



The Republic of Nauru

## INTERGENERATIONAL TRUST FUND FOR THE PEOPLE OF THE REPUBLIC OF NAURU



ANNUAL REPORT  
2021

# TABLE OF CONTENTS

## Contents

2021 ANNUAL REPORT	3
2021 HIGHLIGHTS	4
CHAIRMAN'S REPORT	5
HISTORY AND DIRECTION	6
Nauru Updates	7
GOVERNANCE	8
Operational Controls	9
Risk Management Systems	9
Santiago Principles	9
International Forum of Sovereign Wealth Funds (IFSWF)	9
INVESTMENT PERFORMANCE	10
2020/2021 Progress	10
FINANCIAL STATEMENTS	12
APPENDIX 1: SANTIAGO PRINCIPLES - self assessment	36



# 2021 ANNUAL REPORT

14 December 2021


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 2021.

As required in the Memorandums of Understanding, the Annual Report includes the Fund's audited financial statements, along with investment, management and decisions information. You will note a restatement of the 30 June 2020 year to update the valuation of the financial assets of the Fund. We felt that this approach was a more accurate reflection of the Mercer investments as their valuation reports had included the distribution amounts at 30 June 2020 and we had also shown the distribution as a separate asset given it was still receivable. By restating the Mercer investments it has eliminated any overstatement of values. This was discussed with the auditor and adjusted using this agreed approach. It is a timing difference only but we have now reflected in the correct year.

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



Hon. Martin Hunt MP  
Chairman

## 2021 HIGHLIGHTS

### Financial Highlights | 1 July 2020 - 30 June 2021

Cash contributions for the year greater than \$41m as follows:

- Government of Nauru - \$33.7 million\*
- Government of Australia - \$3.5 million\*\*
- Government of the Republic of China (Taiwan) - \$2.6 million
- Government of New Zealand - \$1.8 million\*\*

\* includes \$6.2 million pre-payment of intended 2021-22 contribution

\*\* includes \$0.9 million pre-payment of intended 2021-22 contribution

Investment Income

- \$16.1 million

Total investments at market value

- \$218.0 million

Total net assets

- \$210.8 million

Fund Performance

- 22.8%

### Key Outputs Delivered

Positive returns for the Fund during a time of volatile markets and COVID-19 impacts

Continuing to transition towards the 85/15 investment strategy

Continuing the commitment to the investment in Private Equity

### Other Highlights

The Fund increased in value by \$77 million during for the 2021 year even with COVID-19 volatility

A further contribution of \$1.6 million was made to the Private Equity investment during the 2021 year giving a total to date of \$5.4 million



## CHAIRMAN'S REPORT

2021 was the fifth full year of operation since its establishment in 2015. It is with great pleasure I can advise that the Fund has performed extremely well during the 2021 financial year, especially given the ongoing challenges of COVID-19. The Fund has again returned a positive result as at 30 June 2021 which is something that we are all proud of.

Our respective Governments have continued to make the proposed annual contributions to the Fund. The Fund's investments are now at \$218 million at 30 June 2021. 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 \$77 million increase in the Fund from the 2020 financial year and an outstanding fund performance of 22.8%. You will note a restatement of the valuation of the 2020 financial year Mercer investments in the financial statements. This was to avoid any overstatement of valuations and was a timing issue only. Further details can be found at Note 19 and this approach was agreed with our auditors to ensure accurate reporting under the accounting standards.

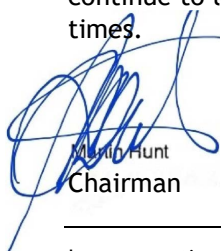


During the 2021 financial year, the GON contributed cash of \$33.7 million to the Fund resulting in total contributions from establishment to 30 June 2021, of \$119.4 million. In order to take advantage of the current market situation, GON again contributed a prepaid amount which totalled \$6.2 million, relating to the 2022 financial year; GOA contributed \$3.5 million resulting in \$19.9 million since establishment. We are also very appreciative of GOA including an additional \$2.5 million to the Fund as part of their 2021 contribution, given they have not been able to contribute in person on Nauru during COVID; ROC (Taiwan) contributed \$2.6 million resulting in \$19.1 million since establishment; and GONZ contributed \$1.9 million resulting in \$5.6 million since commencing contributions to the Fund during the 2018 year. Of GONZ's total contribution during the year, \$0.9 million represents a prepayment of their 2022 contribution. We are also grateful to the Asian Development Bank for providing \$2.634 million on initial setup of the Fund.

