R.S. Baboolal & Co.
Chartered Certified Accountants

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NATIONAL INVESTMENT FUND

Tired of the technical jargon regarding the NIF and want to know if this option is right for you? We provide the following information in a question and answer format that may serve to inform potential investors regarding their investment decision making.

Frequently Asked Questions

What is the National Investment Fund?

The National Investment Fund Holding Company Limited (NIF) is a company created by its sole shareholder, Government of the Republic of Trinidad and Tobago (GORTT), to hold five assets. These assets were received by the GORTT as proceeds from the shareholding of certain assets of CLICO (under supervision of Central Bank) and CIB, as well as an appropriate shareholding of TGU owned by GORTT. Since 2009, GORTT has sought to recover funds owed to it arising from the bail out of CLICO and CIB which resulted in, CLICO and CIB transferring certain assets held by them to GORTT, some of which, in addition to the shareholding of TGU, were transferred to NIFHL.

These five assets are shares of: Republic Financial Holdings Limited (RFHL), One Caribbean Media Limited (OCM), West Indian Tobacco Company Limited (WITCO), Angostura Holdings Limited (AHL), and Trinidad Generation Unlimited (TGU).

The Company was incorporated on 29th May 2018 by Corporation Sole for the purpose of holding and monetising assets transferred by GORTT in repayment of the debt due to GORTT by CLICO and CIB. The Company is authorised to issue an unlimited number of ordinary shares with no restrictions on their transferability.

A decision was then made to float the bond over July 12th – August 9th, 2018 with the objective of raising $4bn.

Source http://nif-tt.com/about-us/

How is the fund structured?

The fund is proposed to be structured as follows:

TT$4,000,000,000 Fixed Rates bonds in three series cumulatively

Series A	4.50%	(5 Years)	Per annum and payable semi annually
Series B	5.70%	(12 Years)	Per annum and payable semi annually
Series C	6.60%	(20 Years)	Per annum and payable semi annually

What's the value of the assets comprising the fund?

The fair market value of the assets comprising the fund is approximately TT$7.9B. This is essentially the market price of the shares in the various companies held in by the National Investment Fund Holding Company Limited as traded on the stock exchange at 27th July 2018 and in the case of TGU (the sole company not traded on the stock exchange) an estimate of the market valuation.

Notwithstanding the above, some investors prefer to utilise the Net Book Value (NBV) of the various shares in order to assess its value. This is estimated at TT$4.82B based on the unaudited financial results of the various companies to 31st March 2018. In either case, these are well above the cumulative value of the fixed rate bonds at TT$4B. See table below.

COMPANY	SHARES HELD BY NIF CO.	TOTAL NET ASSETS	ISSUED SHARE CAPITAL	N.B.V. 31/3/2018	MARKET 27/7/2018	PERCENTAGE
RFHL	42,475,362	9,789,352,000	162,526,915	2,558,384,068	4,366,891,967	55%
WITCO	4,548,712	450,289,000	84,240,000	24,314,280	395,737,944	5%
OCM	15,285,917	771,230,000	66,499,801	177,278,091	184,959,596	2%
AHL	61,677,011	1,010,368,000	206,277,630	302,100,030	970,796,153	12%
TGU	189,400,000	1,420,413,400	189,400,000	1,420,413,400	2,025,000,000	25%
	$313,387,002	$13,441,652,400	708,944,346	$4,482,489,869	$7,943,385,660	100%

Will the value of the underlying assets always be more than TT$4B?

The value of the underlying assets may fluctuate from time to time based on market determinants and the performance of the economy. However there appears to be a significant cushion between the pricing of the bonds (cumulatively) when compared to the NBV of shares held by the NIF at 12% (at 31st March 2018) and more so when compared to its market valuation which stands at 98% (at 27th July 2018). Further to this the NBV of the underlying assets appear to be consistently increasing over the last few years (see table below) with the exception of TGU, the latter as a consequence of significant dividend payment, debt restructuring and changing of ownership interests in 2014/2015.

