



INTERGENERATIONAL TRUST FUND FOR THE PEOPLE OF THE REPUBLIC OF NAURU

ANNUAL REPORT
2022



TABLE OF CONTENTS

Contents

2022 ANNUAL REPORT	3
2022 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 (IFSFW)	9
INVESTMENT PERFORMANCE	10
2021/2022 Progress	10
FINANCIAL STATEMENTS	12
APPENDIX 1: SANTIAGO PRINCIPLES - self assessment	35



2022 ANNUAL REPORT

15 December 2022

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 2022.

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

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

Yours faithfully



Hon Martin Hunt MP

Chairman

2022 HIGHLIGHTS

Financial Highlights | 1 July 2021 - 30 June 2022

Cash contributions for the year greater than \$32m as follows:

- Government of Nauru - \$25.8 million*
- Government of Australia - \$4.3 million**
- Government of the Republic of China (Taiwan) - \$2.8 million
- Government of New Zealand***

* includes \$9.3 million pre-payment of intended 2022-23 contribution

** includes \$1.8 million pre-payment of intended 2022-23 contribution

*** the 2021-22 contribution of \$0.9million was pre-paid during the 2020-21 year

Investment Income

- \$15.5 million

Total investments at market value

- \$239.0 million

Total net assets

- \$227.9 million

Fund Performance since inception

- 7.8% (0.8% above the objective)

Key Outputs Delivered

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

Continuing to transition towards the 85/15 investment strategy

A further contribution of \$1.6 million was made to the Private Equity investment (PIP V) during the 2022 year giving a total to date of \$7.1 million. A further \$1.5 million has been contributed after the financial year end

Other Highlights

The Fund increased in value by \$17.1 million during for the 2022 year even with COVID-19 and other market volatilities

A commitment to the next tranche of Private Equity investments (PIP VII) has been made and \$4.9 million has been contributed after the financial year end

CHAIRMAN'S REPORT

2022 was the sixth full year of operation since its establishment in 2015. It is a testament to the Committee and in particular our investment advisors, that we have still exceeded our overall objective since the inception of the Fund, especially given the volatility of global economies, supply chain issues and the war in Ukraine.

Our respective Governments have continued to make the proposed annual contributions to the Fund. The Fund's investments are now at \$239 million at 30 June 2022. 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 and ongoing economic issues. The Fund has increased by \$17.1 million from the 2021 financial year and has outperformed our overall performance objective of 7.0% pa since inception.



During the 2022 financial year, the GON contributed cash of \$25.8 million to the Fund resulting in total contributions from establishment to 30 June 2021, of \$145.2 million. Based on the ongoing commitment our government has in generating a future revenue source for the benefit of future generations, GON again contributed a prepaid amount which totalled \$9.3 million, relating to the 2023 financial year; GOA contributed \$4.3 million resulting in \$24.2 million since establishment. This also included a 2023 prepayment amount of \$1.8m; ROC (Taiwan) contributed \$2.8 million resulting in \$21.8 million since establishment; and GONZ had already prepaid their contribution during the 2021 financial year, resulting in \$5.6 million since commencing contributions to the Fund during the 2018 year.

The Fund's contribution in the Mercer private equity investment has continued to return positive results and that gives us continued confidence in the performance of the Fund even with the current economic volatility that all economies across the globe have been experiencing. We have an ongoing commitment to this investment and contributed \$1.6 million during the year and have a further \$USD 3.9 million to commit over the term of the investment.

I am pleased to advise that we are able to commit to the next stage of our investment strategy and contribute to a further tranche of Mercer private equity investments. To date, \$4.9 million has been contributed after the end of the financial year.

I have every confidence based on the Fund's current performance that we will be able to continue this growth well into the future. It is a positive sign for both the GON and its people that the Fund was not as heavily impacted as many other funds around the world during the 2022 financial year. Given the ongoing market volatility, 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.

Again, I would personally like to thank the Committee, investment advisors and administrators of the Fund for enabling its continued growth and ongoing commitments to ensure a better outcome for Nauru and its future generations.

Hon Martin Hunt MP
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 2035, 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 is scheduled to commence to the Enduring Capability phase in 2023. This new RPC phase will continue to support the revenues for at least the 2025 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 - NZ) 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 considers 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 infrastructure 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 wharf is now operational, with the first ship docking on 3 September 2022, and is expected to be fully complete by 2024.



Above: Drone photo of first ship docking at the all-weather Port.

