



# Trust Funds in the Pacific: Operation and Performance Update

**PACIFIC REGION  
INVESTMENT  
CONFERENCE**  
Manila, Philippines  
December 1-2, 2016



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- *DRAFT - thanks for inputs... still time to improve...*
- Pacific Funds: Sources and Purposes
- Best practices in fund mgnt.
- Governance & Performance
  - Performance Indicators
  - Funds during the GEC 2008-09
  - Issues in selected funds
- Final points and questions



**Basics -- who, what, how, and why**

What are trust funds? How do they work? Who are the stakeholders? What are the purposes? How are they managed? Why are they important?

Who is the lead agency? Who are the co-managers? Who are the beneficiaries? Who are the donors? Who are the implementing agencies?

What are the sources of funds? What are the purposes of the funds? How are the funds managed? How are the funds disbursed? How are the funds used?

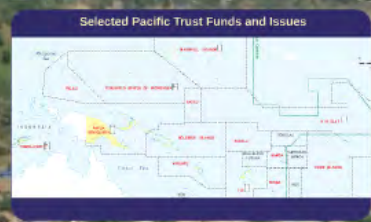
What are the best practices? What are the challenges? What are the lessons learned? What are the recommendations?

**Internationally Accepted Best Practice: Santiago Principles**

**Performance of selected Pacific Funds**

Some illustrative areas of the ex-ante principles – mainly related to the role of the trust fund manager (and principal)

1. Legal framework
2. Objectives and policy objectives – clearly defined and publicly disclosed
3. Disbursement and investment risk management
4. Investment policy and investment risk management
5. Governance of the trust
6. Information and risk management, liability and asset responsibility
7. Transparency & AAR compliance



**Books purposes**

Objective: To provide a comprehensive overview of Pacific Region Investment Funds (IRIFs) and their performance. The book will also provide a comprehensive overview of the Pacific Region Investment Funds (IRIFs) and their performance. The book will also provide a comprehensive overview of the Pacific Region Investment Funds (IRIFs) and their performance.

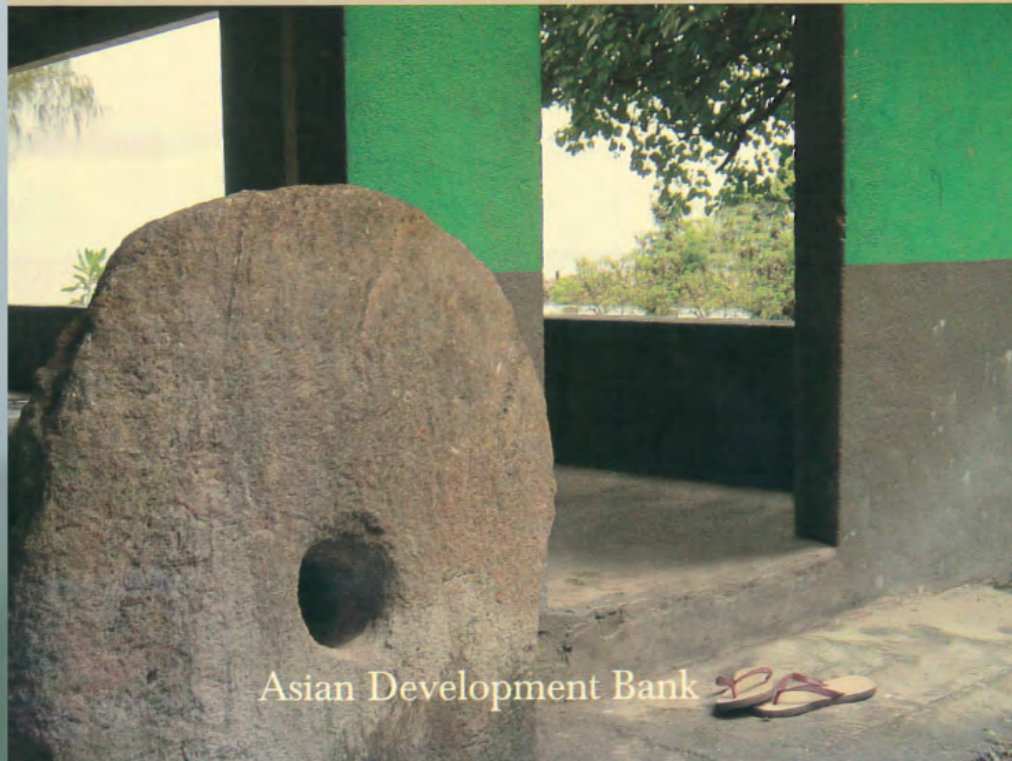
**Maraming Salamat po**



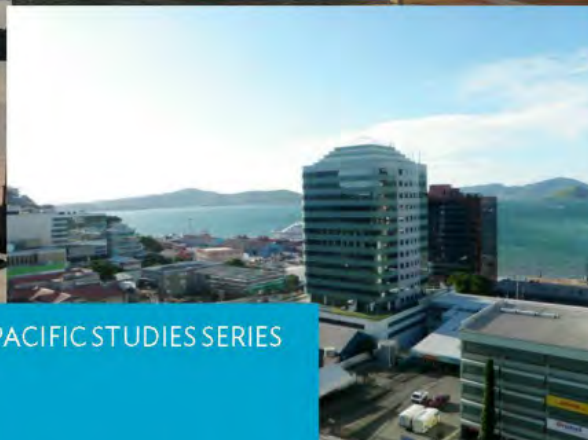
ADB

# Trust Funds in the Pacific

THEIR ROLE AND FUTURE



Asian Development Bank



PACIFIC STUDIES SERIES

# TRUST FUNDS IN THE PACIFIC

OPERATION AND PERFORMANCE UPDATE

**DRAFT**

ASIAN DEVELOPMENT BANK



Trust  
Operations  
PACIFIC  
INVESTMENT  
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  - **Funds during the GEC  
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  - **Issues in selected funds**
- **Final points and questions**

# Basics -- who, what, how, and why

## Types of Trust Funds by Principal Purpose

1. **Endowments** or **true trust funds** are invested in financial markets and only returns on investments can be withdrawn for beneficiaries' use according to the fund's distribution policy

2. **Revolving funds** have limited or conditional terms and the principal capital of a revolving fund is usually not held in perpetuity. It is consumed along with any investment income, and requires periodic replenishment until dissolution. Dissolution is typically triggered once the pre-determined goals or conditions stipulated in the terms of the fund are satisfied.

3. **Sinking funds** are pools of funds drawn down over the pre-determined and fixed time period stipulated in the terms of the trust.

Each of these funds is referred to as a "trust" because they involve transferring (or entrusting) responsibilities over the management and use of funds to trustees.

## Management Structures

Three main parties: (i) **Trustors**, also known as grantors or donors, provide resources, (ii) **Trustees** are legally responsible for managing the trust fund's assets, and (iii) **beneficiaries**, or the economic entities entitled to the trust's income and/or principal.

Trustees usually hire and monitor various service providers (e.g., investment advisors and managers, fund custodians, auditors) whose expertise is needed to manage, monitor, and administer trust funds.

### Goals of Trust Funds

- Inter-temporal (int. intergenerational) saving and wealth transfer
  - Emerging transfers of income over time
  - Saving for retiree old age income
- Source of funds for addressing fiscal resource gaps encountered when government revenues (e.g., revenues linked to falling global prices) or expenditure needs (e.g., disaster recovery) fluctuate
  - Providing a hedge against risks in public financial management
  - Facilitate longer-term fiscal planning
- Account in which to hold foreign assistance
  - Promoting long-term budgetary self-reliance
- Foster macroeconomic stability
  - Minimize adverse macroeconomic effects of "booms"

## Accepted Objectives for Funds

- To help maintain a stable global financial system and free flow of capital and investment;
- To comply with all applicable regulatory and disclosure requirements in the countries in which they invest;
- To invest on the basis of economic and financial risk and return-related considerations; and
- To have in place a transparent and sound governance structure that provides for adequate operational controls, risk management, and accountability.

