



Vision *Securing and Enhancing our Future*
Mission: *Achieve Sustainable Growth through Real Return and Provision of Quality Services*

OVERVIEW OF THE FUNDS FINANCIAL AND OPERATIONAL PERFORMANCE FOR THE 12 MONTHS PERIOD ENDING 30 JUNE 2019: BY SINPFGENERAL MANAGER/CEO, MIKE WATE: 30 SEPTEMBER 2019

Salutations

- 1) Minister of Finance & Treasury, Hon Harry Kuma
- 2) Governor Acting, Central Bank of Solomon Islands (CBSI)
- 3) The Permanent Secretary, Ministry of Finance and Treasury, Mr. Mckinnie Dentana
- 4) SINPF Board Chairman and Members
- 5) Chairperson and CEO of Solomon Islands Chamber of Commerce and Industry
- 6) General Secretary of Solomon Islands Council of Trade Unions
- 7) Chairpersons and Secretaries of Public and Private Sector Unions
- 8) Chairpersons, CEOs, General Managers, and CFOs of SINPF Board major and minor subsidiaries (South Pacific Oil Ltd, Solomon Telekom Ltd, SolTuna Ltd, Heritage Park Hotel Ltd, Bank South Pacific, Solomon Islands Submarine Cable Company Ltd, and Solomon Housing Ltd)
- 9) Former colleague General Manager/CEO's of the Fund
- 10) Colleague Management team of the Fund
- 11) Ladies and Gentlemen

2019 Financial Performance

I am pleased to report on behalf of the Board a brief overview of the fund's financial and operational performance for the year ending 30 June 2019.

The 2019 financial accounts had been audited by Price Waterhouse Coopers (PWC) (Fiji) Ltd under the direction of our external auditor, the Auditor General of the Office of the Auditor General. This is the first year of audit by PWC after replacing KPMG (Fiji) whose 5 year contract ended in 2018.

2019 has been another rewarding and as well a year of change for the Fund, with the Board adopting 2 new international financial reporting standards (IFRS), IFRS 9 and IFRS 15 as from 1st July 2018.

At the end of 30 June 2019, the Fund's audited net assets increased to \$3.711 billion up from 2018 \$3.365 billion. This is a strong growth of about 10.2% on the 2018 level, driven by the Fund's strong investment growth and expansion.

The Fund during the year achieved a gross revenue of \$374.6 million, up by more than 19% from the previous year level of \$313.5 million. This represented a 10.7% gross return on the Fund's total net assets.

Direct investment costs reduced to \$25.7 million against previous year's level of \$44 million. Major direct investment costs include commercial properties land rates and rates, repairs and maintenance, and consultancy fees. The Board during the year secured external expertise to support the Board review its 5 year 2016-2021 Strategic Rolling Business Plan, preparation of the Fund's property investment guidelines, and the preparation of the Fund's feasibility for its proposed new Nonbank Financial Institution (NBFi).

After adjusting for the \$25.7 million direct investment costs and other income of \$13.4 million, the Board achieved an operating profit before board costs and operational expenses of \$362 million.

The key drivers of this excellent performance are from our equity and debt exposures in South Pacific Oil Limited, Solomon Telekom Company Limited, Heritage Park Hotel Limited, Soltuna Ltd, Solomon Housing Limited, the long dated government development bonds, and international assets Bank South Pacific (BSP), managed funds Vanguard US Stock Index Fund and the Australian UBS Share Fund.

Rental income dropped when the Anthony Saru Building (ASB) became fully vacated during the year as the major refurbishment program intensified. Rentals from the Hibiscus Apartment remained firm providing the anchor for the property investment portfolio. The ASB is expected to be fully tenanted upon completion in early 2020.

Issues with rent collections remain challenging and office lock up is used to coerced tenants to pay up their overdue rental invoices from time to time.

Board and operational costs settled at \$53 million an increase of 12% over the previous year's cost of \$47.3 million. The target management expense ratio (MER) range was maintained despite these increases.

Deducting for these expenditures, the Board recorded a net profit of more than \$309 million for the year, an increase of 36% on the previous year level of \$226.9 million.

To Watch Investments

The Fund's "to watch investments" assets are Tavanipupu Island Resort and Sasape Shipyard both representing 1.7% of the Fund's total assets. These assets will continue to be given attention, concentration, and managed for a turnaround or an exit when the opportunity presents itself.

Membership Statistics

Total members with credit contribution balances surged to 142,352 up from 136,301 recorded in the previous year with a total contribution balance of \$2.98 billion. The age

group from 36 to 50 years held the bulk of the contribution value at 65%. Member contribution balances will immediately increase by the amount of the crediting to be announced and applied today.

New member registrations were at an all-time high of 9,323 against the 2018 registrations of 6,745, an increase of 38%. Surprisingly the large increases in new membership registrations, was from the logging just when we expected this industry to decline. Large increases were also made in the services, wholesale and retailing industries. Total active contributing members increased to 60,262 up from 2018 level of 58,036 members.

