk arising on investments in unlisted funds is mitigated by investing with managers who are well recognised and have a proven track record of delivering on their stated investment objectives. Continual monitoring of the Fund's investment manager by the Committee and the Review Consultant is also carried out on an ongoing basis.

The Fund's investment manager separately carries out extensive due diligence on any proposed underlying managers to their unlisted funds prior to making an investment allocation to ensure these managers are well recognised and have a proven track record of delivering on their stated investment objectives.

(ii) Cash and cash equivalents

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of AA- (as determined by Standard and Poor's) or higher.

The Committee monitors the Fund's credit position on a monthly basis.

The maximum exposure to credit risk at the end of each reporting period is the carrying amount of the financial assets. None of these assets are impaired nor past due but not impaired.

(d) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due, or can only do so on terms that are materially disadvantageous.

Investments in unlisted funds expose the Fund to the risk that the manager of those unlisted funds may be unwilling or unable to fulfil the redemption requests within the timeframe requested by the Fund.

The Intergenerational Trust Fund for the People of the Republic of Nauru

Notes to the Financial Statements

For the Year Ended 30 June 2020

4 Fair value measurement

The Fund measures and recognises financial assets at fair value through profit or loss (FVTPL) (see Note 5) on a recurring basis. The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

AASB 13 requires disclosure of fair value measurements by level of the following fair value hierarchy:

- (a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) Input other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
- (c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

The Fund's financial assets at FVTPL are all investments in Mercer funds and measured at fair value according to the fair value hierarchy at 30 June 2020.

The Fund's investments in Mercer funds are classified within level 2 as these markets are not considered to be active but are valued based on alternative pricing sources supported by observable inputs. The Fund does not have any relevant assets classified as level 1 or level 3.

The Intergenerational Trust Fund for the People of the Republic of Nauru

Notes to the Financial Statements

For the Year Ended 30 June 2020

5 Net gains on financial assets at fair value through profit or loss

Net gains recognised in relation to financial assets at fair value through profit or loss.

	30 Jun 2020	30 Jun 2019
	\$'000	\$'000
Mercer unlisted unit trusts – unrealised gain/(loss)	(5,370)	92
Mercer private equity investment – unrealised gain/(loss)	508	(2)
Mercer private equity investment – realised gain/(loss)	145	10
Total net gain on financial assets at fair value through profit or loss	(4,717)	100

6 Investment income

	30 Jun 2020	30 Jun 2019
	\$'000	\$'000
Mercer unlisted unit trust distributions	6,667	5,123
Mercer private equity investment income/(loss)	(62)	112
Total investment income	6,605	5,235

7 Contributions

	30 Jun 2020	30 Jun 2019
	\$'000	\$'000
Government of Nauru	19,187	15,132
Government of Australia	2,500	2,500
Government of the Republic of China (Taiwan)	3,007	2,803
Government of New Zealand	928	941
Total contributions	25,622	21,376

The Intergenerational Trust Fund for the People of the Republic of Nauru

Notes to the Financial Statements

For the Year Ended 30 June 2020

8 Investment expenses

	30 Jun 2020	30 Jun 2019
	\$'000	\$'000
Mercer Private Investment Partnership V:		
- Equalisation interest	-	162
- Management fee	71	124
- Partnership expenses	-	30
- Performance Fees	25	-
- Organisational fees	-	12
Total investment expenses	96	328

9 Financial assets at fair value through profit or loss

	30 Jun 2020	30 Jun 2019
	\$'000	\$'000
Financial assets at fair value through profit or loss		
Unlisted unit trusts:		
Mercer Growth Trust	52,549	62,243
Mercer Australian Shares for Tax Exempt Investors Fund	-	13,820
Mercer Australian Shares Fund	17,703	-
Mercer Australian Direct Property Fund	11,043	10,553
Mercer Hedged International Shares Fund	10,952	2,539
Mercer Global Unlisted Infrastructure Fund	9,997	-
Mercer International Shares Fund	8,647	8,288
Mercer Emerging Markets Shares Fund	6,342	4,678
Mercer Global Credit Fund	5,489	-
Mercer Australian Sovereign Bond Fund	5,176	1,115
Mercer Cash Fund Term Deposit Units	4,559	2,489
Mercer Global Small Companies Shares Fund	3,674	2,711
Mercer Global Sovereign Bond Fund	3,007	-
Total unlisted unit trusts at fair value through profit or loss	139,138	108,436
Private equity investment:		
Mercer Private Investment Partnership V	2,925	2,378
Total private equity investments at fair value through profit or loss	2,925	2,378
Total financial assets at fair value through profit or loss	142,063	110,814

The Intergenerational Trust Fund for the People of the Republic of Nauru

Notes to the Financial Statements

For the Year Ended 30 June 2020

9 Financial assets at fair value through profit or loss (continued)

An overview of the risk exposures of fair value measurements relating to financial assets at fair value through profit or loss is included in Note 3.