• Due to the complexity of trust funds, it is important that trust fund proponents (i.e., Pacific DMC leaders, development partners, etc.) are well versed in the mechanics of asset management, capital markets, forecasting, and other technical issues.

• Trusts fund should be governed locally—with a governance structure based on an internal consultative needs-assessment—rather than through external prescription.

Table 1.1: Selected Trust Funds in the Pacific by Source of Capital

Country	Source of Funding		
	Donor Contributions	Natural Resource Revenues	Other Sources
Cook Islands	Cook Islands National Superannuation Fund (2000-present)	—	—
Fiji	Fiji National Provident Fund (1956-present)	—	—
Kiribati	Kiribati National Provident Fund (1977-present)	—	—
Federated States of Micronesia	FSM Social Security Trust (1990-present)	—	FSM CIT (2000-present) SAB Trust Fund (2010-present)
Republic of Marshall Islands	Marshall Islands Social Security Fund (1987-present)	—	MIOT CIT (2003-present) Marshall Islands National Superannuation Fund (2010-present)
Niue	—	Niue National Provident Trust (2005-present)	Niue National Provident Trust Fund (2005-present)
Palau	Palau National Superannuation Plan (1987-present)	—	Palau CIT (2000-present)
Papua New Guinea	Papua New Guinea National Superannuation Fund (1990-present)	—	Other National Superannuation Funds (2004-2010)
Samoa	Samoa National Provident Fund	—	—

Country	Source of Funding		
	Donor Contributions	Natural Resource Revenues	Other Sources
Solomon Islands	Solomon Islands National Provident Fund (1973-present)	—	—
Timor-Leste	—	Timor-Leste National Provident Fund (2005-present)	—
Tonga	—	—	Tonga Trust Fund (1980-present)
Vanuatu	Vanuatu National Provident Fund (1986-present)	—	Trust Time Fund (1997-present) Banking and Trust Fund (2000-present)

Table 2.1: Assets, Investment Income, and Fixed Expenses of Selected Pacific Trust Funds

	FINPF		Nambawan		Petroleum Fund	
	Year ending June 30	Year ending Dec 31	Year ending Dec 31	Year ending Dec 31	Year ending Dec 31	Year ending Dec 31
	2013	2014	2013	2014	2013	2014
	(\$ million)		(\$ million)		(\$ million)	
Net return on investment activities	7.2	6.1	15.1	10.4	7.5	3.5
Estimate of fixed expenses <sup>1</sup>	0.0	0.4	1.0	1.1	0.1	0.1
Assets, start of year	3,883.9	4,777.4	3,715.1	4,085.1	1,075.3	1,165.2
Net return on investment activities	280.1	252.8	401.0	443.7	87.9	52.4
Estimate of fixed expenses	32.2	16.4	17.0	20.1	9.0	16.0
Rolling item <sup>2</sup>	15.8	17.9	79.7	96.1	2,306.9	1,075.2
Assets, end of year	4,227.2	5,213.7	4,268.8	4,754.3	4,052.1	4,612.6

<sup>1</sup> Estimates of fixed expenses are based on historical annual budgeting and include administrative and general costs for the 2012 fiscal statements of these funds.

<sup>2</sup> Includes any other expenses, revenues, and contributions.

<sup>3</sup> FINPF: National Provident Fund; FS: Fiji Dollars; \$: US dollar; US\$: US dollar.

Sources:  
 FINPF: 2014 Annual Report; FINPF  
 Nambawan Super: 2014 Nambawan Super Annual Report  
 Petroleum Fund Administration Unit of the Ministry of Finance Democratic Republic of Timor-Leste, 2015 Petroleum Fund Annual Report Financial Year 2014

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### Goals of Trust Funds

- Inter-temporal (incl. intergenerational) saving and wealth transfer
  - Ensuring transfers of income over time
  - Saving for retiree old age income

Table 1.1: Selected Trust Funds in the Pacific by Source of Capital

Country	Source of Funding		
	Pension Contributions	Natural Resource Revenue	Other Sources
Cook Islands	Cook Islands National Superannuation Fund (2000 – present)	—	—
Fiji	Fiji National Provident Fund (1966 – present)	—	—
Kiribati	Kiribati Provident Fund (1977 – present)	Kiribati Revenue Equalization Reserve Fund (1956 – present)	—
Federated States of Micronesia	FSM Social Security (1968 – present)	—	FSM CTF (2003 – present); FSM Trust Fund (1986 – present)
Rep. of Marshall Islands	Marshall Island Social Security Fund (1999 – present)	—	RMI CTF (2003 – present); Marshall Islands Nuclear Claims Fund (1986 – 2009)
Nauru	—	Nauru Phosphate Royalties Trust (1968 – present)	Nauru Intergenerational Trust Fund (2015 – present)
Palau	Palau's Civil Service Pension Plan (1987 – present)	—	PAL CTF (1995 – present);
Papua New Guinea	Nambawan Super (1962 – present)	Mineral Resources Stabilization Fund (1974 – 2001)	—
Samoa	Samoa National Provident Fund	—	—

Country	Source of Funding		
	Pension Contributions	Natural Resource Revenue	Other Sources
Solomon Islands	Solomon Islands National Provident Fund (1973 – present)	—	—
Timor Leste	—	Petroleum Fund of Timor-Leste (2005 – present)	—
Tonga	—	—	Tonga Trust Fund (1988 – present)
Tuvalu	Tuvalu National Provident Fund (1984 – present)	—	Tuvalu Trust Fund (1987 – present) Falekaupule Trust Fund (2000 – 1999 – present)
Vanuatu	Vanuatu National Provident Fund (1986 – present)	—	—



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  - Facilitate longer-term fiscal planning
- Account in which to hold foreign assistance
  - Promoting long-term budgetary self-reliance
- Foster macroeconomic stability
  - Minimize adverse macroeconomic effects of “booms”

**Table 2.1: Assets, Investment Income, and Fixed Expenses of Selected Pacific Trust Funds**

	FNPF		Nambawan		Petroleum Fund	
	Year ending Jun 30		Year ending Dec 31		Year ending Dec 31	
	2013	2014	2013	2014	2013	2014
	% of start of year assets		% of start of year assets		% of start of year assets	
Net return on investment activities	7.2	6.1	13.1	10.4	7.5	3.5
Estimate of fixed expenses <sup>a</sup>	0.6	0.4	1.0	1.1	0.1	0.1
	(in F\$ million)		(in K million)		(in US\$ million)	
Assets, start of year <sup>a</sup>	3,883.9	4,777.4	3,743.1	4,268.3	11,775.3	14,552.1
Net return on investment activities	280.1	252.8	491.2	443.7	879.5	527.4
Estimate of fixed expenses	22.2	16.4	37.0	26.1	9.6	16.6
Balancing item <sup>b</sup>	35.6	19.5	70.7	38.4	2,306.9	1,075.7
Assets, end of year	4,177.4	4,533.7	4,268.3	4,754.3	14,952.1	16,538.6

<sup>a</sup> Estimates of fixed expenses are based on information available regarding administrative and management costs in the 2014 financial statements of these funds.