The Fund's contribution in the Mercer private equity investment has continued to return positive results and that gives us great confidence in the performance of the Fund even with COVID impacting the economy as a whole. We have an ongoing commitment to this investment and have a further \$USD 6.1 million to commit over the term of the investment.

I believe the ongoing success of the Fund can give the Republic of Nauru great confidence that it will continue to grow and have the ability to provide a future revenue source for the GON and its people. We will continue to work closely with our investment advisors to ensure we are reviewing our current investment strategy and achieving the future income earnings required. We are close to achieving our current strategy of 85% growth strategy and 15% defensive strategy and will continue working towards this.

Our Committee members, development partners and the broader team responsible for the administration and investment requirement of the Fund, continue to work well together to provide the desired outcome for the Fund. The Fund's achievement is a measure of this success and I personally thank everyone that has been involved with the Fund from its establishment. I continue to look forward to being part of the Fund's growth during these ongoing challenging times.



Martin Hunt  
Chairman

## HISTORY AND DIRECTION

The Government of the Republic of Nauru (GON) has pursued establishing a sovereign trust fund since 2009 to provide a stream of revenue to replace or supplement various volatile and possibly terminating, revenue sources. Parliament passed the *Nauru Trust Fund Act 2012* to authorise the establishment of a trust fund.

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 is to have a trust fund provide supplementary funds to the budget as of 2030, mainly to replace dwindling Australian Regional Processing Centre (RPC) revenues.

Since 2012, Nauru's economic structure and GON's revenue streams have improved. For the period between FY2012-13 and FY2021-22, 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 because 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) RPC revenues continue at a high-level. The transition of the operations of the RPC has commenced to the Enduring Capability phase and will continue to support the revenues for at least the 2021-22 FY but reduced levels yet to be quantified.
- 3) 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/Arrangement (MOUs/MOA) are now in place for all the Fund's development partners. These agreements set forth the foundation including: structure and governance of the Fund.

The GON is committed to 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/MOA.

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/MOA, 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.

## Nauru Updates

In addition to the Trust Fund, Nauru will be strengthening its future revenue base with a major fixed asset project, beginning with the construction of its first-ever all-weather Port. Besides the Port direct revenue, this international facility will bring business and investment opportunities to the country.

The artist rendering of the new facility is below, with an operational wharf expected by the end of April 2022 and fully complete by June 2023.



Above: Artist rendering of Nauru International Port.

Nauru remains one of the few nations which is COVID free. Initial vaccinations as of the 30<sup>th</sup> June 2021 are at a high percentage and in progress for all people on Nauru over the age of 18. The goal will be to achieve near 100% vaccinated by the end of 2021. Once approved vaccines arrive for the under 18's, they will be vaccinated as early as possible.



Above: Nauru's President Aingimea getting his COVID vaccination. (Photo courtesy of the Australian High Commission to 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 Dean 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 6<sup>th</sup> 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

## 2020/2021 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.*

Overall, growth assets performed strongly over the course of the 2020/2021 financial year as elevated levels of economic uncertainty was more than countered by ongoing central bank and government support.

Performance to 30 June 2021	Fund	Objective (CPI + 4.5%)
1 Year	22.8%	8.3%
Inception (April 2016)	10.1% pa	6.3% pa

The combination of portfolio returns and ongoing contributions (\$41.7m) has seen the Fund exceed \$217m as 30 June 2021. From an asset allocation perspective, the Fund continues its transition to its target weight of 85% growth assets by building out the illiquid asset classes such as Private Equity and Global Unlisted Infrastructure.