An ADB funded solar project has commenced construction and is due to be completed and online in April 2023. This will bring Nauru renewable power to 50%. This additional solar/battery project will reduce the import of diesel for Nauru Utilities Corporation by 30% which will put downward pressure on operating costs - tariffs. Nauru is in discussion and committed with ADB to progress the renewable energy supply to 100% as early as possible.

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 Johanna Stratton (GOA)



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

INVESTMENT PERFORMANCE

2021/2022 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, investment performance was far more challenged over the 2021/2022 financial year compared to previous years as inflation concerns led central banks to aggressively tighten monetary policy and slowing economic growth led investors to fear the global economy may fall into recession.

Performance to 30 June 2022	Fund	Objective (CPI + 4.5%)
1 Year	-3.5%	10.6%
Inception (April 2016)	7.8% pa	7.0% pa

Despite the negative absolute return experienced by the Fund, ongoing contributions have seen the Fund value grow to \$238.9m over the financial year. From an asset allocation perspective, the Fund continues its transition to the target asset allocation through the build out of unlisted assets such as Private Equity, Unlisted Infrastructure and Private Debt.

The 2022 financial year began with optimism that the global economic recovery from COVID lockdowns would continue, supported with ongoing stimulus from governments and central banks around the globe. The emergence of a new COVID variant called Omicron briefly sent many regions around the globe back into lockdown but these were relatively short lived as it became apparent this variant was not as severe as its predecessor, Delta.

As markets approached the end of 2021, despite strong investment returns for the six month period, persistently high inflation readings, a Russian build-up of troops on the border with Ukraine and a potential slowing of global economic growth in 2022 began to cause more uncertainty for investors.

Over the first quarter of 2022, markets faced challenges stemming from the Russia - Ukraine conflict, higher inflation and higher volatility leading to significant declines in global equity and bond markets. Investors remain cautious to how the Russia - Ukraine conflict may impact the economy as commodity prices soar and whether inflation can be brought back to a sustainable level.

As we moved into quarter two, continuing high inflation readings across the globe have led central banks to turn extremely hawkish with interest rate increases of 0.5% and 0.75% being deployed in an attempt to get inflation heading back down toward target levels. This has led to further declines in Equity and Bond markets as investors try and gauge at what point inflation will begin to fall and whether the raising of interest rates will ultimately end in global economic recession. The continuing Russia/Ukraine war and China maintaining economic restrictions to restrict the spread of COVID have also kept investors nervous over the three month period.

This market backdrop has led to significant falls in both Equity and Bond markets for the six months to 30 June 2022 which is unusual in that Equity and Bond returns are usually negatively correlated. This means that when Equity returns are negative Bond returns are generally positive and provide diversified investment portfolios some protection. This has not been the case so far in 2022 which has meant that there have been very few asset classes able to protect client portfolios in this particular market environment.

Looking forward, there are beginning to be signs that inflation may be nearing its peak in some countries, while commodity prices have also begun to fall which will help to take the pressure off inflation levels in the second half of the year. While we expect volatility to remain at elevated levels for some time we do not expect the Equity and Bond market weakness we have seen in the first six months of 2022 to be repeated in the coming financial year.

FINANCIAL STATEMENTS

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

Financial Statements

For the year ended 30 June 2022

Contents

- 1 Statement of Income and Retained Earnings
- 2 Statement of Financial Position
- 3 Statement of Cash Flows
- 5 Notes to the Financial Statements
- 19 The Management Committee's Declaration
- 20 Independent Auditor's Report
- 21 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 2022

		30 Jun 2022	30 Jun 2021
	Notes	\$'000	\$'000
Investment income			
Net gains/ (loss) on financial assets at fair value through profit or loss	5	(27,886)	13,922
Distribution income	6	14,864	15,672
Management fee rebates		584	420
Unrealised foreign exchange gains/(losses)		853	(331)
Contributions	7	28,917	42,805
Total income		17,332	72,488
Expenses			
Accounting fees		23	21
Audit fees	13	12	11
Executive administrator fees		30	28
Investment expenses	8	136	123
Meeting costs		12	6
Membership fees		19	18
Review consultant fees		13	18
Total operating expenses		245	225
Profit from ordinary activities		17,087	72,263
Retained Earnings at the beginning of the Financial Year		210,809	138,546
Profit/(Loss) for the Year		17,087	72,263
Retained Earnings at the end of the Financial Year		227,896	210,809