<sup>b</sup> Includes any other expenses, revenues, withdrawals and contributions.

FNPF = Fiji National Provident Fund. F\$ = Fiji dollar. K = kina. US\$ = US dollar.

Sources:  
 FNPF, 2014 Annual Report FNPF.  
 Nambawan Super, 2015, Nambawan Super 2014 Annual Report.  
 Petroleum Fund Administration Unit of the Ministry of Finance Democratic Republic of Timor-Leste, 2015, Petroleum Fund Annual Report Financial Year 2014.

Ensuring transfers of income over time

Saving for retiree old age income

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- Due to the complexity of trust funds, it is important that trust fund providers (e.g., governments, private partners, etc.) are well versed in the mechanics of asset management.
- Trusts fund should be governed locally—with a governance structure that is tailored to the country rather than through external prescription.

Assets,  
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\* Petroleum  
2015, Petre

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<sup>c</sup> "NF" = "Tj"; National Provident Fund; F\$ = Tji dollar; K = kina; US\$ = U.S. dollar.

Sources:  
 FINE 2014 Annual Report; FINE Nambawan Super 2010; Nambawan Super 2012 Annual Report; Petroleum Fund Administration Unit of the Ministry of Finance Democratic Republic of Timor-Leste, 2012; Petroleum Fund Annual Report/Financia Year 2014.

# Internationally Accepted Best Practice: Santiago Principles

## Performance of selected Pacific Funds

Seven thematic areas of the 24 Santiago Principles --  
Broadly defined versions of Global Fiduciary Precepts (and practices)

1. Legal framework
2. Objectives and policy purpose --clearly defined and publicly disclosed.
3. Domestic economic implications
4. Investment policy and investment risk management
5. Governance framework
6. Professional and ethical standards, fiduciary and public responsibility
7. Transparency in SWF operations

### Santiago Principles or Generally Accepted Principles and Practices

1. Sound legal framework
2. Public disclosure of framework
3. Compliance with relevant regulations.
4. Clearly defined policy purpose(s)
5. Public disclosure of policy purpose(s)
6. Clearly defined and publicly disclosed approaches to funding, withdrawal, spending, and investment policies
7. Management considers macroeconomic impacts
8. Consider potentially advantageous position in competing with domestic private entities
9. Investment policies based on sound portfolio management
  - a. Maximize risk-adjusted financial returns
  - b. Risk exposures guidance
  - c. Use of leverage
  - d. Arrangements with external investment managers.
10. Disclosure of any non-financial or non-economic basis for investment decisions
11. Disclosure of general approach to selecting investments

### Santiago Principles or Generally Accepted Principles and Practices

12. Mindful of the potential conflicts of interest
13. Division of roles and responsibilities between owner and governing body.
14. Frameworks governing operational management and risk.
15. Use of an accountability framework
  - a. Regular independent audits of operations and financial statements
  - b. Reporting of investment performance and financial statements.
  - c. Reporting on dealings with third parties
  - d. Apply Generally Accepted Accounting Principles
16. Disclosure of overall governance frameworks and objectives.
17. Governing bodies to act in funds best interests
  - a. Adopt a set of professional and ethical standards for those working for fund
18. Disclosure of fund's risk management framework
19. Greater transparency to enhance accountability and facilitate its dealings with other entities

Category	TLPF	RFRF	FSM and RMI CTFs	Tuvalu Trust Fund
1. Legal framework	Good	Good	Good	Good
2. Objectives and policy purpose	Good	Neutral	Good	Good
3. Domestic economic implications	Good	Good	Neutral	Good
4. Investment policy and risk management	Good	Poor	---	---
5. Governance framework*	Good	Neutral	Good	Good
6. Professional and ethical standards, fiduciary and public responsibility	Neutral	Poor	Poor	Poor
7. Transparency in SWF operations	Good	Poor	Neutral	Neutral

TLPF = Timor-Leste Petroleum Fund; RFRF = United Kingdom Reserve Fund for Pacific; FSM = Palau; CTF = Palau's State of Emergency and Republic of Marshall Islands Compact Free Associated Trust Funds; --- = consider the lack of information in terms of public governing body, operational management opportunities, reporting, etc. audit.

Appendix Table 1: Performance of selected Pacific Trust Funds against Santiago Principles

Performance Category	Trust Fund and Performance Rating (Good, Neutral, Poor)
1. Legal framework	Timor-Leste Petroleum Fund Good. Formed by the enactment of the Petroleum Fund Law Number 6/2005 promulgated in August 2005.
2. Objectives and policy purpose	Good. The high-level purpose of the fund is to ensure that petroleum fund revenues benefit both current and future generations. This is currently implemented by stipulating withdrawals of 3% of estimated petroleum wealth (including oil reserves as well as the TLPF balance) per annum.
3. Domestic economic implications	Good. The TLPF does not invest domestically so there is no direct effect of its investing activities on the domestic economy. It provides a source of funding for the government, which is of course dealt with within the budgeting process.
4. Investment policy and risk management	Good. TLPF performs quite well in this category having established investment policies that fulfill the key requirements stipulated by the Principles.
5. Governance framework	Good. The TLPF scores well on this category due to, for example, the roles of the government and management being well defined, comprehensive reporting and regular independent audits.
6. Professional and ethical standards, fiduciary and public responsibility	Neutral. The Central Bank of Timor-Leste and the Ministry of Finance, the organizations responsible for the management of the TLPF, have codes of conduct and ethics. However, whether these are brought to the attention of staff and clients is not clear.
7. Transparency in SWF operations	Good. The TLPF is highly transparent, with prompt publishing of audits and regular comprehensive reports on the fund's investments, as well as publicly available information on the fund's legal framework, funding and use of funds.
Santiago Compliance Index score*	A* (Fully Compliant, the highest rating category)
2012 SWF Scoreboard score (out of 100)†	85. The SWF Scoreboard comprises a set of criteria that aim to measure similar aspects as the Principles.
Santiago Principles score by Bagwell & Truman‡ (out of 100)	85. This rating is based only on those Santiago Principles that correspond to the SWF scorecard elements.

Source: International Working Group of Sovereign Wealth Funds (2008) – member countries (Australia, Azerbaijan, Bahrain, Botswana, Canada, Chile, People's Republic of China, Equatorial Guinea, Islamic Republic of Iran, Ireland, Republic of Korea, Kuwait, Libya, Mexico, New Zealand, Norway, Qatar, Russia, Singapore, Timor-Leste, Trinidad and Tobago, the United Arab Emirates, and the United States of America; Australia, Azerbaijan, Bahrain, Botswana, Canada, Chile, People's Republic of China, Equatorial Guinea, Islamic Republic of Iran, Ireland, Republic of Korea, Kuwait, Libya, Mexico, New Zealand, Norway, Qatar, Russia, Singapore, Timor-Leste, Trinidad and Tobago, the United Arab Emirates, and the United States of America).