The 2021 financial year began with a significant portion of the global economy in lockdown in an effort to mitigate the spread of COVID-19. Despite the uncertain outlook, risk assets benefitted from the unprecedented levels of fiscal and monetary stimulus put in place by governments and central banks to limit the economic impact and support the economic recovery.

The development and approval for use of multiple vaccines in November and December, fueled investor sentiment and combined with record low interest rates contributed to a significant rally in equity markets and an uplift in asset valuations. The resolution of negotiations to facilitate Britain's exit from the European removed a further source of uncertainty for investment markets. Investor sentiment was also encouraged by the US presidential election results and the perceived political and economic stability of a Biden government.

Whilst the rollout of COVID vaccines has not been without delays, developed markets have made significant progress. The emergence of new strains have at times caused the re-imposition of restrictions, however, these are expected to become less frequent. As COVID restrictions continue to lift at different rates around the globe, economies are poised to rebound sharply and the global economic outlook remains positive.

As the financial year drew to a close, fiscal and monetary policy settings remain extremely accommodative causing the market to focus on the potential for elevated inflation. The US Federal Reserve has begun to discuss plans to scale back relief programs and potential tapering of their quantitative easing program. The Reserve Bank of Australia has maintained an accommodative stance and a rise in cash rates is not expected in the near future. Governments have also continued to maintain meaningful spending programs to reduce the downside risks of economic growth by providing cash and credit lines to both businesses and consumers.

Broadly, investor sentiment remains positive for the financial year ahead.



# FINANCIAL STATEMENTS

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

### **Financial Statements**

**For the year ended 30 June 2021**

#### **Contents**

1	Statement of Income and Retained Earnings
2	Statement of Financial Position
3	Statement of Cash Flows
5	Notes to the Financial Statements
20	The Management Committee's Declaration
21	Independent Auditor's Report
23	Auditor's Independence Declaration

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

### Statement of Income and Retained Earnings

For the Year Ended 30 June 2021

		30 Jun 2021	30 Jun 2020 (Restated)	30 Jun 2020
	Notes	\$'000	\$'000	\$'000
<b>Investment income</b>				
Net gains/ (loss) on financial assets at fair value through profit or loss	5	13,922	(9,367)	(4,717)
Distribution income	6	15,672	6,605	6,605
Management fee rebates		420	356	356
Unrealised foreign exchange gains/(losses)		(331)	52	52
<b>Contributions</b>	7	42,805	25,622	25,622
<b>Total income</b>		<b>72,488</b>	<b>23,268</b>	<b>27,918</b>
<b>Expenses</b>				
Accounting fees		21	21	21
Audit fees	13	11	10	10
Executive administrator fees		28	26	26
Investment expenses	8	123	96	96
Meeting costs		6	22	22
Membership fees		18	19	19
Review consultant fees		18	23	23
<b>Total operating expenses</b>		<b>225</b>	<b>217</b>	<b>217</b>
<b>Profit from ordinary activities</b>		<b>72,263</b>	<b>23,051</b>	<b>27,701</b>
<b>Retained Earnings at the beginning of the Financial Year</b>		<b>138,546</b>	<b>110,845</b>	<b>110,845</b>
Profit/(Loss) for the Year		72,263	23,051	27,701
<b>Retained Earnings at the end of the Financial Year</b>		<b>210,809</b>	<b>133,896</b>	<b>138,546</b>

*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 2021

		30 Jun 2021	30 Jun 2020 (Restated)	30 Jun 2020
	Notes	\$'000	\$'000	\$'000
<b>Assets</b>				
Cash and cash equivalents		71	62	62
Financial assets at fair value through profit or loss	9	203,159	137,413	142,063
Mercer distributions receivable		14,678	4,650	4,650
Management fee rebate receivable		44	27	27
<b>Total assets</b>		<b>217,952</b>	<b>142,152</b>	<b>146,802</b>
<b>Liabilities</b>				
Trade and other payables	10	22	21	21
Income received in advance	11	7,121	8,235	8,235
<b>Total liabilities</b>		<b>7,143</b>	<b>8,256</b>	<b>8,256</b>
<b>Net assets</b>		<b>210,809</b>	<b>133,896</b>	<b>138,546</b>
<b>Equity</b>				
Retained Surplus		210,809	133,896	138,546
<b>Total Equity</b>		<b>210,809</b>	<b>133,896</b>	<b>138,546</b>