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 2022

		30 Jun 2022	30 Jun 2021
	Notes	\$'000	\$'000
Assets			
Cash and cash equivalents		64	71
Financial assets at fair value through profit or loss	9	225,708	203,159
Mercer distributions receivable		13,198	14,678
Management fee rebate receivable		47	44
Total assets		239,017	217,952
Liabilities			
Trade and other payables	10	19	22
Income received in advance	11	11,102	7,121
Total liabilities		11,121	7,143
Net assets		227,896	210,809
Equity			
Retained Surplus		227,896	210,809
Total Equity		227,896	210,809

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 2022

		30 Jun 2022	30 Jun 2021
	Notes	\$'000	\$'000
Cash flows from operating activities			
Interest received		-	-
Contributions received		105	110
Payment to suppliers		(112)	(101)
Net cash flows used in operating activities	12	(7)	9
Net increase in cash and cash equivalents		(7)	9
Cash and cash equivalents at the beginning of the period		71	62
Cash and cash equivalents at the end of the year		64	71

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 2022

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 2021-22	17
17	Related party transactions	17
18	Events occurring after the reporting period.....	18

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

Notes to the Financial Statements

For the Year Ended 30 June 2022

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

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2021 that would be expected to have a material impact on the Fund.

No other new or amended Accounting Standards or Interpretations that are not yet mandatory have been early adopted.

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

Notes to the Financial Statements

For the Year Ended 30 June 2022

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 2022

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 2022

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 2022

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 2020 to 30 June 2021.

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 2022

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 2022	30 Jun 2021
Impact on operating profit / net assets attributable to unitholders	\$'000	\$'000
Fair value of investments in unlisted funds increased by 10%	22,571	20,316
Fair value of investments in unlisted funds decreased by 10%	(22,571)	(20,316)

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 2022

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 2022

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 2022.

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 2022

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 2022	30 Jun 2021
	\$'000	\$'000
Mercer unlisted unit trusts – unrealised gain/(loss)	(29,894)	12,459
Mercer private equity investment – unrealised gain/(loss)	1,559	1,269
Mercer private equity investment – realised gain/(loss)	449	194
Total net gain on financial assets at fair value through profit or (loss)	(27,886)	13,922

6 Investment income

	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
Mercer unlisted unit trust distributions	14,889	15,663
Mercer private equity investment income/(loss)	(25)	9
Total investment income	14,864	15,672

7 Contributions

	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
Government of Nauru	22,710	34,261
Government of Australia	2,500	5,000
Government of the Republic of China (Taiwan)	2,777	2,609
Government of New Zealand	930	935
Total contributions	28,917	42,805

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

Notes to the Financial Statements

For the Year Ended 30 June 2022

8 Investment expenses

	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
Mercer Private Investment Partnership V:		
- Management fee	84	80
- Performance Fees	52	43
Total investment expenses	136	123

9 Financial assets at fair value through profit or loss

	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
Financial assets at fair value through profit or loss		
Unlisted unit trusts:		
Mercer Growth Trust	37,761	39,810
Mercer Global Absolute Return Bond Fund	3,662	3,668
Mercer Australian Shares Fund	52,059	50,192
Mercer Australian Direct Property Fund	28,426	11,203
Mercer Hedged International Shares Fund	21,539	20,782
Mercer Global Unlisted Infrastructure Fund	11,071	10,033
Mercer International Shares Fund	24,084	20,677
Mercer Emerging Markets Shares Fund	7,848	10,958
Mercer Global Credit Fund	6,262	6,772
Mercer Australian Sovereign Bond Fund	4,965	5,571
Mercer Cash Fund Term Deposit Units	2,995	4,636
Mercer Global Small Companies Shares Fund	6,290	8,342
Mercer Global Sovereign Bond Fund	3,712	3,585
Mercer Australian Inflation Plus Fund	3,759	-
Total unlisted unit trusts at fair value through profit or loss	214,433	196,229
Private equity investment:		
Mercer Private Investment Partnership V	11,275	6,930
Total private equity investments at fair value through profit or loss	11,275	6,930
Total financial assets at fair value through profit or loss	225,708	203,159

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

Notes to the Financial Statements

For the Year Ended 30 June 2022

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

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

10 Trade and other payables

	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
Executive Administrator fees	7	11
Audit fees	12	11
Total trade and other payables	19	22

11 Income received in advance

	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
Government of Nauru	9,302	6,191
Government of Australia	1,800	-
Government of New Zealand	-	930
Total Income received in advance	11,102	7,121