# Internationally Accepted Best Practice: Santiago Principles

## Performance of selected Pacific Firms

Seven thematic areas of the 24 Santiago Principles --  
Broadly defined versions of Global Fiduciary Precepts (and practices)

1. Legal framework
2. Objectives and policy purpose --clearly defined and publicly disclosed.
3. Domestic economic implications
4. Investment policy and investment risk management
5. Governance framework
6. Professional and ethical standards, fiduciary and public responsibility
7. Transparency in SWF operations

### Santiago Principles or Generally Accepted Principles and Practices

1. Sound legal framework
2. Public disclosure of framework
3. Compliance with relevant regulations.
4. Clearly defined policy purpose(s)
5. Public disclosure of policy purpose(s)
6. Clearly defined and publicly disclosed approaches to funding, withdrawal, spending, and investment policies
7. Management considers macroeconomic impacts
8. Consider potentially advantageous position in competing with domestic private entities
9. Investment policies based on sound portfolio management

### Santiago Principles or Generally Accepted Principles and Practices

12. Mindful of the potential conflicts of interest
13. Division of roles and responsibilities between owner and governing body.
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15. Use of an accountability framework
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  - b. Reporting of investment performance and financial statements,
  - c. Reporting on dealings with third parties
  - d. Apply Generally Accepted Accounting Principles

### 3. Domestic economic implications

### 4. Investment policy and investment risk management

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### 6. Professional and ethical standards, fiduciary and public responsibility

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1. Legal framework	Good	Good	Good	Good
2. Objectives and policy	Good	Neutral	Good	Good

**Appendix Table 1: Performance of selected Pacific Trust Funds against Santiago Principles**

Performance Category	Trust Fund and Performance rating (Good, Neutral, Poor)
	<u>Timor Leste Petroleum Fund</u>
1. Legal framework	Good. Formed by the enactment of the Petroleum Fund Law Number 9/2005 promulgated in August 2005.
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3. Domestic economic	Good. The TLPF does not invest domestically, so there is no direct effect of its

- a. Maximize risk-adjusted financial returns
- b. Risk exposures guidance
- c. Use of leverage
- d. Arrangements with external investment managers.

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4. Investment policy and risk management	Good	Poor	—	—
5. Governance framework*	Good	Neutral	Good	Good
6. Professional and ethical standards, fiduciary and public responsibility	Neutral	Poor	Poor	Poor
7. Transparency	Good	Poor	Neutral	Neutral

TLPF = Timor Leste Petroleum Fund. RERF = Kiribati Revenue Equalization Reserve Fund. FSM and RMI CTF = Federated States of Micronesia and Republic of Marshall Islands Compact of Free Association Trust Funds. "—" denotes that insufficient information. \*In terms of owner, governing body, operational management, accountability, reporting, and audit.

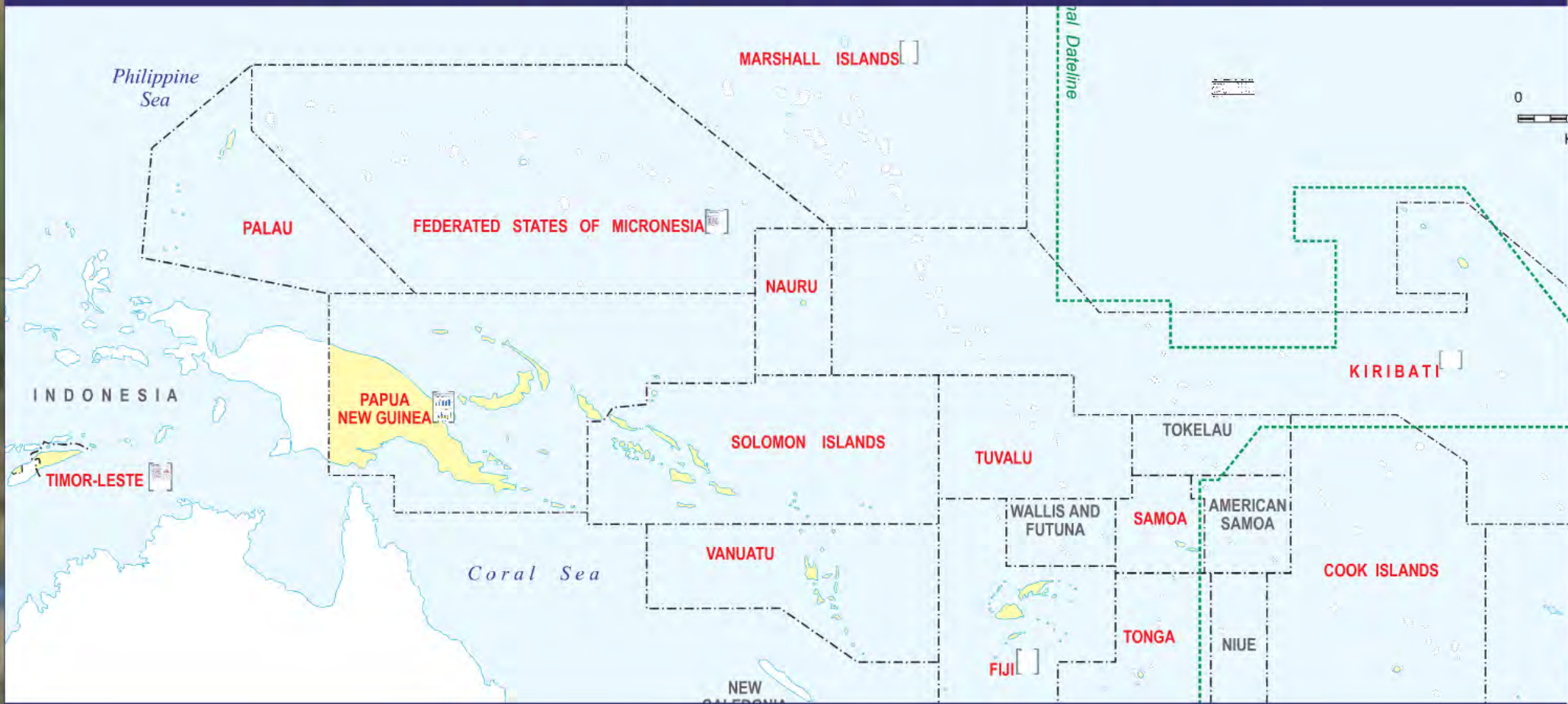
**Appendix Table 1: Performance of selected Pacific Trust Funds against Santiago Principles**

Performance Category	Trust Fund and Performance rating (Good, Neutral, Poor)
	<u>Timor Leste Petroleum Fund</u>
1. Legal framework	Good. Formed by the enactment of the Petroleum Fund Law Number 9/2005, promulgated in August 2005.
2. Objectives and policy purpose	Good. The high-level purpose of the fund is to ensure that petroleum fund revenues benefit both current and future generations. This is currently implemented by stipulating withdrawals of 3% of estimated petroleum wealth (including oil reserves as well as the TLPF balance) per annum.
3. Domestic economic implications	Good. The TLPF does not invest domestically, so there is no direct effect of its investing activities on the domestic economy. It provides a source of funding for the government, which is of course dealt with within the budgeting process.
4. Investment policy and risk management	Good. TLPF performs quite well in this category, having established investment policies that fulfill the key requirements stipulated by the Principles.
5. Governance framework	Good. The TLPF scores well on this category due to, for example, the roles of the government and management being well defined, comprehensive reporting, and regular independent audits.
6. Professional and ethical standards, fiduciary and public responsibility	Neutral. The Central Bank of Timor Leste and the Ministry of Finance, the organizations responsible for the management of the TLPF, have codes of conduct and ethics. However, whether these are brought to the attention of staff and used is not clear.
7. Transparency in SWF operations	Good. The TLPF is highly transparent, with prompt publishing of audits and regular comprehensive reports on the fund's investments, as well as publicly available information on the fund's legal framework, funding, and use of funds.
Santiago Compliance Index score <sup>22</sup>	"A" (Fully Compliant, the highest rating category)
2012 SWF Scoreboard score (out of 100) <sup>23</sup>	85. The SWF Scoreboard comprises a set of criteria that aim to measure similar aspects as the Principles.
Santiago Principles score by Bagnall & Truman <sup>45</sup> (out of 100)	80*. This rating is based only on those Santiago Principles that correspond to the SWF scoreboard elements

International Working Group of Sovereign Wealth Funds (2008) – member countries (Australia, Azerbaijan, Bahrain, Botswana, Canada, Chile, People's Republic of China, Equatorial Guinea, Islamic Republic of Iran, Ireland, Republic of Korea, Kuwait, Libya, Mexico, New Zealand, Norway, Qatar, Russia, Singapore, Timor-Leste, Trinidad and Tobago, the United Arab Emirates, and the United States of America. Australia, Azerbaijan, Bahrain, Botswana, Canada, Chile, Equatorial Guinea, Islamic Republic of Iran, Ireland, Republic of Korea, Kuwait, Libya, Mexico, New Zealand, Norway, Qatar, Russia, Singapore, Timor-Leste, Trinidad and Tobago, the United Arab Emirates, and the United States of America.