Total incoming contributions increased by more than 7% to \$318 million up from \$297 million recorded in 2018 whilst withdrawals increased by more than 5% to \$285 million from \$270 million in the previous year. The \$285 million member withdrawals were injected in our economy during the period.

43% of the 6,900 members who withdrew their retirement savings are under withdrawal ground 50 years and over, whilst 1,353 members were unfortunate as their pledges were used to repay their loans they defaulted on with financial institutions. Last year 1,941 members defaulted with \$50.7 million paid out to financial institutions. The Board is encouraging members to use the pledge facility wisely and not to use it as a means to draw their savings early. A total of 13,213 members with a total pledge value of \$655 million for a total loan value of \$581 million was recorded at the end of the year.

Net contribution (the difference between incoming contributions and member withdrawals) improved slightly to \$34 million up from \$27 million in the previous year. This meant that last year member withdrawals are principally funded by incoming member contributions.

Employer Statistics

Total active employers edged slowly to 1,358 from 1,351 recorded in the previous year.

Informal Sector

The informal sector pension scheme youSave continue to expand with 9,871 members registered by the end of 30 June 2019 with a total balance of \$7.5 million. The level of savings grew by more than 300%, from the previous year level of \$1.8 million. 6,950 new members joined the youSave during the year. The informal sector scheme has continued to expand its popularity and coverage was extended to all provinces of the country with the exception of Renbel Province. (As we speak membership has continued to expand growing to more than 11,400 savers with a total savings balance of \$9.8 million)

In a multi stakeholder project, the SINPF youSave team commenced work with the 2 mobile network operators (MNO's), the Central Bank of Solomon Islands (CBSI), Pacific Islands Financial Inclusion Program (PFIP) and United Nations Capital Development Fund to develop and pilot an Airtime Project where youSave savers can convert their airtime into their youSave savings. This will be an exciting project and once successful will enable youSave members to make their savings right from the comforts of their homes.

New Investments

New investments made during the year include the following; 1) Purchase of 49% shareholding in Solomon Islands Submarine Cable Company Ltd for \$116 million, 2) Purchase of 15% shareholding in Papua New Guinea based Loloata Island Resort Limited for \$29 million, 3) The acquisition of SI Telekom Company Recreational Centre at Ranadi for \$34 million, 4) The acquisition of the Malaita Plaza for \$4.5 million 5) The approval of \$12 million to construct Solomon Telekom Co.Ltd Sales and Marketing Office in Auki, Malaita Province, and 6) The establishment of a Non Bank Financial Institution (NBFI) for \$15 million for members of the Fund. The NBFI has been incorporated and named Solomon Finance Ltd.

Notwithstanding the small size of our economy with limited viable investment opportunities, these new investments has and should lift the Fund's investment portfolio for future member wealth expansion and crediting.

Staff Compliment

The total staff compliment at the end of the financial year on 30 June 2019 was 117 that included 9 contracted managers. As at 30 June 2019, the NPF has 7 trustees with one vacancy yet to be appointed by the Minister of Finance. .

Outlook for Next Year

Achieving a similar excellent financial result next year will be difficult and challenging as the outlook .by the Central Bank of Solomon Islands GDP growth of around 3% was downgraded for the 2019 calendar year.

The international arena is volatile with the current trade tensions between the USA and the Peoples Republic of China (PRC), Central Banks of major economies reducing their official cash rates, the recent Iran USA exchanges and the continued Brexit uncertainties that can negatively impact on our international investments and our economy.

The Board is dealing diligent on known and emerging risks from these future uncertainties and on key issues raised by internal and external audits, and from the

regulator the Central Bank of Solomon Islands that may and can impact the future financial and operational performance of the Fund.

Hence the SINPF Board predominately a fund manager, will always take the time to remind our members and stakeholders that past performance do not normally guarantee future performance.

What we all know NPF is a long term investor matching the profile of a typical member staying with the fund over a long period normally ranging from 25 to 35 years. Over their membership term, a member can ride out the short term volatilities of the Fund's performance. As they accumulate their savings for their retirement through continuous and or increased savings and the effect of compounding interest on their savings over a long period.

Acknowledgement

In closing, on behalf of the Board, the Board, Management and Staff thank and extend our appreciation to the following for their support and assistance rendered to the Fund during the year;

- 1) The Minister of Finance and Treasury, Hon. Harry Kuma
- 2) The Permanent Secretary of Finance and Treasury, Mr. Mckinnie Dentana and his team at the Department of Economic Reform Unit
- 3) The Acting Governor of Central Bank of Solomon Islands
- 4) The CEO and CFO of all SINPF major and minor subsidiaries (SPOL, STCL, HPHL, BSP, SolTuna, SCC and Solomon Housing)
- 5) The Pacific Islands Financial Inclusion Program (PFIP)
- 6) The United Nations Capital Development Fund (UNCDF)

Thank you and God Bless; our Members (employees and employers of the Fund) SINPF, and Solomon Islands.

Our Values Ethical, responsible and professional conduct at all times
Productivity, teamwork and striving for continuous improvement
Effective stewardship & leadership
Passion to deliver results for members