12 Reconciliation of cash flows from operating activities

	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
Profit for the year	17,087	72,263
Net change in financial assets at fair value through profit or loss	(22,548)	(61,096)
Net change in receivables	1,477	(10,045)
Net change in payables	3,977	(1,113)
Net cash outflow from operating activities	(7)	9

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 2022

13 Remuneration of auditors

	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
Mazars Qld – Audit of financial statements	12	11
Total remuneration of auditors	12	11

14 Investment manager fees

The total fees paid indirectly to the Investment Manager totalled \$1.739 million for the year ended 30 June 2022 (2021: \$1.264 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 2022	30 Jun 2021
	\$'000	\$'000
Fee		
Investment management costs	1,733	1,288
Other indirect costs	500	395
Fee rebates received	(494)	(419)
Total fees paid	1,739	1,264

Total Mercer fees should be read in conjunction with Note 8 which includes fees on the Private Investment Partnership V investment. As a result, the total of all fees paid to Mercer for the year ended 30 June 2022 is \$1.875 million (2021: \$1.387 million).

15 Commitments

	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
Private equity investment		
Mercer Private Investment Partnership V:		
No later than one year	1,537	1,596
Later than one year	5,644	6,518
Total commitments	7,181	8,114

The Fund committed \$14.259 million (US\$10 million) to Mercer Private Investment Partnership V, which closed during June 2019. Calls of \$1.645 million (US \$1.2 million) took place during 2022 and calls totalling \$5.433 million (US \$3.9 million) took place during prior years. The balance of funds committed of \$7.181 million (US\$4.9 million) is expected to be called in the future.

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

Notes to the Financial Statements

For the Year Ended 30 June 2022

15 Commitments (continued)

There is no confirmed timing on the amount of the call, if any, or when the call will take place, however \$1.537 million (US\$1.05 million) was called in July 2022.

	30 Jun 2022	30 Jun 2021
	\$'000	\$'000
Private equity investment		
Mercer Private Investment Partnership VII:		
No later than one year	4,925	-
Later than one year	27,010	-
Total commitments	31,935	-

The Fund committed a further \$31.935 million (US\$22 million) to Mercer Private Investment Partnership VII, which closed during September 2022. Calls totalling \$4.925 million (US \$3.17 million) have taken place during the 2023 year and prior to the date of signing. The balance of funds committed of \$27.01 million (US\$18.83 million) is expected to be called in the future.

There is no confirmed timing on the amount of the future call, if any, or when the calls will take place.

16 Impact of COVID-19 on Financial Statement for 2021-22

Regarding the impact on the Annual Report for the year ended 30 June 2022, the potential adjustments to the investments held as at 30 June 2022 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:

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

Notes to the Financial Statements

For the Year Ended 30 June 2022

17 Related party transactions (continued)

Key management personnel	Position
Martin Hunt	Minister for Finance and Committee Chairman – GON Committee representative
Rhona McPhee	Director, Micronesia Section, Department of Foreign Affairs and Trade – GOA Committee representative resigned 15 March 2022
Johanna Stratton	Director, Kiribati and Nauru section, Micronesia and Health Branch, Department of Foreign Affairs and Trade – GOA Committee representative appointed 15 March 2022
Fleur Davies	Assistant Secretary, Department of Foreign Affairs and Trade – Alternate Committee member for GOA representative
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 – New Zealand Ministry of Foreign Affairs & Trade - GONZ Committee representative (resigned 4 November 2022)
Paula Oliver	Unit Manager – Papua New Guinea, Solomon Islands, Nauru, North Pacific, Pacific Melanesia and Micronesia Division, New Zealand Ministry of Foreign Affairs & Trade – GONZ Committee representative (appointed 4 November 2022)

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

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 2022 or on the results and cash flows of the Fund for the period ended on that date.

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

The Management Committee's Declaration

In the opinion of the Management Committee:

- a) These general purpose financial statements – simplified 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 2022 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
Johanna Stratton DS
C3168B05E30E4F3 JS

Johanna Stratton
Director, Nauru, Kiribati and Tuvalu
-Timor-Leste and Micronesia Branch-
Department of Foreign Affairs & Trade
Australia

DocuSigned by
[Signature]

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)



Paula Oliver
Unit Manager – Nauru
Pacific Melanesia and Micronesia Division
New Zealand Ministry of Foreign Affairs
New Zealand

Date: 29th November 2022



Level 11, 307 Queen Street
Brisbane Qld 4000

GPO Box 2268
Brisbane Qld 4001
Australia

Tel: +61 7 3218 3900
Fax: +61 7 3218 3901
www.mazars.com.au

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 2022, 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 2022 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* (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.