# Selected Pacific Trust Funds and Issues



**Table 5.1: Return on Fund investments during the global financial crisis**  
(%)

	FY2006	FY07	FY08	FY09	FY10
FSM Compact Trust Fund	7.7	17.9	(20.1)	(0.2)	11.3
RMI Compact Trust Fund	12.0	14.9	(21.8)	1.3	8.8
Tuvalu Trust Fund	10.4	9.7	(8.6)	(1.7)	1.8
Petroleum Fund	4.3	7.5	7.1	0.7	3.6
Fiji National Provident Fund	6.2	5.5	4.9	4.8	5.5
PNG's <u>Nambawan</u>	10.9	27.0	7.4	8.7	10.4
Marshall Islands Social Security Administration	9.1	11.6	(9.9)	5.1	
Palau Civil Service Pension Plan	5.7	14.3	(13.5)	7.1	5.7

FSM=Federated States of Micronesia, RMI = Republic of Marshall Islands, PNG = Papua New Guinea.  
Sources: Annual Reports.

# Fiji

Figure 4.3: Financial Indicators for FNPF

## A. Real Return on Investment (3-Year Moving Average)



Source: FNPF Annual Reports FY2005-FY2014

Note: Consolidate investment income refers to income from investments of the Fund and its subsidiaries.

## B. Net Total Assets

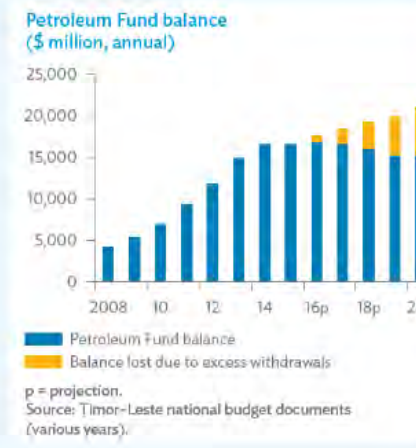
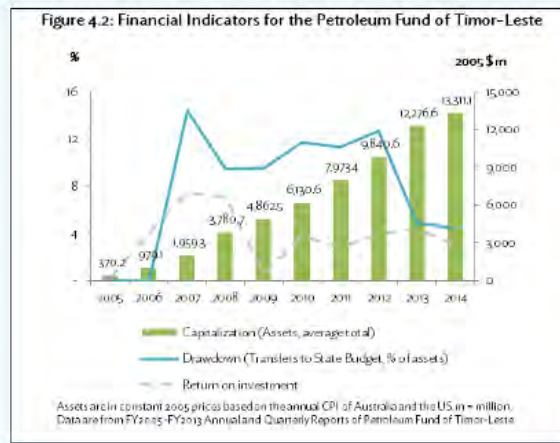
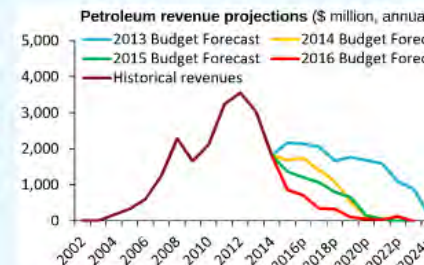
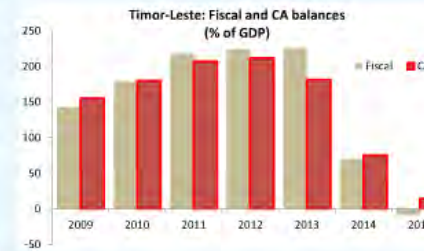
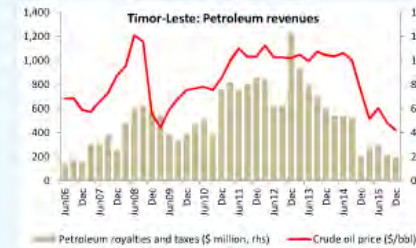


Source: FNPF Annual Reports FY2005-FY2014

Note: Consolidate investment income refers to income from investments of the Fund and its subsidiaries.

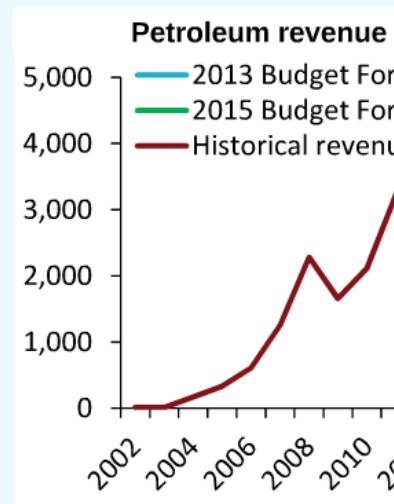
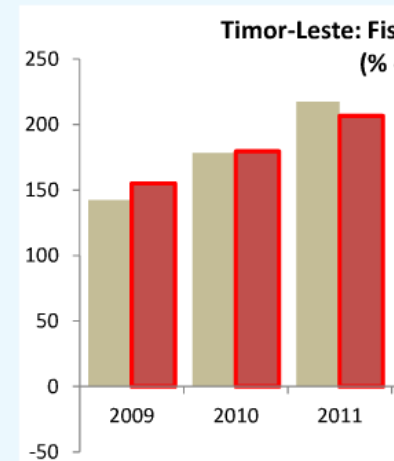
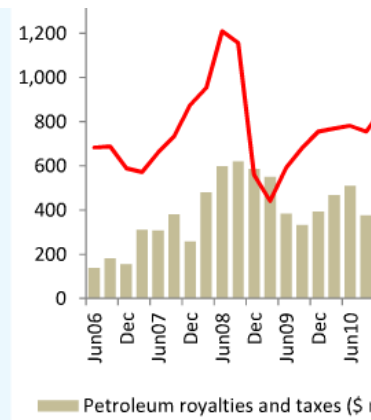
# Timor-Leste

- Established at the start of oil exports
- Large accumulated holdings
- Adherence to international best practice
- Challenges in most recent years
  - Falling petroleum production
    - Main oil field approaching depletion by 2021 -- worsening impact of low energy prices
    - Low oil prices and low investment returns hurting government revenues
  - Petroleum royalties down
  - Fiscal deficit now expected in 2015 (!)
  - Previously substantial fiscal and current account surpluses rapidly falling