10 Trade and other payables

	30 Jun 2020	30 Jun 2019
	\$'000	\$'000
Executive Administrator fees	11	16
Audit fees	10	10
Total trade and other payables	21	26

11 Income received in advance

	30 Jun 2020	30 Jun 2019
	\$'000	\$'000
Government of Nauru	6,735	2,000
Government of Australia	1,500	1,140
Total Income received in advance	8,235	3,140

12 Reconciliation of cash flows from operating activities

	30 Jun 2020	30 Jun 2019
	\$'000	\$'000
Profit for the year	27,701	26,418
Net change in financial assets at fair value through profit or loss	(31,249)	(26,594)
Net change in receivables	(1,523)	1,677
Net change in payables	5,090	(1,494)
Net cash outflow from operating activities	19	7

Contributions paid directly to the financial assets at fair value through profit or loss on behalf of the Fund represent a non-cash transaction. Only contributions banked directly to the operating bank account are treated as cash transactions.

The Intergenerational Trust Fund for the People of the Republic of Nauru

Notes to the Financial Statements

For the Year Ended 30 June 2020

13 Remuneration of auditors

	30 Jun 2020 \$'000	30 Jun 2019 \$'000
Mazars Qld – Audit of financial statements	10	10
Total remuneration of auditors	10	10

14 Investment manager fees

The total fees paid indirectly to the Investment Manager totalled \$808,960 for the year ended 30 June 2020 (2019: \$657,827) which excludes the Mercer Private Investment Partnership V at Note 8. The fee below is calculated daily and forms part of the unit price which is used to calculate the Net Assets of the Fund. The total fees paid cover all costs of investment management, advice and reporting. The fee is calculated daily and is based on the Net Assets invested by the Investment Manager. A Management Fee rebate is paid at the end of each calendar month which represents the difference between the stated fee of the Fund in the Product Disclosure Statement (PDS) and the specific fee agreement between the Fund and the Investment manager. A detailed breakdown of the fees follows:

Fee	30 Jun 2020 \$'000	30 Jun 2019 \$'000
Investment management costs	982	805
Other indirect costs	187	75
Fee rebates received	(360)	(222)
Total fees paid	809	658

Total Mercer fees should be read in conjunction with Note 8 which includes fees on the Private Investment Partnership V investment. As a result total of all fees paid to Mercer for the year ended 30 June 2020 are \$905,206 (2019: \$985,870).

15 Commitments

Private equity investment	30 Jun 2020 \$'000	30 Jun 2019 \$'000
Mercer Private Investment Partnership V:		
No later than one year	1,401	-
Later than one year	9,033	11,835
Total commitments	10,434	11,835

The Fund committed \$14.259 million (US\$10 million) to Mercer Private Investment Partnership V, which closed during June 2019. A call of \$2.424 million (US\$1.7 million) occurred in June 2019. A further call of \$1.401 million (US \$1 million) took place in August 2020. The balance of funds committed of \$10.434 million (US\$7.3 million) is expected to be called in the future, however there is no confirmed timing on the amount of the call, if any, or when the call will take place.

The Intergenerational Trust Fund for the People of the Republic of Nauru

Notes to the Financial Statements

For the Year Ended 30 June 2020

16 Impact of COVID-19 on Financial Statement for 2019-20

Regarding the impact on the Annual Report for the year ended 30 June 2020, the potential adjustments to the investments held as at 30 June 2020 are evaluated by the Fund Managers of the investments and within the course of the audit of the investments. The Committee's assessment in general, which is consistent with many others in the industry, is that COVID-19 is considered to be a non-adjusting event.

The rapid development and fluidity of the COVID-19 virus makes it difficult to predict the ultimate impact at this stage. However, the Committee does not underestimate the seriousness of the issues and the inevitable effect it will have on the global economy and many businesses across the world. The Fund Manager is in close contact with the Fund Managers of the underlying investments to assess measures taken in relation to COVID-19 and to further monitor the situation of the underlying investments.