Those charged with governance are responsible for overseeing the Trust's financial reporting process.

Mazars Assurance Pty Ltd
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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 Assurance Pty Ltd
Authorised Audit Company: 338599



M. J. Green
 Director
 Brisbane, 29 November 2022



Level 11, 307 Queen Street
Brisbane Qld 4000

GPO Box 2268
Brisbane Qld 4001
Australia

Tel: +61 7 3218 3900
Fax: +61 7 3218 3901
www.mazars.com.au

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 2022, 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 Assurance Pty Ltd
Authorised Audit Company: 338599



M. J. Green
Director
Brisbane, 29 November 2022

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APPENDIX 1: SANTIAGO PRINCIPLES - SELF ASSESSMENT

Legal Framework, objectives, and coordination with macroeconomic policies	
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>As per its legal framework, The Intergenerational Trust Fund for the People of the Republic of Nauru (NTF) is registered as an International Trust under:</p> <ul style="list-style-type: none"> • International Organisations (Privileges and Immunities) Act 1963 • International Organisations (Privileges and Immunities - Nauru Trust Fund) Regulation 2015 <p>The International Organisations (Privileges and Immunities—Nauru Trust Fund) Regulation 2015 (“the Regulation”) declares the Intergenerational Trust Fund for the People of the Republic of Nauru (“the Fund”), established in accordance with the Memorandum of Understanding between the Government of the Republic of Nauru and the Government of Australia (“the MoU”), to be an international organisation to which the Act applies.</p> <p>Section 6(1)(a)(i) of the Act provides that the regulations may confer upon an international organisation to which the Act applies “juridical personality and such legal capacities as are necessary for the exercise of the powers and the performance of the functions of the organisation”.</p> <p>For this purpose, section 6 of the Regulation confers the legal personality and capacities necessary for the Fund to exercise its powers and perform its functions under the MoU. Specifically, it confers body corporate status on the Fund under Australian law and enables it to enter into contracts, acquire and dispose of property, institute legal proceedings in its own name, and take any other action to protect the assets of the Fund.</p> <p>The Fund registration documents provide a sound legal structure and basis for other state bodies as set out in the document including the Explanatory notes to the Regulations and how it is linked to the MOU's (Paragraph 8) and both documents are publicly disclosed in (Legal): https://naurufinance.info/intergenerational-trust-fund/</p>
<p>2. The policy purpose of the SWF should be clearly defined and publicly disclosed.</p>	<p>The purpose and corresponding supporting policies are clearly set out in the MOUs and the Background Statement on the website. This is to give public clarity to all stakeholders on the reasoning behind, the value of and</p>

Legal Framework, objectives, and coordination with macroeconomic policies

Principle	Implementation
	<p>future benefits the Fund will provide to the people of Nauru.</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.</p> <p>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 as well as accountability in the operations, monitoring, compliance, and management in the meeting of the goals of the Fund going forward. All documents are publicly disclosed on: https://naurufinance.info/intergenerational-trust-fund/</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 NTF is the Minister for Finance of Nauru, who is directly responsible for the setting, monitoring and management of Nauru's macro- and micro-economic policies. In addition, there are direct links with domestic macroeconomic policy, a key pillar of Nauru's IMF membership and National Sustainable Development Strategy.</p> <p>Commentary on the strategic economic importance of Nauru's SWF is also included in the Article IV review of Nauru in February 2022.</p> <p>Full Report: https://www.imf.org/en/Publications/CR/Issues/2022/02/07/Republic-of-Nauru-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-512874</p> <p>The NTF is linked to Nauru's National Sustainable Development Strategy (NSDS) regarding macroeconomic management with one of the goals: a stable macroeconomic environment conducive to private investment be established. Specifically, the Nauru National Sustainable Development Strategy 2019-30 identifies the establishment of a trust fund as one of the seven strategies to stabilise the macroeconomic environment conducive to private investment.</p>

