General Audit Chamber
Algemene Rekenkamer

COMPLIANCE AUDIT:

APS' 2023 FINANCIAL STATEMENT

November 2024

November, 2024
General Audit Chamber, Juancho Yrausquin Bldv 10, Philipsburg, Sint Maarten

PREFACE

This report presents the audit results of the 2023 Financial Statements of the General Pension Fund Sint Maarten (APS) conducted by the General Audit Chamber.

The APS coverage ratio increased from 98.8% to 109.1% in 2023 compared to 2022. The 2023 Financial Statements close with a positive result of ANG 84.1 million (2022: ANG 44.5 million loss). The improvement was mainly attributable to increased investment returns (ANG 131.6 million). This is a positive development.

With the actuary's approval, APS has raised the actuarial interest rate by 0.25% for the second consecutive year. Specifically, the rate increased from 3.25% to 3.5% in 2022 and from 3.50% to 3.75% in 2023. Typically, a 0.25 percentage point increase enhances the coverage ratio by approximately 4.5 percentage points. This indicates that last year, the coverage ratio improved by about 4.5% again due to the rise in the actuarial interest rate.

We have received the 2021, 2022, and 2023 financial statements from the former Sint Maarten Investment Agency (SMIA), now the Sint Maarten Investment Company (SMIC). Although SMIC is currently costing the participants more than it earns, we hope that with the guidance of—among other things —our recommendations, SMIC will eventually become profitable.

Exceeding the 105% funding ratio in 2023 is positive news for the fund and its members. Since the reforms, pensions have been indexed for the first time, and the premium accrual rate has been increased to 2% instead of 1.75%. While we hope APS can continue this trend, we must be realistic that the fund is highly dependent on performance on international investments. The fund can increase the actuarial interest rate based on policy decisions, affecting the coverage ratio.

The difference between 2022 and 2023 highlights the market's volatility: while one year may show a negative picture, the following year may be much more positive. In our view, stability for both participants and the fund is essential for a healthy future.

CONTENT

SUMMARY

As Article 26 of the National Ordinance General Pension Fund Sint Maarten requires, we audit the APS Financial Statements. Each year, we submit the audited financial statements and findings to the Parliament and the Minister of Finance, as required by Article 18, tenth paragraph of the national ordinance APS.

In our opinion, APS's Financial Statements for 2023 present a true and fair view of the size and composition of its assets as of December 31, 2023, and its results for 2023.

The APS coverage ratio at the end of 2023 is 109.1% (2022: 98.8%). As such, the liabilities are covered. There are also sufficient assets to cover general and investment risks. APS indicates that the actuary, however, recommends that

In line with the underlying principles of the APS and on the advice of the consulting actuary, the actuarial interest rate was increased from 3.5% at the end of 2022 to 3.75% at the end of 2023. This increased the coverage ratio by about 4.5 percentage points.

As for local investments, we note little progress.

In 2023, the Audit Chamber published a critical report on the governance and efficiency of the Sint Maarten Investment Agency (SMIA). The report addressed incurred costs of ANG 1.8 million for advising on three potential projects, despite making no investments. As of 2023, Curaçao Financial Group is managing APS' local investments, impacting the future costs and results of the former SMIA, now known as SMIC. APS submitted the 2021, 2022, and 2023 Financial Statements of SMIC. We received information for 2021 and 2022, in where the directors were discharged from liability for the policies and management conducted.

RECOMMENDATIONS

1. **Improve risk management for local investments**: The information submitted shows that APS has explicitly reviewed local investments. Consideration has also been given to which local investments will not be managed by SMIC. APS is currently undertaking an internal analysis. We recommend completing the analysis and deciding on valuation and whether to dispose of local investment.

2. **Strengthen governance and transparency on SMIC:** There are questions about the legal and governance structure of SMIC, especially the need and value of a subsidiary as an investment vehicle. APS should ensure the governance structure is transparent and clearly explained to participants. The lack of clarity on the tax exemption and the costs associated with the restructuring should be closely monitored.

3. **Investment policy study:** We support the actuary's recommendation to research ways to align the investment policy with the strategic investment policy. The proportion of liquid assets in total invested assets was 9.3% in 2023, significantly higher than the strategically targeted 1%. Since the current interest rate environment does not generate enough return to achieve the required interest rate of 3.75%, it is recommended that this policy be reviewed.