*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 2021

		30 Jun 2021	30 Jun 2020 (Restated)	30 Jun 2020
	Notes	\$'000	\$'000	\$'000
<b>Cash flows from operating activities</b>				
Interest received		-	-	-
Contributions received		110	145	145
Payment to suppliers		(101)	(126)	(126)
<b>Net cash flows used in operating activities</b>	12	<b>9</b>	<b>19</b>	<b>19</b>
<b>Net increase in cash and cash equivalents</b>		<b>9</b>	<b>19</b>	<b>19</b>
Cash and cash equivalents at the beginning of the period		62	43	43
<b>Cash and cash equivalents at the end of the year</b>		<b>71</b>	<b>62</b>	<b>62</b>

*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 2021

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**Contents of the Notes to the Financial Statements**

1	General information.....	5
2	Summary of significant accounting policies.....	5
3	Financial risk management .....	9
4	Fair value measurement .....	12
5	Net gains on financial assets at fair value through profit or loss.....	13
6	Investment income .....	13
7	Contributions .....	13
8	Investment expenses .....	14
9	Financial assets at fair value through profit or loss.....	14
10	Trade and other payables .....	15
11	Income received in advance.....	15
12	Reconciliation of cash flows from operating activities .....	15
13	Remuneration of auditors.....	16
14	Investment manager fees .....	16
15	Commitments.....	16
16	Impact of COVID-19 on Financial Statement for 2020-21 .....	17
17	Related party transactions .....	17
18	Events occurring after the reporting period.....	18
19	Critical estimates, judgements and errors .....	18

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

Notes to the Financial Statements  
For the Year Ended 30 June 2021

### 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 Services 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

The Fund is a for-profit entity, and these general purpose financial statements have been prepared in accordance with Australian Accounting Standards and the presentation and disclosure requirements in those Standards as modified by AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. Accordingly, the financial statements comply with Accounting Standards - Simplified Disclosures, along with requirements and other authoritative pronouncements issued by the Australian Accounting Standards Board and the applicable MOUs.

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

The Fund has early adopted AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. On adoption of AASB 1060, as permitted by the Standard, the Fund present a Statement of income and retained earnings in place of a Statement of Comprehensive income and a Statement of changes in equity as the only changes to the Fund's equity during the periods for which financial statements are presented arise from profit or loss. The adoption of AASB 1060 did not have a material impact on the financial statements. There are no other standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2020 that would be expected to have a material impact on 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 2021

### 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 2021

### 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 2021

### 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 2021

### 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 Comparatives

Comparatives include the full financial year, being 1 July 2019 to 30 June 2020. Comparatives have been updated as per Note 19.

### 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 2021

### 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.

	30 Jun 2021	30 Jun 2020	30 Jun 2020
		(Restated)	
Impact on operating profit / net assets attributable to unitholders	\$'000	\$'000	\$'000
Fair value of investments in unlisted funds increased by 10%	20,316	13,741	14,206
Fair value of investments in unlisted funds decreased by 10%	(20,316)	(13,741)	(14,206)

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 2021

### 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 2021

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### 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 2021.