# Timor-Leste

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2021 -- worsening

energy prices

and low investment

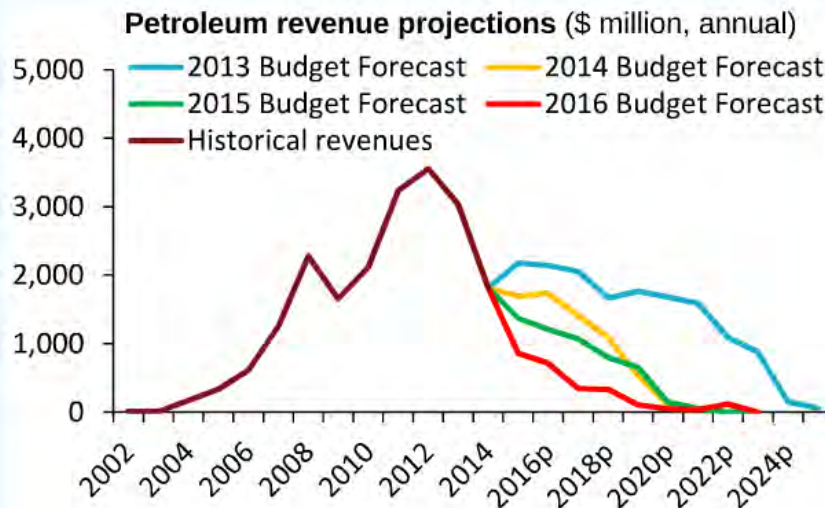
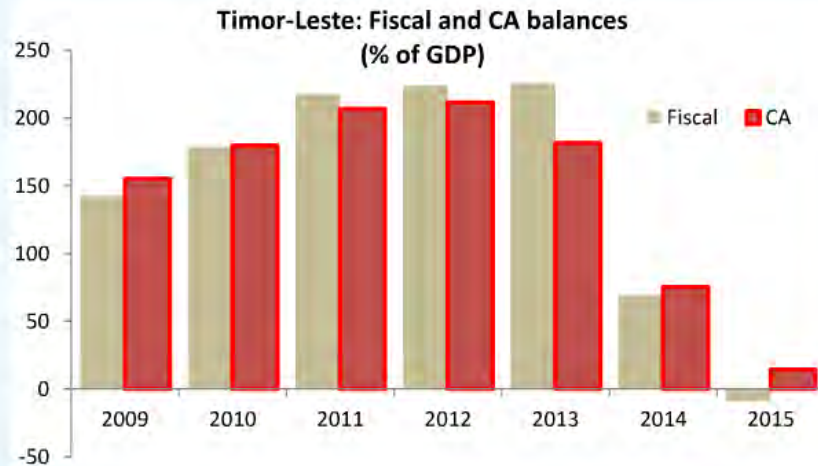
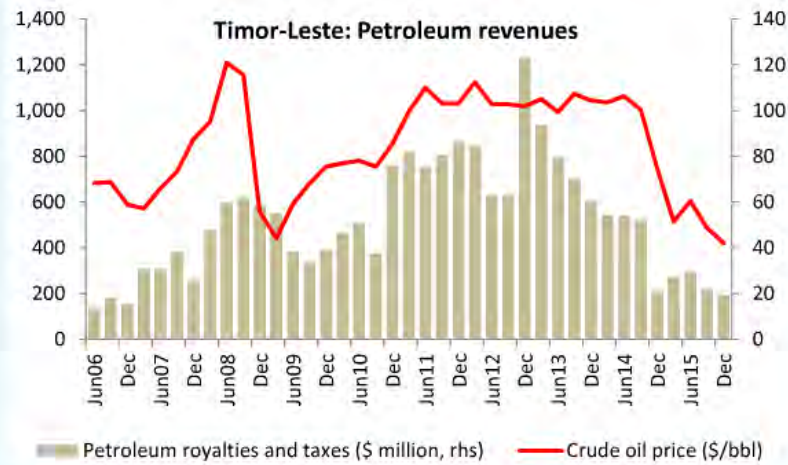
government

alties down

expected in 2015 (!)

substantial fiscal and

surpluses rapidly



# Timor-Leste's substantial fiscal and current account surpluses rapidly falling

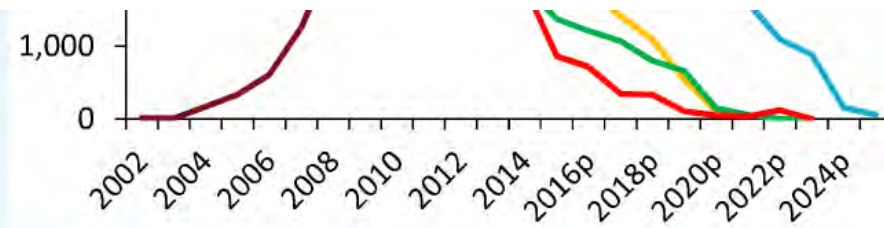
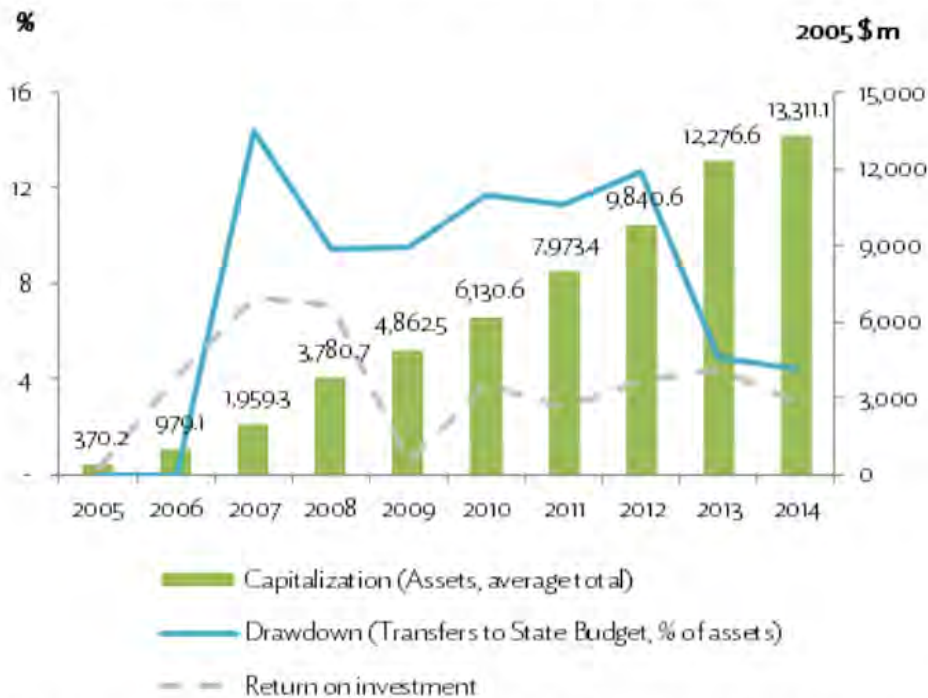
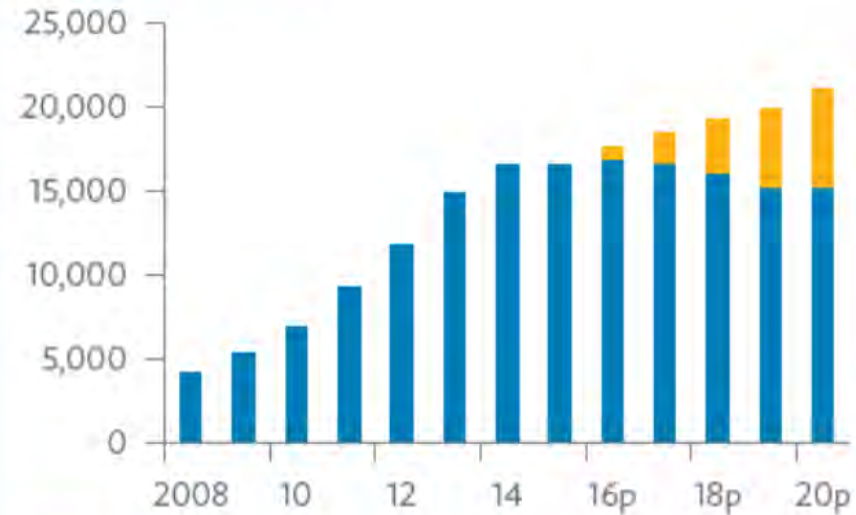


Figure 4.2: Financial Indicators for the Petroleum Fund of Timor-Leste



Assets are in constant 2005 prices based on the annual CPI of Australia and the US. m = million. Data are from FY2005-FY2013 Annual and Quarterly Reports of Petroleum Fund of Timor-Leste.