17 Related party transactions

Key management personnel

The following key management personnel that held positions of authority and responsibility for planning, directing and controlling the activities of the Fund for the full financial year, unless otherwise stated, were Management Committee members:

Key management personnel	Position
Martin Hunt	Minister for Finance and Committee Chairman – GON Committee representative appointed 28 August 2019
David Adeang	Previous Minister for Finance and Committee Chairman – GON Committee representative resigned 28 August 2019
Rhona McPhee	Director, Micronesia Section, Department of Foreign Affairs and Trade – GOA Committee representative appointed 19 August 2019
Bruce Soar	Director, Micronesia Section, Department of Foreign Affairs and Trade – GOA Committee representative resigned 19 August 2019
Fleur Davies	Assistant Secretary, Department of Foreign Affairs and Trade – Alternate Committee member for GOA representative
Baushuan Ger	Previous Director General, Department of East Asian and Pacific Affairs, Government of the Republic of China (Taiwan) – ROC – Taiwan Committee representative resigned 25 September 2020
Larry R. L. Tseng	Director General, Department of East Asian and Pacific Affairs, Government of the Republic of China (Taiwan) – ROC – Taiwan Committee representative appointed 25 September 2020
Dean Hai-long Wang	Ambassador of Government of the Republic of China (Taiwan) to the Republic of Nauru - Alternate Committee member for ROC – Taiwan representatives
Richard Griffith	New Zealand High Commissioner to the Republic of Nauru – GONZ Committee representative appointed 20 January 2020
Nicola Simmonds	New Zealand High Commissioner to the Republic of Nauru – GONZ Committee representative resigned 20 January 2020

There were no other persons with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the financial year.

The Intergenerational Trust Fund for the People of the Republic of Nauru

17 Related party transactions (continued)

Key management personnel transactions

No key management personnel had any personal unit holdings or transactions with the Fund. No compensation was directly attributable to key management personnel.

18 Events occurring after the reporting period

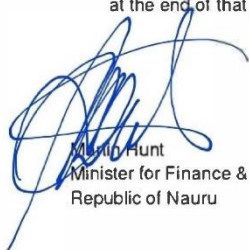
There were no other significant events that have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the statement of financial position as at 30 June 2020 or on the results and cash flows of the Fund for the period ended on that date.

The Intergenerational Trust Fund for the People of the Republic of Nauru

The Management Committee's Declaration

In the opinion of the Management Committee:

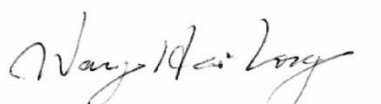
- a) These general purpose financial statements – reduced disclosure have been prepared pursuant to the current Memorandums of Understanding between the Government of the Republic of Nauru and the Government of Australia; and the Government of the Republic of Nauru and the Government of the Republic of China (Taiwan); and the Government of the Republic of Nauru and the Government of New Zealand;
- b) The prescribed requirements for establishing and keeping the accounts have been complied with in all material respects; and
- c) The statements present fairly, in accordance with prescribed accounting standards, the transactions of the Fund for the year ended 30 June 2020 and of the financial position of the Fund at the end of that year.



Martin Hunt
Minister for Finance & Sustainable Development
Republic of Nauru



Rhona McPhee
Director, Micronesia Section
Department of Foreign Affairs & Trade
Australia



Larry R. L. Tseng (or Alternate member)
Director General
Department of East Asian and Pacific Affairs
Ministry of Foreign Affairs
Republic of China (Taiwan)



Richard Griffith
New Zealand High Commissioner
to the Republic of Nauru
New Zealand

30 Nov 2020

Date: 24th November 2020



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Independent Auditor's Report to the members of the Intergenerational Trust Fund for the People of the Republic of Nauru

Report on the Financial Report

We have audited the accompanying financial report of the Intergenerational Trust Fund for the People of the Republic of Nauru (the Trust), which comprises the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Management Committee's declaration.

In our opinion, the financial report of the Intergenerational Trust Fund for the People of the Republic of Nauru presents fairly, in all material respects, the financial position of the Trust as at 30 June 2020 and its performance for the year ended on that date, in accordance with Australian Accounting Standards and the Memorandum of Understanding between the contributing governments and the Trust.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Trust in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Management Committee for the Financial Report

The Management Committee of the Trust are responsible for the preparation of the financial report that presents fairly in accordance with Australian Accounting Standards and for such internal control as the Management Committee determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Management Committee are responsible for assessing the Trust'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 the Management Committee either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.



Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 the Australian Auditing Standards 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, 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 Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Committee.
- Conclude on the appropriateness of the Management Committee'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 Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report 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 auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Management Committee 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.

MAZARS AUDIT (QLD)

Mazars Audit (QLD) Pty Limited
Authorised Audit Company: 338599



M. J. Green
Director
Brisbane, 30 November 2020



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Auditor's Independence Declaration to the Management Committee of the Intergenerational Trust Fund for the People of the Republic of Nauru

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2020, there have been:

- (i) no contraventions of the auditor independence requirements in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Mazars Audit (QLD) Pty Limited
Authorised Audit Company: 338599

M. J. Green
Director
Brisbane, 24 November 2020

APPENDIX 1: SANTIAGO PRINCIPLES - SELF ASSESSMENT

Principle	Implementation
<p>1. The legal framework for the SWF should be sound and support its effective operation and the achievement of its statement objective(s).</p> <p>1.1. The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.</p> <p>1.2. The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.</p>	<p>The Intergenerational Trust Fund for the People of the Republic of Nauru (NTF) is registered as an International Trust under:</p> <ul style="list-style-type: none"> • International Organisations (Privileges and Immunities) Act 1963 • International Organisations (Privileges and Immunities • Nauru Trust Fund) Regulation 2015 <p>The NTF registration document provides a sound legal structure and basis for other state bodies as set out in the documents including the Explanatory notes to the Regulations and is linked to the MOU's (Paragraph 8) and has been publicly disclosed via www.naurugov.nr (NauruGov) website.</p>
<p>2. The policy purpose of the SWF should be clearly defined and publicly disclosed.</p>	<p>The Intergenerational Trust Fund for the people of the Republic of Nauru was established on 6 November 2015 to generate future investment earnings that can be used to provide a source of revenue to the Republic of Nauru post-2035, or at a time sooner as determined by the Committee, for investments in education, health, environment and infrastructure. The Fund will help to smooth out windfall income streams in the medium term and replace all or part or supplement volatile future revenue. The Investment Fund is administered by a Trust Fund Committee. There are various supporting documents on this site which will ensure there is transparency and accountability in the operations, management and meeting of the goals of the Fund going forward. - and publicly disclosed on the www.naurugov.nr - website under Department of Finance - Intergenerational Trust Fund for the People of the Republic of Nauru.</p>
<p>3. Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.</p>	<p>The Chairman of the Trust is the Minister for Finance of Nauru and there is a direct link with domestic macroeconomic policy, a key pillar of Nauru's IMF membership. Commentary on the strategic economic importance of the SWF is also included in the Article IV review of Nauru in January 2017. Links: Full Report: http://www.imf.org/en/Publications/CR/Issues/2017/04/03/Republic-of-Nauru-2017-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-44794</p> <p>Press release: http://www.imf.org/en/News/Articles/2017/04/03/PR17110-Nauru-IMFExecutive-Board-Concludes-2017-Article-IV-Consultation</p> <p>The NTF is also linked to the Nauru's - National Sustainable Development Strategy (NSDS) in regards to macroeconomic</p>

Principle	Implementation
	management with one of the goals: a stable macroeconomic environment conducive to private investment be established. This includes the strategy of: reform of Trust fund arrangements including the establishment of a new Public Trust Fund (the Nauru Intergenerational Fund). This is now a reality. The 2009 NSDS is currently being updated in 2017. The NTF will remain as one of the macroeconomic activities going forward.
<p>4. There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations.</p> <p>4.1. The source of SWF funding should be publicly disclosed.</p> <p>4.2. The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.</p>	<p>The MOUs between contributing parties and the Government of Nauru are core documents to the operation of the NTF. The MOU with Australia is currently available on the NauruGov public website. The MOUs provide a governance framework outlining contributions, withdrawals and the eventual distributions to the Government of Nauru for future budget supplementation. The specific sections of the MOU's referencing this can be found at: - Paragraph 9 for funding procedures - Paragraph's 13 and 14, which detail the withdrawal/distribution arrangements for the Fund. The Committee has the overall final decision on funding/distribution as per Paragraph 5.2 of the MOU which states that the Fund will begin Distributions when the Committee determines that the Fund has reached a Current Value that the Committee considers feasible to provide the Government of the Republic of Nauru with a source of revenue to replace revenue reductions of any naturally based resource stream.</p>
<p>5. The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.</p>	<p>As the Fund is still very young in its development and in the accumulation stage, there is limited statistical data currently relevant. Quarterly and audited annual accounts are presented to the Committee and annually reported to all the stakeholders of the Fund, including the beneficial owners. The submission of the Annual Accounts to Nauru Parliament by the Minister for Finance is on an annual basis.</p>
<p>6. The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.</p>	<p>The governance framework is set out in the MOU with clear guidelines of division of roles. Strict accountability and operational guides are in place via the MOU and strengthened by specific approval and other measures developed by the administrators under the direction of the Management Committee. Paragraph 12 of the MOU sets out the various specific roles in addition to the committee roles. Descriptions of the roles is also included in the definitions section of the MOU.</p>
<p>7. The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and</p>	<p>The fund 'owner' in a traditional or formal sense ultimately are the people of Nauru with the Government of Nauru the beneficiary. The NTF was established by the contributing parties as an international organisation (under the IOPI Act) and is governed by the management committee. The</p>