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 2021

### 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 2021	30 Jun 2020 (Restated)	30 Jun 2020
	\$'000	\$'000	\$'000
Mercer unlisted unit trusts – unrealised gain/(loss)	12,459	(10,020)	(5,370)
Mercer private equity investment – unrealised gain/(loss)	1,269	508	508
Mercer private equity investment – realised gain/(loss)	194	145	145
<b>Total net gain on financial assets at fair value through profit or loss</b>	<b>13,922</b>	<b>(9,367)</b>	<b>(4,717)</b>

### 6 Investment income

	30 Jun 2021	30 Jun 2020 (Restated)	30 Jun 2020
	\$'000	\$'000	\$'000
Mercer unlisted unit trust distributions	15,663	6,667	6,667
Mercer private equity investment income/(loss)	9	(62)	(62)
<b>Total investment income</b>	<b>15,672</b>	<b>6,605</b>	<b>6,605</b>

### 7 Contributions

	30 Jun 2021	30 Jun 2020 (Restated)	30 Jun 2020
	\$'000	\$'000	\$'000
Government of Nauru	34,261	19,187	19,187
Government of Australia	5,000	2,500	2,500
Government of the Republic of China (Taiwan)	2,609	3,007	3,007
Government of New Zealand	935	928	928
<b>Total contributions</b>	<b>42,805</b>	<b>25,622</b>	<b>25,622</b>

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

Notes to the Financial Statements

For the Year Ended 30 June 2021

### 8 Investment expenses

	30 Jun 2021	30 Jun 2020 (Restated)	30 Jun 2020
	\$'000	\$'000	\$'000
Mercer Private Investment Partnership V:			
- Management fee	80	71	71
- Performance Fees	43	25	25
<b>Total investment expenses</b>	<b>123</b>	<b>96</b>	<b>96</b>

### 9 Financial assets at fair value through profit or loss

	30 Jun 2021	30 Jun 2020 (Restated)	30 Jun 2020
	\$'000	\$'000	\$'000
<b>Financial assets at fair value through profit or loss</b>			
<b>Unlisted unit trusts:</b>			
Mercer Growth Trust	39,810	50,098	52,549
Mercer Global Absolute Return Bond Fund	3,668	-	-
Mercer Australian Shares Fund	50,192	17,041	17,703
Mercer Australian Direct Property Fund	11,203	10,761	11,043
Mercer Hedged International Shares Fund	20,782	10,952	10,952
Mercer Global Unlisted Infrastructure Fund	10,033	9,303	9,997
Mercer International Shares Fund	20,677	8,552	8,647
Mercer Emerging Markets Shares Fund	10,958	6,300	6,342
Mercer Global Credit Fund	6,772	5,319	5,489
Mercer Australian Sovereign Bond Fund	5,571	5,044	5,176
Mercer Cash Fund Term Deposit Units	4,636	4,549	4,559
Mercer Global Small Companies Shares Fund	8,342	3,673	3,674
Mercer Global Sovereign Bond Fund	3,585	2,896	3,007
<b>Total unlisted unit trusts at fair value through profit or loss</b>	<b>196,229</b>	<b>134,488</b>	<b>139,138</b>
<b>Private equity investment:</b>			
Mercer Private Investment Partnership V	6,930	2,925	2,925
<b>Total private equity investments at fair value through profit or loss</b>	<b>6,930</b>	<b>2,925</b>	<b>2,925</b>
<b>Total financial assets at fair value through profit or loss</b>	<b>203,159</b>	<b>137,413</b>	<b>142,063</b>

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.



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

Notes to the Financial Statements

For the Year Ended 30 June 2021

### 10 Trade and other payables

	30 Jun 2021	30 Jun 2020 (Restated)	30 Jun 2020
	\$'000	\$'000	\$'000
Executive Administrator fees	11	11	11
Audit fees	11	10	10
<b>Total trade and other payables</b>	<b>22</b>	<b>21</b>	<b>21</b>

### 11 Income received in advance

	30 Jun 2021	30 Jun 2020 (Restated)	30 Jun 2020
	\$'000	\$'000	\$'000
Government of Nauru	6,191	6,735	6,735
Government of Australia	-	1,500	1,500
Government of New Zealand	930	-	-
<b>Total income received in advance</b>	<b>7,121</b>	<b>8,235</b>	<b>8,235</b>

