STUDENTS TRUST INTERNATIONAL
- ANNUAL REPORT 2018 -

Another year has passed and the challenges we face with our Plans remain consistent with prior years – investment return, timing of reporting and Bermuda Plan windup.

Education Payment Levels

Here is what we advised you last year regarding the Education Payments:

Our current prognosis for 2019 is that the Bermuda Plan payments will remain steady. However, we expect the Canadian Plan to decline and the US Plan will either remain steady or decline, but not at the same level as the Canadian Plan.

The recovery of the Bermuda Plan payments is extremely positive - we have been able to raise the EP level again – the 4th time in the last 5 years. As mentioned last year, this Plan is in what is called run-off – there is little new money being deposited and large amounts of principal and interest are being paid out. This dynamic is now affecting investment returns as our timeline for the investment portfolio to match Maturities requires us to stay in more liquid and shorter-term investments.

For the Canadian and US $ Plans the outlook continues to be unfavourable as government bond investments are returning to historical low return levels. We were able to maintain the US$ Plan EP levels mainly due to lower than expected advanced claims, however it appears quite clear that we will not be able to maintain this for 2020.

The Canadian Plan decline to $175 for EP 1 was anticipated and communicated to Subscribers and we expect this level of payout to be held for 2020 – it is extremely difficult to predict what we can do after that as we are still hoping to have our Investment Mandate vote approved by regulators in time for changes to affect investment returns in 2020.

Below is a history of the Education Payment levels for Education Payment 1:

	2016	2017	2018	2019
Bermuda Plan (formerly CST)	$200 Cdn	$225 Cdn	$250 Cdn	$275 Cdn
Canadian $ Plan	$300 Cdn	$200 Cdn	$200 Cdn	$175 Cdn
US $ Plan	$300 US	$200 US	$200 US	$200 US

Please note that the Bermuda Plan has been operating under a more liberal investment environment for many years. It also has tighter rules for EP approval which both contribute to the higher EP amounts vs. Canadian and US Plans.

Investment Returns & Investment Mandate

The trend in investment returns continues to be negative because of the ongoing strategy of G-7 central banks to hold sovereign interest rates at historically low levels to stimulate recovery from the 2008-09 financial meltdown. There are signs that this strategy is being reversed slowly, but not enough for us to commit to long-term investments that historically have generated much higher returns.

	2015	2016	2017	2018
Bermuda Plan (formerly CST)	3.22%	1.01%	2.23%	4.14%
Canadian $ Plan	2.63%	1.50%	1.24%	1.59%
US $ Plan	1.87%	2.12%	3.72%	2.17%

The Bermuda yield increased, this is about as high as it will go as we are now constrained by the pending Maturities to keep more of the fund in liquid bonds. Going forward we have exited from the equity holdings and are now allocating more of the portfolio to short-term safe liquid investments to protect the accumulated income to date. This approach will help us minimize the risk that EP levels will decline in the future.

Our US performance declined as we allocated more of our resources to short term secure investments in anticipation of re-positioning the portfolio for changes to the Investment Mandate. As we have not yet been able to get regulatory approval to proceed with our vote, the expectation is that 2019 returns will fall within the same range as 2018. As noted last year, for the Education Payment amounts to either stay where they are or increase in the future we will need to obtain overall results at least 4% higher than we achieved in 2018. As a result our expectation is that 2020 EP levels will be set at a lower level than 2019.

Canadian Plan performance has lagged the US. The differences are less pronounced as both Plans have now exited equity markets to ensure no major shock to our assets. The Canadian Plan has a greater percentage of secure debt holdings in short term deposits which accounts for the spread between US and Canadian returns. Our comments regarding the impact of these returns should be noted – as we have commented on in the Education Payment section.

As highlighted last few years, the biggest drag on our returns is still the very low interest rates offered by the US and Canadian Governments since 2009 on the long-term debt that we have traditionally used as the base for this Plan. The signs that the US, and to some extent Canada, are tightening their monetary policy to allow government bond rates to rise have disappeared with recession talk now taking center stage. Currently long bond rates in the US and Canada are now below 2%, after rising to just below 3% in 2018.

To remind you here is what we advised you in our 2016 Annual Report:

The security of these instruments is part of the overall attractiveness for families that want to secure their children's education, but it has now affected returns so materially that we have determined that the time is right for us to change the investment mandate of the Plan. In effect, the price of US and Cdn government guarantees is too high and we will need to look to other governments to provide us with a reasonable combination of guarantee of return of capital and interest accumulation that will allow our subscribers to receive proper value for their education requirements.

We will be sending details of our proposal for all clients to vote on, however, in summary we will be asking that the Investment Manager be authorized to invest in G-20 government bonds (with some limitation) and other government bonds that meet the rating of "Investment Grade", the quality required by major pension funds and insurance companies to ensure they can meet their obligations.

Since we started this initiative in 2017 the G-20 bond market has gone through some radical adjustments – downgrades of G-20 debt of Turkey, Brazil and Argentina most recently. As well, the US $ has strengthened significantly against most major currencies, reducing the effective yield of many G-20 bonds vs. the US $ (and the Canadian $ as well). These changes have made it more difficult for us to convince the regulators that our proposed change of investment policy will have the significant impact we expect on our returns going forward.

As you may be aware, regulators play a big role in determining how we deal with our subscribers and in recent years have become more active in reviewing fund proposals to make sure that investors understand the risks as well as the rewards of what they are agreeing to.