4. **Conduct an ALM study**: Given the volatility of financial markets, high inflation, and rising interest rates, we recommend conducting an ALM (Asset Liability Management) study. This helps to better align the organization's financial position with changing market conditions.

1 OUR AUDIT

1.1 Basis for the audit

Under Article 26 of the National Ordinance on the General Pension Fund of Sint Maarten (hereinafter: Lv APS), we audit the APS. As Article 18(10) of the Lv APS requires, we submit the audited financial statements and our comments to the Parliament and the Minister of Finance each year. This report contains the results of our review of APS' Financial Statements 2023.

1.2 The objectives and audit questions

The objective of this audit is twofold. We inform the Parliament and the Minister of Finance of our opinion on the reliability of the financial statements and legal compliance. We also advise the Parliament, the Minister of Finance, and the APS on possible improvements.

The following audit questions have been formulated:

1. Do the APS's 2023 Financial Statements present a true and fair representation of its financial position as of December 31, 2023, and its results for 2023?
2. Has the APS acted in accordance with the National Ordinance APS in 2023?

1.3 Methodology

Based on our work, we concluded that we could draw on the results of APS' external auditor, who audited the 2023 Financial Statements. We also collected audit evidence. On this basis, we formed our opinion on the 2023 Financial Statements.

1.4 Reading Guide

Topics covered in this report are as follows:

Chapter 2: results on the financial position and performance of the APS, including an analysis of local investments;

Chapter 3: findings from our review of APS' legal and regulatory compliance;

Chapter 4: Reflecting since pension reform;

Chapter 5: Our epilogue and APS’ response.

2 THE FINANCIAL STATEMENTS

This chapter presents our findings and opinion on the question, ‘Do APS's 2023 Financial Statements present a true and fair representation of its financial position and results as of December 31, 2023?’

2.1 Receivables

At the end of 2023, APS' receivable from the government is ANG XXX million (end 2022: ANG 15.1million). Of this amount, ANG 8.0 million relates to 2022 and earlier; in mid-May 2024, this receivable remained at ANG 7.7 million.[1] In the audit opinion on the 2023 Financial Statements, APS' outstanding receivable from the government is no longer mentioned as a qualification. According to the auditor, the reasons for this are the government's recent payment behavior and the applicable materiality.

According to APS, a provision has not been made as there is no doubt about collectability.[2] The auditor issued an unqualified audit opinion.

2.2 Pension Provision

APS' actuary issued an actuarial opinion on June 19, 2024, for the 2023 financial year. His opinion on APS’ pension provision (hereafter: VPV) states:[3]

’The provision for pension liabilities, following the prescribed computational rules and underlying principles, taken as a whole, has been determined to be sufficient.’

At the end of 2023, the APS' VPV is ANG 820.6 million (2022: ANG 829.4 million). Total pension assets in 2023 are ANG 895.1 million (2022: ANG 819.7 million).[4] The coverage ratio can be subsequently calculated by using the following formula:

$$\frac{\textbf{Total Pension Assets}\ (\textbf{NA}\boldsymbol{f}\ \textbf{895.058.000}^{5})}{\textbf{VPV}\ (\textbf{NA}\boldsymbol{f}\ \textbf{820.599.000})} * 100 = \textbf{Coverage ratio}\ (\textbf{109,1\%})$$

2.2.1 Accuracy and Comprehensiveness of Participant Records

The auditor issued an unqualified opinion on the 2023 statement of basic data. According to the auditor, the premium analysis showed that no participant had an “active” status without collecting the premium. (2022: 1 case).

APS' external auditor has certified[6] that the statement of basic data used by the certifying actuary as of December 31, 2023, was prepared in accordance with the applicable criteria in all material aspects.[7]

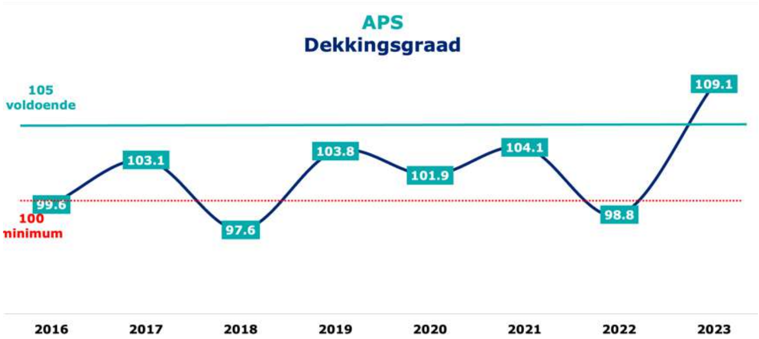
2.3 Coverage Ratio

APS strives to achieve a coverage ratio of 105%.[8]

At the end of 2023, APS’ coverage ratio was 109,1% (2022: 98,8%). Figure 1 depicts the progression of the coverage ratio.