### 12 Reconciliation of cash flows from operating activities

	30 Jun 2021	30 Jun 2020 (Restated)	30 Jun 2020
	\$'000	\$'000	\$'000
Profit for the year	72,263	27,701	27,701
Net change in financial assets at fair value through profit or loss	(61,096)	(31,249)	(31,249)
Net change in receivables	(10,045)	(1,523)	(1,523)
Net change in payables	(1,113)	5,090	5,090
<b>Net cash outflow from operating activities</b>	<b>9</b>	<b>19</b>	<b>19</b>

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 2021

### 13 Remuneration of auditors

	30 Jun 2021	30 Jun 2020 (Restated)	30 Jun 2020
	\$'000	\$'000	\$'000
Mazars Qld – Audit of financial statements	11	10	10
<b>Total remuneration of auditors</b>	<b>11</b>	<b>10</b>	<b>10</b>

### 14 Investment manager fees

The total fees paid indirectly to the Investment Manager totalled \$1,264 million for the year ended 30 June 2021 (2020: \$0.809 million) 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:

	30 Jun 2021	30 Jun 2020 (Restated)	30 Jun 2020
	\$'000	\$'000	\$'000
<b>Fee</b>			
Investment management costs	1,288	982	982
Other indirect costs	395	187	187
Fee rebates received	(419)	(360)	(360)
<b>Total fees paid</b>	<b>1,264</b>	<b>809</b>	<b>809</b>

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 2021 are \$1.387 million (2020: \$0.905 million).

### 15 Commitments

	30 Jun 2021	30 Jun 2020 (Restated)	30 Jun 2020
	\$'000	\$'000	\$'000
<b>Private equity investment</b>			
Mercer Private Investment Partnership V:			
No later than one year	1,596	1,401	1,401
Later than one year	6,518	9,033	9,033
<b>Total commitments</b>	<b>8,114</b>	<b>10,434</b>	<b>10,434</b>

The Fund committed \$14.259 million (US\$10 million) to Mercer Private Investment Partnership V, which closed during June 2019. A call of \$1.401 million (US \$1 million) took place in August 2020 and \$1.586 million (US \$1.2 million) in April 2021. The balance of funds committed of \$8.114 million (US\$6.1 million) is expected to be called in the future. There is no confirmed timing on the amount of the call, if any, or when the call will take place, however \$1,596 million (US\$1.2 million) is expected to be called in October 2021.

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

Notes to the Financial Statements

For the Year Ended 30 June 2021

### 16 Impact of COVID-19 on Financial Statement for 2020-21

Regarding the impact on the Annual Report for the year ended 30 June 2021, the potential adjustments to the investments held as at 30 June 2021 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
Rhona McPhee	Director, Micronesia Section, Department of Foreign Affairs and Trade – GOA Committee representative appointed 19 August 2019
Fleur Davies	Assistant Secretary, Department of Foreign Affairs and Trade – Alternate Committee member for GOA representative
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 and resigned 13 October 2021
Wallace Minn-Gan Chow	Director General, Department of East Asian and Pacific Affairs, Government of the Republic of China (Taiwan) – ROC – Taiwan Committee representative appointed 13 October 2021
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

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 2021 or on the results and cash flows of the Fund for the period ended on that date.

### 19 Critical estimates, judgements and errors

#### (a) Correction of error in calculating net gain/(loss) on financial assets at fair value

In completion of the current period financial statements, management became aware of a valuation error in calculating the financial assets at fair value through profit and loss. The error resulted in an understatement of the net gains(loss) on financial assets at fair value for the 2020 and corresponding overstatement of financial assets. The error came about as a result of Mercer valuation reports including the June 2020 distribution and a distribution receivable amount was also included in the financial statements for the June 2020 year.