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exercise oversight over the SWF's operations.	'owner' initially set the objectives of the NTF, as defined in the MOU's. These documents set out the appointment of the Committee, operational aspects of the Committee within the defined procedures including oversight.
8. The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.	The NTF Management Committee (established under the MOU) are all highly credentialed and experienced executives in their own right with strong awareness of their fiduciary responsibilities. The Committee have by the MOU a clear mandate to operate to, which is specifically outlined in: - Paragraph 7 in regards to management and responsibilities and the operational aspects of the NTF, which are set out in Part V. - Paragraph 7.8 in regards to the following fiduciary responsibilities: ▪ Committee members will have a Fiduciary Responsibility to the Fund. No Committee member will be responsible for any loss or depreciation in value of any assets held in the Fund, except by reason of such member's gross negligence or wilful default. Every decision made by a member of the Committee will be determined to have been made with reasonable care and diligence unless the contrary is proved by affirmative evidence.
9. The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.	A professional independent administrator has been appointed (in July 2016) for the operational management of the Fund. They work closely with the Committee and 'owner' representative (adviser) in all matters. An external consultant (who currently administers other Pacific SWF's) has also been engaged to provide additional review and engagement functions on behalf of the Committee.
10. The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.	The NTF registration document (as referenced in Section 1 of this self-assessment) and explanatory notes provide a clear legal structure and framework going forward under the relevant IOPI Act and Regulation. The NTF registration document and Explanatory notes to the Regulations linked to the MOU's (Paragraph 8) and have been publicly disclosed via the www.naurugov.nr (NauruGov) website.
11. An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.	The audited annual report (on the website) is to international standards by an independent auditor. The accounts are prepared also to the same standard by our Administrator who is part of an international accounting firm.
12. The SWF's operations and financial statements should be	This is undertaken on a quarterly management and annual audited Statement basis. The audited annual report (on the

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audited annually in accordance with recognized international or national auditing standards in a consistent manner.	website) is to international standards by an independent auditor. The accounts are prepared to the same standard by the NTF Executive Administrator, who also provide international accounting services.
13. Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.	All committee and support staff are of a professional level who clearly understand the ethical nature, fiduciary requirements and standards of their roles. The Management Committee established by the MOU are also all highly credentialed and experienced executives in their own right with clear fiduciary responsibilities. The Committee have by the MOU a clear mandate to operate to. This mandate is specifically outlined in Paragraph 7 of the MOU in regards to management and responsibilities and the operational aspects of the NTF, which are set out in Part V. Fiduciary responsibilities are set out in Paragraph 7.8 under the following definition: "Fiduciary Responsibility" means a duty of utmost good faith, trust, confidence, and candour owed by a fiduciary (such as a lawyer or corporate officer) to the beneficiary (such as a lawyer's client or a shareholder); a duty to act with the highest degree of honesty and loyalty toward another person and in the best interests of the other person (such as the duty that one partner owes to another).
14. Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.	Further to Sections 8 and 13 all third party transactions are undertaken with full transparency and tendered within defined limits or purposes with full agreement by the Committee. The Committee have by the MOU a clear mandate to operate to, which is specifically outlined in Paragraph 7 of the MOU in regards to management and responsibilities and the operational aspects of the NTF (which are set out in Part V). Fiduciary responsibilities are set out in Paragraph 7.8 as set out in Section 13 above.
15. SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.	Establishment of the NTF as an international organization under the IOPI Act and Regulation was undertaken in Australia in November 2015. Contributions to the NTF also operate consistently with Nauru's domestic legislation and regulatory frameworks with disclosure internally and to both 'partner' countries. All 'member' countries currently involved as ongoing contributors are covered by their various government audit, regulator and disclosure policies and requirements. Annual disclosure in the form of government tabled reports and annual audited account is the vehicle for compliance and transparency.
16. The governance framework and objectives, as well as the	This is by the NauruGov website (www.naurugov.nr under Department of Finance - Intergenerational Trust Fund for