We continue to adjust our proposal accordingly to make sure that we meet regulator standards. The most important issues for regulators is for us to clearly identify and communicate what amount of principal can be guaranteed given that there is a higher risk of currency fluctuations and sovereign default.

Despite these issues, we continue to believe that expanding the investment mandate of the Canadian and US Plans will result in an over more positive investment return in the long run. There may be more volatility with the yearly results, including possible negative returns but in the long run the average return measured in the currency of the Plan should be higher than if we maintain the status quo. We ask that you be patient as we work towards this end goal, recognizing that we need your vote to pursue this objective.

Customer Service & Online Access

Our system is working very well with only one major challenge still outstanding.

Outgoing wire transfers are sometimes delayed an excessive amount of time and there are a higher number of wire rejections, in some cases for wires that have been successfully sent in prior years.

The remediation process for these problems will come slowly as there are several third parties involved in the process and we do not have direct access to them to clarify the nature of problems and propose solutions.

We are also spending more time communicating with clients to make sure they are aware of the reason for delays -if we can change the expectations of wire transfer beneficiaries, we have a better chance of getting the system improved to provide more timely delivery of funds.

Reporting to Subscribers & Beneficiaries

The final issue I would like to comment on is the timing of providing transparent documents to you the subscribers, in the form of audited financial statements, annual statements and the annual report that you are now reading.

We have improved the timing of delivery of documents by a few months over last year, however our objective is still to provide all annual reports to clients by within 6 months of the year end of the Plans (September 30). We also believe we can deliver reports even faster than this, however we are being realistic regarding the timelines given our experience of the last few years.

We appreciate your patience and hope that you recognize that our delivery process has taken the first step to improvement and achieving our goals this year.

Bermuda Plan Windup

The Bermuda Plan is expected to complete its Maturity obligations by 2024 and is reducing in size dramatically as each year goes by. We took over this Plan in 2007 with the expectation that the administration fees would grow as income would offset the Maturity payouts, at least until 2020.

However, our projections indicate that the administration fee for Bermuda Plan will be approximately $55,000 Cdn in 2019 and less than $40,000 in 2020, with the volume of work continuing to be at or at a higher level than earlier years. As a result, OEF has been subsidizing the administration costs for the last few years, despite introducing a transaction fee of $25 to help offset the shortfall.

OEF has been accumulating reserves to cover administration costs for the years after all principal has been disbursed, however, to ensure the continued administration during the next 5 years before full dispersion we will need to adjust the administration fee assessment and will ask the remaining subscribers for a mandate to do so. Without proper funding the level of customer service and investment in systems to ensure transparent administration will be at risk.

We talked last year about obtaining a subscriber vote to change the administration fee model for 2020 in 2019. We have backed away from this option for now as the number of subscribers is reducing significantly year over year and we have received legal opinions that executing such a vote at this time might not be prudent.

As a result, we are advising Bermuda Subscribers and Beneficiaries that the processing fee for Maturity and Education Payment transactions will increase to $50 per transaction in 2020 from the existing $25. This fee increase will only partially offset the reduction in Administration Fees anticipated for 2019 and 2020, but will give us some time to consider other funding options for the windup of the Bermuda Plan, expected by 2027.

On behalf of our staff, agents around the world representing our Plan and our Board of Directors we appreciate the trust you have placed in us. We hope the information in this report is well received and we look forward to helping you realize your children's dreams for a better future though college, technical school or university education anywhere in the world.

Tom F. O'Shaughnessy, C.A.

President and Founder
Students Trust International Plan

President
O'Shaughnessy Education Foundation Limited

Wire Transfer Instructions EFG Wealth Management Trust Account For Students Trust International Plans

Canadian $ Plan	
Beneficiary Account Number	6732261800
Beneficiary Account Name	EFG Wealth Management For Canadian Plan
Suite 3208, 45 Market Street, P.O. Box 10360, Camana Bay KY1-1003, Cayman Islands	
Remittance Information	Enter Agreement #, Name
Beneficiary Bank	EFG Bank AG, Cayman Branch, George Town (Cayman)
SWIFT/BIC	EFGBKYKY
Correspondent Bank	
Correspondent Bank	Royal Bank Of Canada, Toronto (Canada)
SWIFT/BIC	ROYCCAT2

US $ Plan	
Beneficiary Account Number	6732271210
Beneficiary Account Name	EFG Wealth Management For US Plan
Suite 3208, 45 Market Street, P.O. Box 10360, Camana Bay KY1-1003, Cayman Islands	
Remittance Information	Enter Agreement #, Name
Beneficiary Bank	EFG Bank AG, Cayman Branch, George Town (Cayman)
SWIFT/BIC	EFGBKYKY

Bermuda Plan	
Beneficiary Account Number	6728531807
Beneficiary Account Name	EFG Wealth Management For STI Plan Bermuda
Suite 3208, 45 Market Street, P.O. Box 10360, Camana Bay KY1-1003, Cayman Islands	
Remittance Information	Enter Agreement #, Name
Beneficiary Bank	EFG Bank AG, Cayman Branch, George Town (Cayman)
SWIFT/BIC	EFGBKYKY
Correspondent Bank	
Correspondent Bank	Royal Bank Of Canada, Toronto (Canada)
SWIFT/BIC	ROYCCAT2