As of the end of 2023, the coverage ratio increased by 10.3 percentage points compared to the previous year.

Figure 1: Progression of APS’ coverage ratio



Reasons include the performance of international investments and inflation, which had a positive impact of 4.9% on the coverage ratio. The increase in the actuarial interest rate to 3.75% (2021: 3.5%) increased the coverage ratio by 4.5%.[9]

[1] Information submitted by the Management Board of APS dated September 13, 2024.
[2] Management’s response via email dated September 4, 2023.
[3] Certification Report Willis Towers Watson Financial Year 2023, Actuarial Statement, dated June 19, 2024, opinion on page 12.
[4] Certification Report Willis Towers Watson Financial Year 2023, Key Figures, page 9.
[5] In calculating the VPV, we used the figures from the actuary’s certification report.
[6] Date of birth participant, former participant, pensioner, partner of pensioner, latent orphan; gender, date marriage/divorce, date of death, start date of participation, pension date, income data (among which salary; part-time percentage, disability percentage, income limits).
[7] Grant Thornton Assurance-Rapport from the independent auditor regarding the basic data, dated June 11, 2024.
[8] Page 26 APS 2023 Financial Statements.
[9] Certification Report Willis Towers Watson Financial Year 2023, *Explanatory notes on the financial figures*, page 9.

A coverage ratio of 109.1% indicates that by the end of 2023, the available assets will sufficiently cover the pension liabilities. Moreover, the assets are sufficient to cover general and investment risks. Consequently, at the end of 2023, APS finds itself in a situation where it can index pensions and maintain a pension accrual rate of 2%.[10]

2.3.1 Actuarial Rate

The APS pledges retirement benefits to members. However, how does the APS know the amount needed today to cover all pensions 20, 30, and 40 years from now? According to internal policy, the APS determines the actuarial interest rate.

Example:

Suppose you promise to pay someone ANG 100 in ten years. You can then put ANG 100 in a savings account now. Then, you get interest from the bank every year. As a result, you don't have to put in ANG 100 now but a smaller amount. If the interest rate is 1%, you must only put ANG 90.53 into your account now. In 10 years, you will then have ANG 100. Suppose the interest rate is 2%; you will only need ANG 82.05 now. The higher the interest rate, the less you need to put into your account now.

The actuarial interest rate has increased from 3.5% to 3.75% as of December 31, 2023. An increase in the actuarial interest rate positively affects the coverage ratio. The actuarial interest rate operates on a similar methodology to determine the provision required now. The increase is based on internal policy reviewed by the actuary.

2.4 The Asset Liability Management (ALM) study

An Asset and Liability Management Study (commonly shortened to ALM study) is performed to understand the connection between anticipated investment returns and their related risks. This study can suggest alterations that might benefit the coverage ratio. APS concluded its latest ALM study in February 2021.[11]

According to APS' internal policy, an ALM study should be conducted every three years.[12] The most recent ALM dates from 2021. As such, an ALM study should be carried out in 2024. At the time of writing, an ALM study had not started.

APS's actuary recommends (also in his report on APS' 2022 Financial Statements) an ALM study. He comments that financial markets are characterized by high volatility, high inflation, and rising interest rates.[13] We concur with the actuary's concerns and support his recommendation to conduct an ALM study.