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manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.	the People of the Republic of Nauru) of the NTF along with the core documents including its registration and MOU.
17. Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.	The public website (www.naurugov.nr under Department of Finance - Intergenerational Trust Fund for the People of the Republic of Nauru) includes details of the background, MOU requirements, registration entity requirements, purpose, investment manager, fund performance, policy statement and audited accounts. This provides the user with a clear summary of the financial and economic goals of the NTF.
<p>18. The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.</p> <p>18.1. The investment policy should guide the SWF's financial risk exposures and the possible use of leverage.</p> <p>18.2. The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.</p> <p>18.3. A description of the investment policy of the SWF should be publicly disclosed.</p>	<p>The NTF Investment policy and strategy (including the risk components) are key to the success of the fund. The Committee, in conjunction with advisers and the international investment manager (Mercer), work closely with the NTF Committee to manage a sound and robust investment portfolio.</p> <p>The NTF approved Investment Policy is on the website (www.naurugov.nr under (Department of Finance - Intergenerational Trust Fund for the People of the Republic of Nauru) which covers risk (in Section 4) and options (in Section 6) for the NTF investment portfolio. The investment policy (in conjunction to the MOU and administrative approval limits) addresses the activities of managers both internal and external to the fund (primarily within Section 3 of the document).</p>
<p>19. The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.</p> <p>19.1. If investment decisions are subject to other than</p>	<p>The investment policy guides the NTF's investment manager in making the investment decisions. Decisions are based on purely economic and financial risk to returns basis. Fund investment along with the PDS are included in the website. The management committee is committed to best-practice asset management principles in relation to NTF contributions within the investment portfolio.</p>

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<p>economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed.</p> <p>19.2. The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.</p>	
<p>20. The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.</p>	<p>As per Sections 8 and 13 of this self-assessment, the NTF Management Committee are fully aware of the professional ethics required of their roles. Under the MOU, Committee members have a Fiduciary Responsibility to the Fund and required to make decisions with reasonable care and diligence, unless the contrary is proved by affirmative evidence. Any conflict of interest is required to be fully disclosed to and by the Committee, with disputes covered under Paragraph 21 of the MOU.</p>
<p>21. SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.</p>	<p>This is acknowledged and, as per Section 20 of this document, the management Committee would be aware of this approach should it occur in the future. The ownership rights of the contributing parties (the 'investors'), including contributions, responsibilities of the committee, the capacity to withdraw and termination arrangements, are clearly set out in the MOU in paragraphs 5, 7, 10 18 and 19. As a recently established sovereign wealth fund with a single investment portfolio, voting rights for contributing parties have not yet been established or specifically addressed in the policy statement. Updates to the policy (available on the website) will be considered at such a time in the future when Committee decides to move away from a consolidated investment approach for the Fund's assets.</p>
<p>22. The SWF should have a framework that identifies, assesses, and manages the risks of its operations.</p> <p>22.1. The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels,</p>	<p>Nauru Policy Statement is a living document and, along with the operational framework of the MOU and registration of the SWF of Nauru, outlines requirements for monitoring of performance based on reliable and timely financial reporting. This is independent of the external audit program. The Nauru Policy Statement is on the public website (www.naurugov.nr under Department of Finance - Intergenerational Trust Fund for the People of the Republic of Nauru).</p>

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<p>control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.</p> <p>22.2. The general approach to the SWF's risk management framework should be publicly disclosed.</p>	
<p>23. The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.</p>	<p>Mercer, the investment manager, do benchmarking for the fund on a quarterly basis. These are reported to the Committee and annually reported to the owner, or more frequently if any substantial issues arise.</p>
<p>24. A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.</p>	<p>At the February 2017 board meeting the Committee agreed that ongoing compliance of the NTF with the Santiago Principles was an important benchmark to establish. Review and updates (as required) of this self-assessment will be considered as part of the AGM agenda.</p>