Petroleum Fund balance (\$ million, annual)



■ Petroleum Fund balance  
■ Balance lost due to excess withdrawals

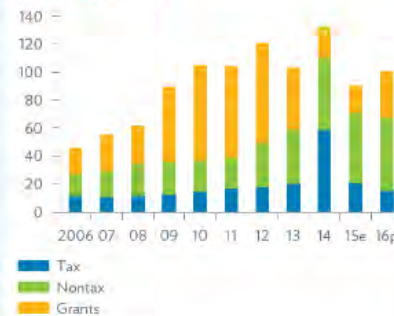
p = projection.

Source: Timor-Leste national budget documents (various years).

# Federated States of Micronesia

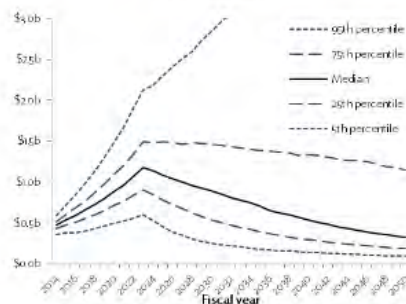
- Long-term fiscal challenges -- scheduled decrements in US grants
- Strong fiscal performance in recent years
  - Projected FY2015 fiscal surplus of \$19.8 million (6.9% of GDP)
  - For FY2016 project fiscal surplus of about 5% GDP
  - 11% increase in revenues (grants and fishing licenses)
  - Increasing contributions to FSM Trust Fund

Government revenues, by source (\$ million, annual)



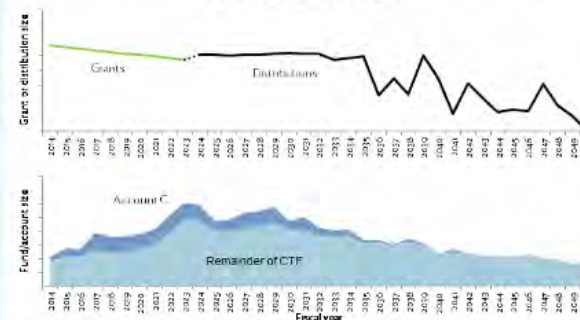
e = estimate, p = projection.  
Source: Office of Statistics, Budget and Economic Management, Overseas Development Assistance and Compact Management

Figure 5.4: Size and Structure of the FSM Compact of Free Association Trust Fund (constant prices)



Source: ADB (2015)

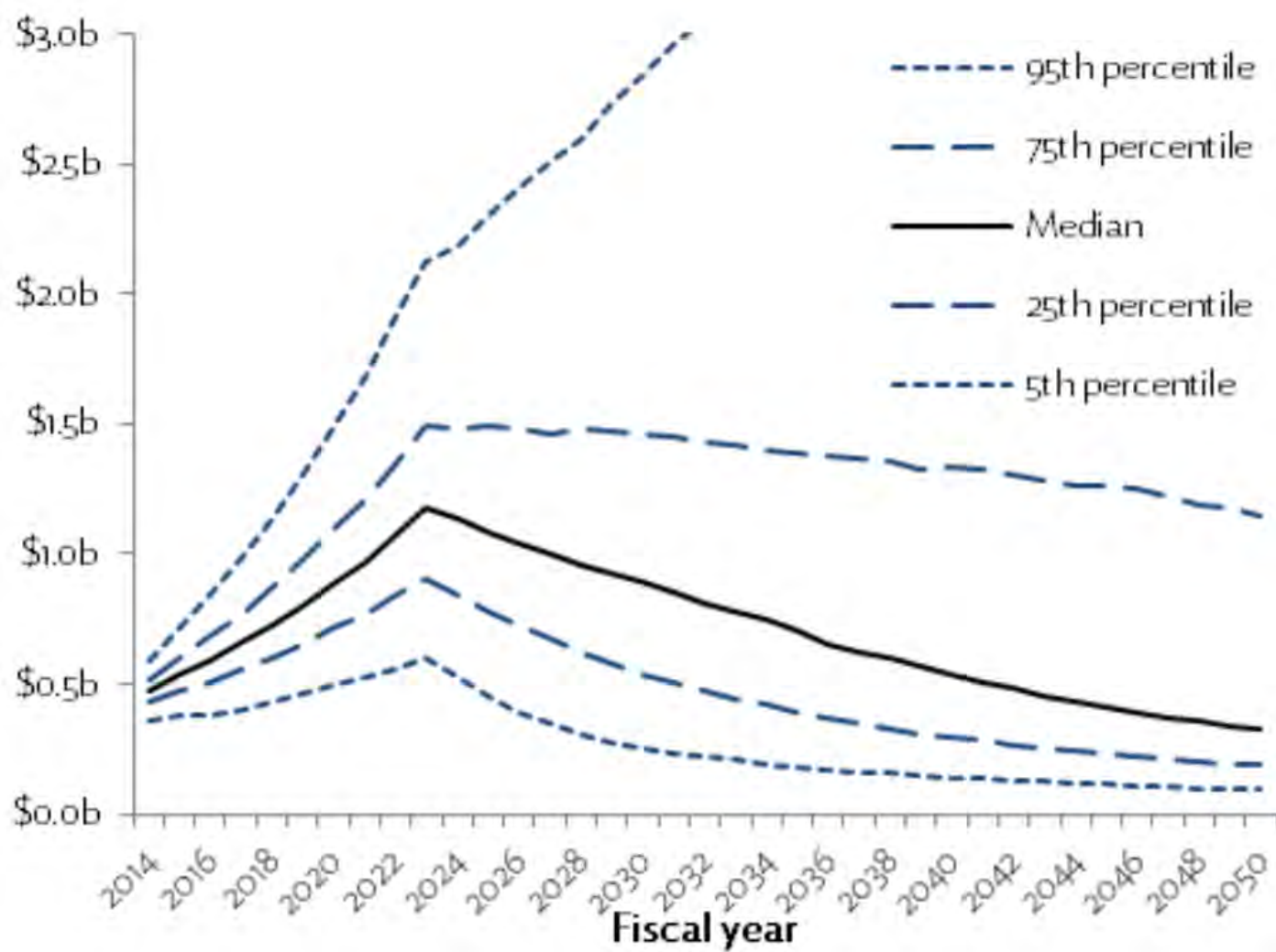
Figure 5.5: Stylized Illustration of Drawdowns and Size of the FSM Compact of Free Association Trust Fund, current structure



CTF – Compact of Free Association Trust Fund.  
Source: ADB (2015)