		AVERAGE N.B.V. PER SHARE				
COMPANY	% RETURN	31-Mar-18	2017	2016	2015	2014
RFHL	15%	$60.23	$59.91	$56.58	$55.39	$52.39
WITCO	34%	$5.35	$4.49	$4.97	$4.53	$3.98
OCM	11%	$11.60	$11.43	$11.10	$11.07	$10.49
AHL	30%	$4.90	$4.76	$4.52	$4.27	$3.76
TGU	-43%	$7.50	$7.34	$7.10	$7.89	$13.25

If the performance of these assets continues to be favourable then it is reasonable to assume that the performance of its shares (both on an NBV and Market Value basis) will appreciate over time. Conversely, if the opposite occurs (for example due to periods of economic declines or other adverse factors) the value of the assets may depreciate accordingly.

What happens if the assets perform well and appreciates in value over time?

In the event of this scenario the asset base of the National Investment Fund Holding Company Limited will increase thereby further cushioning the initial bond issue prices. Further, if the assets continue and increase their current dividend policies (owing to the scenario where they perform well) it will equip the holding company with sufficient cash flows in order to meet its present obligations (i.e. interest payments on the series of bonds) and set aside sufficient sums under the sinking fund in order to redeem the bonds when they mature. The below table illustrates the historic dividends paid by the various assets as apportioned by the shareholdings under the NIF.

	NIF PROPORTION				
COMPANY	**2017 DIVIDEND**	**2016 DIVIDEND**	**2015 DIVIDEND**	**2014 DIVIDEND**	**2013 DIVIDEND**
RFHL	186,891,593.00	184,767,825.00	184,767,825.00	180,520,289.00	180,520,289.00
WITCO	20,059,820.00	26,746,427.00	26,746,427.00	25,063,403.00	20,651,152.00
OCM	10,241,564.00	11,617,297.00	11,617,297.00	11,617,297.00	11,311,579.00
AHL	12,952,172.00	18,503,103.00	18,503,103.00	16,036,023.00	14,802,483.00
TGU	135,078,000.00	265,734,000.00	205,166,749.00	1,213,140,500.00	25,662,200.00
	$365,223,149.00	**$507,368,652.00**	**$446,801,401.00**	**$1,446,377,512.00**	**$252,947,703.00**

How will the bonds be redeemed at maturity?

The holding company proposes to set up a sinking fund in order to redeem the various bonds when they mature. This is essentially the setting aside of surplus cash after payment of semi-annual interest costs in order to settle the bonds. The existence of surplus cash i.e. based on the assets performing well, the greater the likelihood of sufficient cash being accumulated to settle the bonds when they mature.

Additionally, the company may also elect to issue additional bonds (new issues) in order to settle the maturing bonds in the event of cash shortfalls. The success of any future bond issue will depend on the market and economy at the time of maturity.

What happens if the assets don’t perform well and how will the bonds be redeemed at maturity?

The NIF bonds were rated as CariAA by CariCRIS indicating that the bonds were off investment grade quality and that the level of creditworthiness of the debt obligation was high. CariCRIS also gave a stable outlook for the ratings which effectively means that dividend payments of the fund’s underlying assets will be more than adequate to meet the interest obligations during the next 12-15 months.

In issuing this rating CariCRIS considered stress testing in the form of 20% reduction in dividend flows together with the quality and value of the underlying assets and found these to be sufficient to meet the bond obligations. Additionally, CariCRIS also considered the likelihood of support from the Government of The Republic of Trinidad & Tobago (GORTT) and indicated ***"we are of the view that for moral and economic reasons, in the event of a crisis, there is a strong incentive for financial support from the GORTT to the NIF to meet its debt commitments, should this be needed."***

The full report may be read here.

https://www.finance.gov.tt/wp-content/uploads/2018/07/NIF-Holding-Company-Limited-Rating-Report-final-version-04-July-2018.pdf

It should be noted however that the incentive for financial support from GORTT does not create a legal obligation to do so. The prospectus of the fund further reiterates this position which outlines that ***"there is no guarantee or other support by GORTT with respect to the offer and any payments to be made by the company to the bondholders in respect of bonds. The payment of interest and principal on the bonds will depend exclusively on the level of dividends declared by the companies"*** forming the underlying assets. This effectively means that there exists the possibility of no GORTT intervention in the unlikely event of the fund not earning sufficient dividends to meet its interest obligations and not having sufficient cash in order to redeem the bonds at maturity.