The error has been corrected by restating each of the affected financial statement line items for the prior period as follows:

#### Balance Sheet (extract)

	30 Jun 2020 (Original) \$'000	Increase/(Decrease) \$'000	30 Jun 2020 (Restated) \$'000
<b>Assets</b>			
Financial assets at fair value through profit or loss	142,063	(4,650)	137,413
<b>Total assets</b>	<b>146,802</b>	<b>(4,650)</b>	<b>142,152</b>
<b>Net assets</b>	<b>146,802</b>	<b>(4,650)</b>	<b>142,152</b>
<b>Equity</b>			
Retained Surplus	138,546	(4,650)	133,896
<b>Total Equity</b>	<b>138,546</b>	<b>(4,650)</b>	<b>133,896</b>

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

### 19 Critical estimates, judgements and errors (continued)

#### (a) Correction of error in calculating net gain/(loss) on financial assets at fair value (continued)

##### Statement of income and retained earnings (extract)

	30 Jun 2020 (Original) \$'000	Profit Increase/(Decrease) \$'000	30 Jun 2020 (Restated) \$'000
<b>Investment income</b>			
Net gains/ (loss) on financial assets at fair value through profit or loss	(4,717)	(4,650)	(9,367)
<b>Total income</b>	<b>27,918</b>	<b>(4,650)</b>	<b>23,268</b>
<b>Profit from ordinary activities</b>	<b>27,701</b>	<b>(4,650)</b>	<b>23,051</b>
<b>Retained Earnings at the beginning of the Financial Year</b>	110,845	-	110,845
Profit/(Loss) for the Year	27,701	(4,650)	23,051
<b>Retained Earnings at the end of the Financial Year</b>	<b>138,546</b>	<b>(4,650)</b>	<b>133,896</b>



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

### The Management Committee's Declaration

In the opinion of the Management Committee:

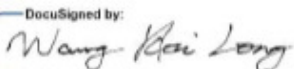
- a) These general purpose financial statements – reduced disclosure have been prepared pursuant to the current Memorandums of Understanding between the Government of the Republic of Nauru and the Government of Australia; and the Government of the Republic of Nauru and the Government of the Republic 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 2021 and of the financial position of the Fund at the end of that year.



Martin Hunt  
Minister for Finance & Sustainable Development  
Republic of Nauru

DocuSigned by:  
**Rhona McPhee**  
AS62AEE7391A496...

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

DocuSigned by:  
  
F6BD3C8B7ABE442... **Dean Hai-long Wang**

Wallace Minn-Gan Chow (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

Date: 30<sup>th</sup> November 2021



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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 2021, 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 2021 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.

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#### 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) Pty Limited  
Authorised Audit Company: 338599

M. J. Green  
Director  
Sydney, 30 November 2021



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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 2021, 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, 30 November 2021

Mazars Audit (Qld) Pty Limited  
ABN: 13 132 902 188 | Authorised Audit Company: 338599  
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## 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"> <li>• International Organisations (Privileges and Immunities) Act 1963</li> <li>• International Organisations (Privileges and Immunities</li> <li>• Nauru Trust Fund) Regulation 2015</li> </ul> <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 <a href="http://www.naurugov.nr">www.naurugov.nr</a> (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 <a href="http://www.naurugov.nr">www.naurugov.nr</a> - 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: <a href="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">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</a></p> <p>Press release: <a href="http://www.imf.org/en/News/Articles/2017/04/03/PR17110-Nauru-IMFExecutive-Board-Concludes-2017-Article-IV-Consultation">http://www.imf.org/en/News/Articles/2017/04/03/PR17110-Nauru-IMFExecutive-Board-Concludes-2017-Article-IV-Consultation</a></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>

Principle	Implementation
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 <a href="http://www.naurugov.nr">www.naurugov.nr</a> (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

Principle	Implementation
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 ( <a href="http://www.naurugov.nr">www.naurugov.nr</a> under Department of Finance - Intergenerational Trust Fund for

Principle	Implementation
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 ( <a href="http://www.naurugov.nr">www.naurugov.nr</a> 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 (<a href="http://www.naurugov.nr">www.naurugov.nr</a> 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>	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.

Principle	Implementation
<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 (<a href="http://www.naurugov.nr">www.naurugov.nr</a> under Department of Finance - Intergenerational Trust Fund for the People of the Republic of Nauru).</p>



Principle	Implementation
<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>