Legal Framework, objectives, and coordination with macroeconomic policies

Principle	Implementation
	<p>The aim is to have a trust fund provide supplementary funds to the budget as of 2030, mainly to replace dwindling phosphate royalty revenues. Parliament passed the Nauru Trust Fund Act 2012 to authorise the establishment of a trust fund. This includes the strategy of reforming the Trust Fund arrangements including the establishment of a new Public Trust Fund (the Nauru Intergenerational Fund). This is now a reality. The NTF will remain as one of the macroeconomic activities going forward. The NSDS: https://naurufinance.info/wp-content/uploads/2020/07/Final-NSDS-2019-2030.pdf</p>
<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 (countries) and the Government of Nauru are core documents to the operation of the NTF. The MOUs with Australia and New Zealand are available on the Naurugov.nr public website (the MOU with the Republic of China (Taiwan) - (ROC) will not be publicly released due to ROC secrecy requirements.</p> <p>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 MOUs referencing this can be found in Paragraph 9 for funding procedures these include in brief (please refer to the MOU for complete details):</p> <p>The resources of the Fund will consist of all contributions to the Fund, from whatever sources, and all Income.</p> <p>The resources of the Fund will be administered by the Committee and used only in accordance with this MOU, including the Investment Policy.</p> <p>The Government of the Republic of Nauru intends to contribute to the Fund annually from the date of execution of this MOU to the commencement of the Fund Period.</p> <p>Commencing in the Fiscal Year following the initial contribution under Paragraph 9 subparagraph 3, the Government of the Republic of Nauru will contribute annually to the commencement of the Fund Period based on the previous year's annual domestic revenue based on a formula supplied in the MOU.</p>

Legal Framework, objectives, and coordination with macroeconomic policies

Principle	Implementation
	<p>Paragraphs 13 and 14, which detail the withdrawal/distribution arrangements for the Fund. These include in brief:</p> <p>The Committee will establish and revise from time to time, an Investment Policy consistent with this MOU, upon the advice of the Investment Adviser(s).</p> <p>The Investment Policy will indicate the investment strategy of the Fund and will be monitored according to industry standard benchmarks. The Investment Adviser(s) will report on the investment strategy at least quarterly.</p> <p>The Committee will establish and revise, from time to time a Distribution Policy consistent with this MOU.</p> <p>Both the Investment Policy and the Distribution Policy will ensure that investments of the Fund and Distributions are consistent with objectives.</p> <p>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>All distribution must follow the framework and procedure in Paragraph 14 of the MOU with all donors represented on the Committee.</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 available or relevant. Quarterly and audited annual accounts are presented to the Committee and annually reported to all the stakeholders of the Fund. The submission of the Annual Accounts to Nauru Parliament by the Minister for Finance is on an annual basis. The statistical information is included in the IMF Article IV reviews. The annual reports are on public domain:</p> <p>https://naurufinance.info/intergenerational-trust-fund/</p>

Institutional Framework and Governance Structure

Principle	Implementation
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>The governance framework is set out in the MOU with clear guidelines of the division of roles. Strict accountability and operational guides are in place via the MOU and strengthen by specific approval and other measures (Delegation Manual - formally approved in the AGM 2017) developed and monitored by the Executive Administrator under the direction of the Management Committee.</p> <p>Paragraph 12 of the MOU sets out the various specific roles in addition to the committee roles. Descriptions of the roles are also included in the definitions section of the MOU.</p> <p>The current roles include in addition to the Committee Members - Executive Administrator (Includes accounting services and quarterly/annual accounts preparation), Investment Manager, Auditor and a Review Consultant who has in-depth experience in the administration of other Pacific Island funds.</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 exercise oversight over the SWF's operations.	<p>The fund 'owner' in a traditional or formal sense ultimately are the people of Nauru with the Government of Nauru (GoN) the beneficiary owner - manager. The NTF was established by the contributing parties as an international organisation (under the IOPI Act) and is governed by the management committee. The GoN initially set the objectives of the NTF, as defined in the MOUs. These documents set out the appointment of the Committee, operational aspects of the Committee within the defined procedures including oversight.</p>
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.	<p>The NTF Management Committee (established under the MOU) are all highly credentialed and experienced executives/administrators with a strong awareness of their fiduciary responsibilities. The Committee has, by the MOU, a clear mandate to operate, which is specifically outlined in:</p> <p>Paragraph 7 regarding management and responsibilities and the operational aspects of the NTF, which are set out in Part V.</p> <p>Paragraph 7.8 in specific regards to the following fiduciary responsibilities:</p> <p>Committee members will have a Fiduciary Responsibility to the Fund.</p> <p>No Committee member will be responsible for any loss or depreciation in value of any assets held in the Fund,</p>