Will I be able to sell my bonds or use them as collateral?

The bonds can be traded on the local stock exchange at any time. However, investors should note that the value of these trades may not be representative of the face value of the respective bonds. There are a host of factors that may affect bond prices on the secondary market including changes in interest rates, inflation etc. Traditionally if interest rates go up, bond prices are expected to fall. The availability of a market to sell the bonds as well may be an issue. The secondary market may not be large enough to accommodate trades. Conversely, the existence of these bonds and the participating interest by the wider public may open the secondary market to more activity as it relates to bond trades.

Bonds can also be used as collateral; however, these are usually discounted by the financial institution.

Is interest paid on the bonds exempt from taxation?

In accordance with the provisions of the Income Tax Act (Section 8, p), interest whether or not denominated in local currency, paid or credited to a resident individual is exempt from taxation.

- i) on all classes of savings or other accounts with banks or other financial institutions in Trinidad and Tobago;
- ii) on savings or other accounts with a person carrying on a trade or business in Trinidad and Tobago who, in the ordinary course of operations of such trade or business, receives and retains money in such circumstances that interest becomes payable; or
- iii) on bonds or similar investment instruments issued in Trinidad and Tobago;

Notwithstanding this, the prospectus explicitly indicates the following:

a) Residential Individuals - interest will be exempt from income tax and business levy, capital gains will be exempt from tax unless the investor is deemed to be trading in bonds or others securities.
b) Resident Corporate Investments – interest will be exempt from corporation tax and business levy but is subject to green fund levy. Capital gains will be exempt from corporation tax unless the investor is deemed to be trading in bonds and other securities.
c) Non-Resident Investors – interest paid to non-resident companies carrying on trade or business in Trinidad & Tobago will be exempt from corporation tax and business levy but may be subject to green fund levy. Capital gains will also be exempt unless the investor is deemed to be trading in bonds or other securities. Interest paid to non-resident individuals and companies may be subject to withholding tax.

What will be my average return on investment?

For every TT$1,000 invested you may expect your returns to be as follows, with the principal investment being repaid on maturity.

	4.5% (5 Years)	**5.7% (12 Years)**	**6.6% (20 Years)**
Per Annum	$45.00	$57.00	$66.00
Total Period	$225.00	$684.00	$1,320.00

How do I know if this investment is right for me?

Consider the following and if this investment meets with your risk appetite that you may proceed as such. It would be wise however to diversify your portfolio to guard against any unforeseen circumstances.

Pros	Cons
• Attractive interest rates • Secured by valuable underlying assets • CariCRIS “CariAA” rating • Implied government support • Tax exemption (resident individuals and corporations)	• Opportunity cost of investing in the fund • Implied government support (uncertainty) • Assets subject to market determinants and volatility. • Model depends on the sustainability of the dividend policies of the underlying assets. • In an adverse scenario – reliance on governmental support based on the likelihood of success in raising future bonds to pay off prior obligations as impacted by the market factors at that time.

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Final pronouncement, should I invest?

Only if you consider this investment right for you and are willing to assume the risks that goes with the investment. It is an attractive offer when compared to fixed deposit rates, bank interests, mutual funds and other investment type instruments that are available presently. However, if cash liquidity is your main concern and 5 years is too long a period, then this investment is not right for you. An investor should also consider what proportion of his/her portfolio should be invested into the various securities (i.e. bonds, equities, mutual funds etc).

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