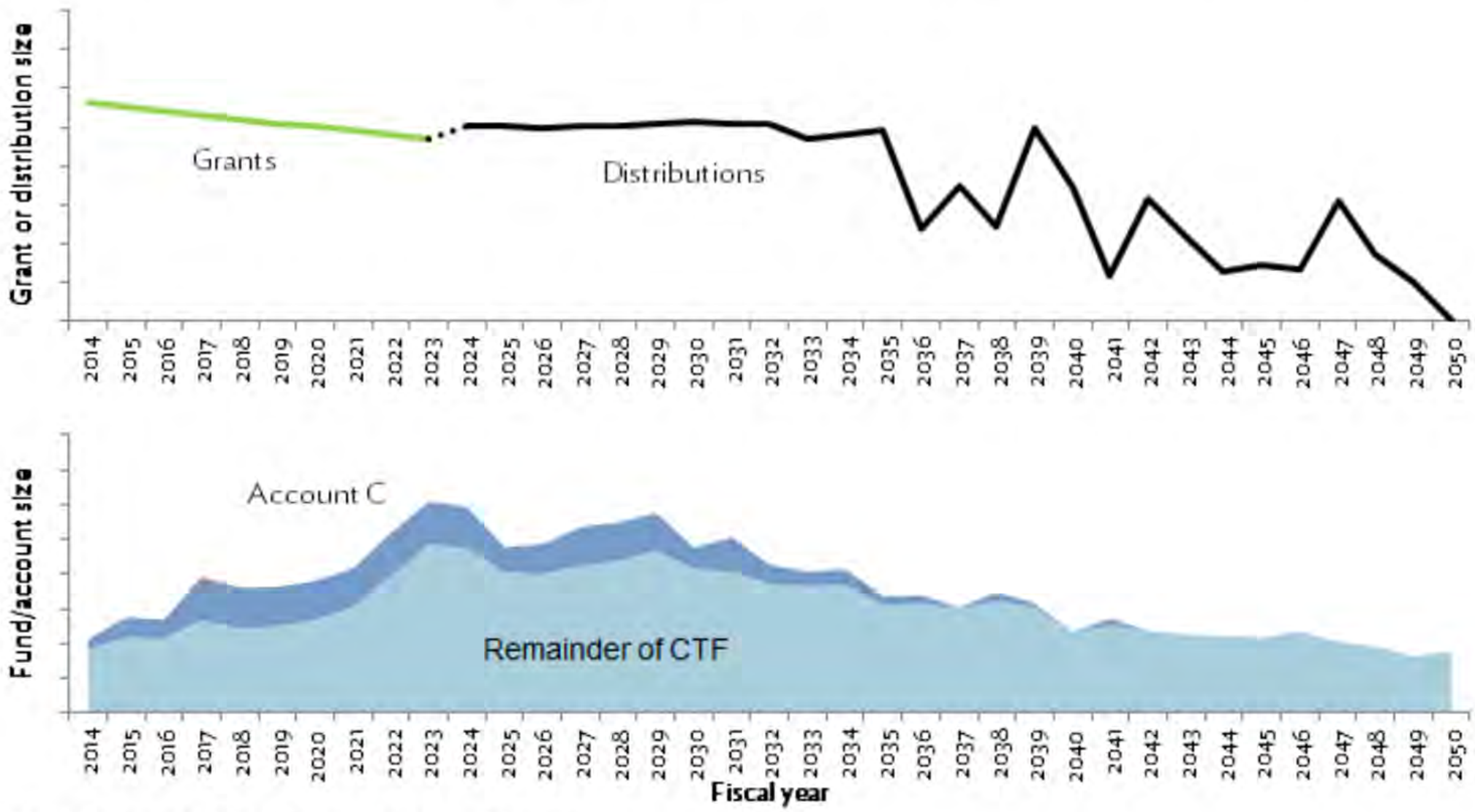


Figure 5.4: Size and Structure of the FSM Compact of Free Association Trust Fund  
(constant prices)



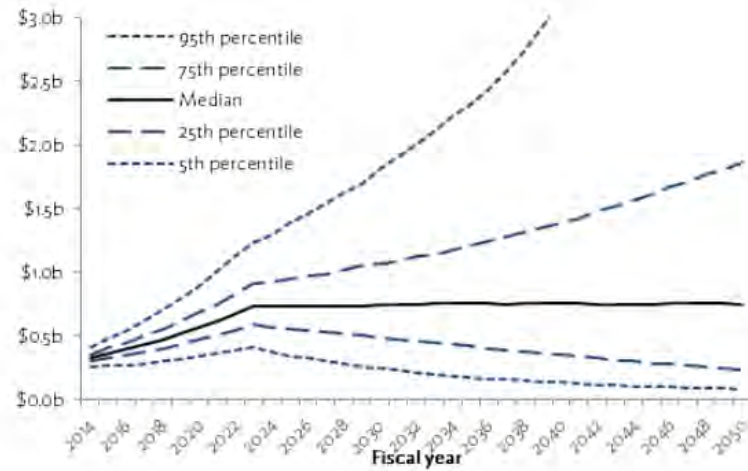
Source: ADB (2015)

**Figure 5.5: Stylized Illustration of Drawdowns and Size of the FSM Compact of Free Association Trust Fund, current structure**



CTF= Compact of Free Association Trust Fund.  
 Source: ADB(2015)

**Figure 5.6: Size and Structure of the RMI Compact of Free Association Trust Fund**  
(in constant prices<sup>a</sup>)

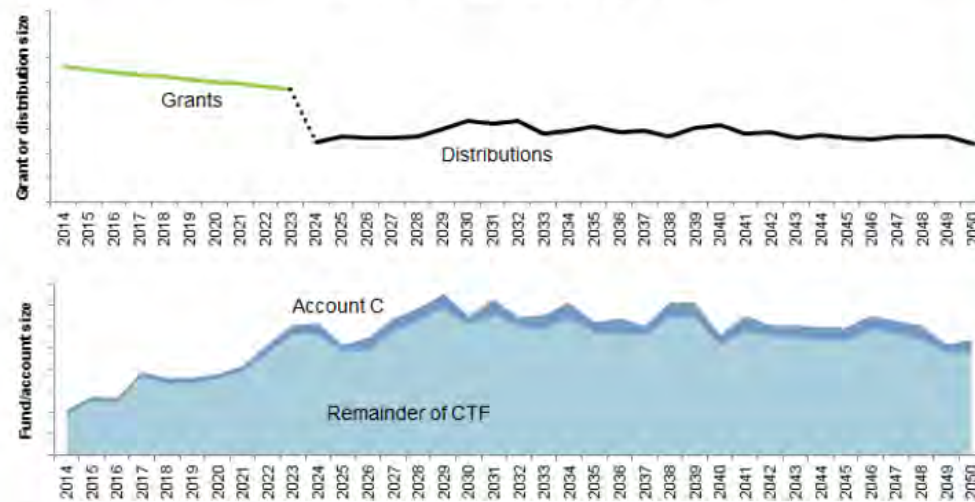


CTF = Compact of Free Association Trust Fund.

<sup>a</sup> The inflation rate (the GDP deflators for RMI and FSM) are projected to 2023 and used to calculate fund returns in real terms.

Source: ADB (2015)

**Figure 5.7: Stylized Illustration of Drawdowns and Size of the RMI Compact of Free Association Trust Fund, Alternative Structures**



CTF = Compact of Free Association Trust Fund.

Source: ADB (2015)

# Books purposes

Characterize the current status and recent performance of Pacific Sovereign Wealth and Public Trust Funds

Defining best management practice in trust funds and performance in relation to recommended practices.

Role of funds in overall public financial management in selected Pacific economies

Presentation has been successful if you are encouraged to read the full report

Thanks to APAFS and fi360 for their generosity in providing comments and for printing a draft of the report for the 16th Pacific Region Investment Conference

... and to all of you for your attention.

## Maraming Salamat po