Institutional Framework and Governance Structure	
Principle	Implementation
	<p>except by the reason of such member's gross negligence or wilful default.</p> <p>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.</p>
9. The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.	<p>A professional independent administrator (an international accounting firm) has been appointed (in July 2016 by a tender process) for the operational management of the Fund. They work closely with the Committee and owner representative (advisers) in all matters. An external review consultant (who currently administers other Pacific SWFs) has been engaged to provide additional review and engagement functions on behalf of the Committee. The roles and responsibilities are set out in the MOU in Paragraph 7.</p>
10. The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.	<p>The NTF registration documents include:</p> <ul style="list-style-type: none"> • International Organisations (Privileges and Immunities) Act 1963 • International Organisations (Privileges and Immunities – Nauru Trust Fund) Regulation 2015 <p>As referenced in Section 1 of this self-assessment, the explanatory notes provide a clear legal structure and framework going forward under the relevant IOPI Act and Regulation.</p> <p>The NTF registration document and Explanatory notes to the Regulations are linked to the MOUs (Paragraph 8) and have been publicly disclosed via the Fund website.</p>
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.	<p>The audited annual report (on the website) is in accordance with Australian Auditing Standards, (equivalent to International Financial Reporting Standards (IFRS)) by an independent auditor who is selected by a tender process. The accounts are prepared to the same international standard by our Executive Administrator who is part of an international accounting firm. The Audit is scheduled in a timely manner with the AGM committee meetings within two months after the end of the financial accounting year. The final audited accounts to include in the Annual Report are normally with six months of the end of the NTF's financial year</p>
12. The SWF's operations and financial statements should be	<p>The Nauru Trust Fund (NTF) produces an annual audited statement. The audited annual reports (since</p>

Institutional Framework and Governance Structure

Principle	Implementation
audited annually in accordance with recognized international or national auditing standards in a consistent manner.	establishment) are on the public website. They are to international standards by an independent auditor. The financial accounts to be audited are prepared to the same standard by the NTF Executive Administrator, who also provide Australian and 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.	<p>All committee and support staff are of a senior professional level who clearly understand the ethical nature, fiduciary requirements, and standards of their roles. The members of the Management Committee established by the MOU are also all highly credentialed and experienced executives in their own right with clear fiduciary responsibilities. The MOU gives the Committee a clear mandate to operate.</p> <p>This mandate is specifically outlined in Paragraph 7 of the MOU in regard to management and responsibilities and the operational aspects of the NTF, which are set out in Part V.</p> <p>These include as per section 8 of the self-assessment: 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.</p> <p>Fiduciary responsibilities are set out in Paragraph 7.8 under the following definition:</p> <p>“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).</p>
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 has by the MOU a clear mandate to operate to, which is specifically outlined in Paragraph 7 of the MOU in regard to management and responsibilities and the operational aspects of the NTF (which are set out in Part V).

Institutional Framework and Governance Structure	
Principle	Implementation
	<p>Fiduciary responsibilities are set out in Paragraph 7.8 as set out in Section 13 above.</p> <p>This cover: “Fiduciary Responsibility” means a duty of utmost good faith, trust, confidence, and candour owed by a fiduciary to the beneficiary; 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).</p>
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.	<p>Establishment of the NTF as an international organization under the IOPI Act and Regulation was undertaken in Australia in November 2015. Operation of and contributions to the NTF also operate consistently with Nauru’s domestic legislation, National Sustainable Development Strategy, and regulatory frameworks (MOU’s) with disclosure internally and to all ‘partner’ countries.</p> <p>All ‘member’ countries currently involved as ongoing contributors operate to and are covered by their various national government audit, regulator, and disclosure policies requirements. Annual disclosure in the form of government tabled reports and annual audited accounts are the vehicle for compliance and transparency.</p>
16. The governance framework and objectives, as well as the manner in which the SWF’s management is operationally independent from the owner, should be publicly disclosed.	<p>This is disclosed along with the core documents including its registration and MOU on: https://naurufinance.info/intergenerational-trust-fund/</p>
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.	<p>The public website includes details of the background/purpose, MOU requirements, registration entity documentation, fund performance, fund product disclosure statement (PDF) investment policy statement, committee meeting minutes and audited accounts. This public website provides the stakeholders and the general public with a clear summary of the financial and economic goals of the NTF: https://naurufinance.info/intergenerational-trust-fund/</p>

