STUDENTS TRUST INTERNATIONAL
- ANNUAL REPORT 2019 -

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. Added to this list is the impact of Covid-19 on financial markets, school programs and online classes, not to mention the challenge of document procurement.

Education Payment Levels

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

PLEASE NOTE: 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.

The recovery of the Bermuda Plan payments is extremely positive - we have been able to raise the EP level again – the 5th time in the last 6 years. We have recalibrated our estimates of older units applying for EPs and, along with a higher investment return, we have been able to increase the 2020 EP amount to $300 per unit, a level we can now claim as the highest for International Education Funds.

As anticipated last year, we were unable to maintain the US$ Plan EP levels and without any adjustment to investment policy, we expect the US Plan to follow the direction of Canadian $ Plan payments downward.

The Canadian Plan decline to $150 was not what we hoped for and, in consultation with the STI Plan Committee, it was decided that to make sure there was a more gradual decline over time we should move to this level so it could be maintained for at least a few years. As we will discuss in the Investment Returns section, despite some short-term opportunity to take some unrealized gains into income, it is extremely difficult to predict what we can do after that. We are still hoping to have our Investment Mandate vote approved by regulators in time for changes to affect investment returns in 2021.

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

	2017	2018	2019	2020
Bermuda Plan (formerly CST)	$225 Cdn	$250 Cdn	$275 Cdn	$300 Cdn
Canadian $ Plan	$200 Cdn	$200 Cdn	$175 Cdn	$150 Cdn
US $ Plan	$200 US	$200 US	$200 US	$175 US

The prediction for the 2021 EP amounts are the same as last year – the Canadian and US Plan EP amounts will remain steady, the Bermuda Plan looks like we can increase the EP 1 again, by how much depends on Investment Return outcomes.

Also, as we will mention under the impact of Covid – 19, we have received approval to provide for an additional year to be added to all Benefit Periods for all Beneficiaries in all Plans if required.

Investment Returns & Investment Mandate

The trend in investment returns continued to be negative in 2019 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	2019
Bermuda Plan (formerly CST)	3.22%	1.01%	2.23%	4.14%	3.35%
Canadian $ Plan	2.63%	1.50%	1.24%	1.59%	1.75%
US $ Plan	1.87%	2.12%	3.72%	2.17%	1.85%

The Bermuda yield was higher than the other Plans again, however, the reason for the higher return has nothing to do with investments. The return also factors in Donation and Interest forfeited and these factors added approximately 1.5% to the overall return for the Bermuda Plan.

Going forward we have exited from the longer term 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 slightly but was within the same range as 2018 as there were no changes in holding to a large extent.

Canadian Plan performance has historically lagged the US, however the two are converging as the holdings equalize in terms of the percentage of secure debt holdings. Like the US Plan, a change in investment mandate is required to generate a better long-term yield result.

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.

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.

Something new now has been added to the mix, the financial markets impact of Covid-19 on G-20 economies and central bank response to the market impact. The shock to the economies of the world was met with a massive central bank and government intervention in the markets, driving already low sovereign debt rates to levels rarely seen below.

Our first concern was whether markets for anything but US Treasury Bills would freeze up, giving us a serious liquidity problem for meeting our ongoing Maturity and EP payouts. We had some cash balances, but the cash outflows are rising for all Plans and if we could not liquidate some of our short-term investments it might cause us to have to delay our outgoing wires. As it turned out, central banks for Canada and the US stepped in to make sure the markets were, and still are liquid, so that risk has receded.

Our more pressing concern is that it is now very clear that the sovereign debt market is not returning to reasonable investment coupon yields anytime in the foreseeable future. Our need to change the investment mandate has become even more pressing, and we will redouble our efforts to bring regulators on side to accept changes to improve the Plan return outcome possibilities.

What can we do now to help with our challenge?
First, equity market volatility can provide us with an ability to expose small amounts of accumulated interest, as is allowed under the mandate, to Mutual and Exchange Traded Funds (ETFs) that will provide return on volatility. We plan to do this for the Bermuda Plan now, given its broader investment mandate, and based upon results, determine if we expand to the other two funds.

Second, due to the extremely low interest rate environment, we can realize a small portion of the unrealized gain in longer-term debt that will give us a cushion while we try to pivot to a new investment mandate. This strategy will be used for the Canadian and US Plans as needed to ensure a basic yield level and liquidity for 2020 and 2021.

We also want to advise you that we have just received approval from the British Virgin Islands Financial Services Commission to act as an Investment Manager for the STI Plans, specific to sovereign issued or insured debt and our first step will be to take a role in the Bermuda Plan Investment Management activity.

A Notice to Subscribers for Bermuda Plan will be issued as soon as we have confirmed signing the Investment Management contract with the Trustee.

Customer Service & Online Access

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

Outgoing wire transfers are now working much more smoothly, however Covid-19 protocols with the Trustee and the Banking service providers processing the wires have meant longer times – more like 28 days than 21 days from the time of EP approval.

We are also trying to manage the requirements of the Trustee and Banking service providers who would prefer we hold and consolidate wire transfer requests until the volume provides them with cost economies of scale. As our volume of Canadian and US $ Plan outgoing wires increases this challenge fades a way, so we view this a short-term challenge that will be solved very soon.

Reporting to Subscribers & Beneficiaries

A continuing 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 not improved the timing of delivery of documents 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 $27,000 in 2020, with the volume of work continuing to be at or at a higher level than earlier years. OEF continues subsidizing the administration costs even after factoring in a transaction fee of $50 to help offset the shortfall.

This transaction fee has been received reasonably well and so we will continue to rely on it in the short-term while we consider other funding options for the windup of the Bermuda Plan, expected by 2027.

COVID 19 Organization Response

As we wrote to you earlier this year, the impact of Covid 19 on our clients, beneficiaries and our business in general has been extensive. For those who may not be aware, below are the steps we have taken:

1. For the People Who Work for Us
As a result of changes to our systems over the last few years all our support workers have the capability to work from home and all are currently doing so. We have contacted all of our service providers to encourage them to do the same with their employees and work staff and at this time it appears all are doing so, with the exception of our IT service providers who require a skeleton staff to monitor processing capability on-site.

2. For the Beneficiaries Affected by College and University Closings

a) Bermuda Plan | As a result of the current situation the STI Committee and the Trustee have agreed to extend the Normal Time Period (Benefit Period) for all Active and Matured Agreements where the period expires in 2020 or later by one year. This change will automatically be applied to all eligible Agreements and reflected in system records.

b) Canadian & US Plans | As a result of the current situation the STI Committee has declared that all applications for extension of Education Payments beyond the Beneficiary's 26th birthday will automatically be approved for a period of one year. This applies to Agreements where the Benefit Period is 2020 or later.

3. Subscriber Principal Investments
We will still be proceeding with our plans and asking the Bermuda Monetary Authority to approve our Subscriber Vote package and will send it to our Subscribers as soon as it is approved.

4. Suspension of Withdrawals (also known as Terminations)
The Foundation will not enforce the Termination provision of the agreement that allows us to unilaterally terminate and agreement. We will give clients latitude if required to complete their deposit programme.

5. Other Important Information
In normal operating times Education Payments are normally delivered within 21 days of approval by the Foundation. As a result of the challenges that working from home creates, the compliance and approval process for Education Payments is taking longer and Subscribers and Beneficiaries can expect wires to be received within 30 days of approval by the Foundation.

Change In Trustee

Effective January 1, 2020, EFG Fund Services, a division of EFG Wealth Solutions (Jersey) Limited was appointed Trustee of the Plan, replacing EFG Wealth Management (Cayman) Limited.

This change does not have any impact on the operations of the Plan, or the Trustee Fees charged to the Plan.

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