Investment and Risk Management Framework

Principle	Implementation
<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 International), work closely with the NTF Committee to establish, continually review, and manage a sound and robust investment portfolio within the Investment policy guidelines. A formal (minutes) investment strategy occurs every 12 months or as may be required.</p> <p>The NTF approved Investment Policy covers risk (in Section 4) and options (in Section 6) for the NTF investment portfolio.</p> <p>These Sections include: The Trust Fund Committee will seek to achieve the maximum long-term investment return for its defined tolerance for risk. It is acknowledged that the investments made by the Original Partners and other contributors are subject to risk and that in certain periods this can result in (realised or unrealised) losses. These investment risks include but may not be limited to:</p> <p>Market risk, currency risk, interest rate risk, credit (default) risk and Illiquidity risk. The Committee expects the Investment Fund to be invested consistent with best practice for sovereign wealth funds. The portfolio will not be leveraged.</p> <p>Investment risk will be limited by appropriate diversification between and within investment asset classes.</p> <p>The Committee understands that the Investment Fund has a long-term investment horizon and a high exposure to growth assets is appropriate to generate strong real investment returns. The investment strategy for the Investment Fund will be undertaken in stages outlined in Section 4 of the Investment Policy document and will take into consideration relevant memoranda of understanding, funds under management and market conditions.</p> <p>The investment policy (in conjunction with 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>In making decisions on investment strategy, the Committee has regard to the overall circumstances of the Republic of Nauru and will comply with all applicable legislative requirements.</p>

Investment and Risk Management Framework

Principle	Implementation
	<p>With respect to asset management, the oversight responsibility of the Trust Fund rests with the Committee composed of individuals whose responsibilities encompass the following:</p> <ul style="list-style-type: none"> Establishing overall objectives and the setting of investment policy. Monitoring the management of the Investment Fund's assets. Reviewing the asset allocation mix on a regular basis to ascertain not only that the existing portfolio conforms to the desired targets and ranges, but also that the targets and ranges remain suitable and represent the prudent asset allocation mix for the Investment Fund. Monitoring performance to determine whether or not the rate of return objectives is being met and that Policy and guidelines are being followed. Taking appropriate action if objectives are not met or if the policy and guidelines are not followed. <p>The policy is on: https://naurufinance.info/intergenerational-trust-fund/</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 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>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 on the website.</p> <p>Investment decisions are based only on economic and financial consideration within the risk parameters agreed on in the Investment Policy document and in consultation with the investment manager. The management committee is committed to best-practice asset management principles in relation to NTF contributions within the investment portfolio.</p> <p>The MOU and Investment Policy documents ensure consistency and operations to a high standard of best practice management with high and recognised fiduciary requirements.</p>
<p>20. The SWF should not seek or take advantage of privileged information or inappropriate</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</p>

Investment and Risk Management Framework

Principle	Implementation
influence by the broader government in competing with private entities.	<p>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 as:</p> <p>Disputes between the MOU partners and the Government of the Republic of Nauru arising under or relating to the specific MOU, whether during the life of the Fund or on termination of its operations, that cannot be resolved by the Committee will be resolved only by consultation between the two governments and will not be referred to an individual, to a national court, to an international tribunal or to any other person or entity for settlement.</p> <p>Disputes involving other Original Partners or Subsequent Contributors will be handled as mutually determined by the Original Partners and Subsequent Contributors.</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>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.</p> <p>The ownership rights of the contributing parties, 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. From establishment to date all decisions have been unanimous.</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</p>	<p>Nauru Investment 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 programme.</p> <p>Quarterly committee meetings are one of the principal frameworks for recognition and monitoring risk management for the NTF. The review consultant supplies monthly fund</p>

Investment and Risk Management Framework

Principle	Implementation
<p>management of relevant risks within acceptable parameters and levels, 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>information including market health and valuations to the committee members.</p> <p>Reliable financial information is supplied to each meeting along with the timely annual audit. The investment strategy is reviewed on an annual basis and at set fund value levels. This currently provides a high level of monitoring, compliance and management control based on the parameters of the NTF.</p> <p>The various documents including the registration and MOU along with the Investment</p> <p>Policy statements are on the public website. Together and within specific documents, they provide the approach and operational framework for the NTF.</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 International, the investment manager, benchmarks the fund on quarterly performance. This is reported to the Committee and annually reported to the owner or more frequently if any substantial issues arise. The benchmarking supplies the committee with references to and comparison with other fund/investment performance.</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 continues to be considered as part of the AGM agenda. The committee is committed to the values of the Santiago Principles.</p>