The APS board intends to start the ALM process in the fourth quarter of 2024.[14]

2.5 2023 Results

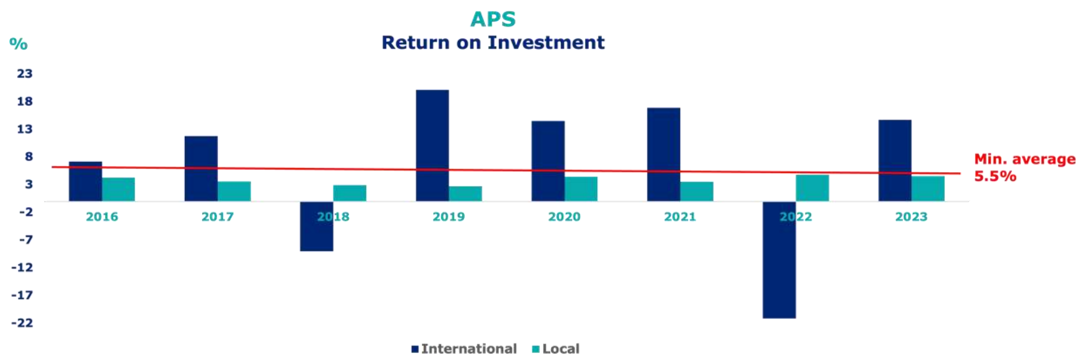
The 2023 Financial Statements close with a profit of ANG 84.1 million (2022: ANG 44.5 million loss).[15] The improvement was mainly due to improved investment returns (ANG 131.6 million).

2.6 Result on Investments

The average return on all investments for 2023 was positive.[16] Compared to the previous year, the return on the international portfolio is higher[17], and that of the domestic investments is lower.[18] The overall average positive return is 8.70% (2022: -6.13%), above the investment target of 5.5%. The positive return on investments and inflation amounting to ANG 41.7 million[19] led to a 4.9%[20] increase in the coverage ratio. Figure 2 presents the return on investments since 2016.

[10] 2023 APS' Financial Statements, page 23.
[11] Asset & Liability Management Study. Ortec Finance dated March 3, 2021.
[12] APS's policy is to conduct an ALM study or continuity analysis every three years (source: Actuarial and Business Memorandum, dated September 28, 2016).
[13] Certification Report Willis Towers Watson Financial Year 2023, Summary, remarks and recommendations, page 6.
[14] APS letter dated August 27, 2024.
[15] Paragraph 3.2 of APS' 2023 Financial Statements.
[16] Financial Statements 2023, *Financial highlights*, page 17.
[17] 2023 International Return on Investment + 14,74% and in 2022 -21,13%.
[18] Local Return on Investment in 2023 4,57% and in 2022 4,84%.
[19] Actuarial Advisory Report, Year 2023 Willis Towers Watson, Actuarial analysis of earnings, page 15
[20] Actuarial Advisory Report, Year 2023 Willis Towers Watson, Financial position, page 9.

Figure 2: Returns on the local and international investments



2.7 Local investments

Since we reported on the 2019 APS Financial Statements, we have been providing an overview of the state of development of local investments. In our report on the 2023 Financial Statements, we have observed no significant changes. These include the investment properties of Mary's Fancy, the Parking Lot next to the government building, the Professional Office Park, and Oryx Hills (Welgelegen).

As for Oryx, management adds the following comments[21]:

"In the last quarter of 2023 and 2024, new Lease-to-Owns (LtO) and/or leases were added to Oryx, but at the same time, some LtOs exited due to default. For 2024, it can be reported that nine new buyers/mortgage holders have been secured."

2.8 Local Financing

APS has financed projects in addition to developing land. As in our previous report, we highlight the two loans with lagging performance: the Rainforest Adventures loan (RFA) and the St. Maarten Investment Agency Loan (SMIA).

2.8.1 Rainforest Adventures St. Maarten Loan

In May 2016, APS entered into a financing agreement with RFA.[22] In its 2022 Financial Statements, APS indicated that the parties had started discussing financing restructuring.[23] These discussions continued in 2023; from July 2023, RFA started monthly interest payments. The revised loan agreement, prepared by legal counsel and verified by the lenders, was awaiting feedback from RFA in January 2024.[24] Based on the financial statements, whether RFA agreed to the restructuring is unclear.

The Management Board further notes the following:

"During 2024, several rounds of reactions/comments on the financing documents by both lenders and RFA took place, as well as several discussions on the detailed language of the amended documents. The key terms of the restructuring were agreed upon in 2023, but implementing these changes in the various financing documents is complex. This is due to the fact that the restructuring terms relate not only to the Loan Agreement (facility agreement) but also to other agreements, such as various pledges of collateral from RFA's foreign entities (among others). In addition to the above, additional discussions on various commercial points were initiated by RFA in 2024. The final input from RFA was received, and the lenders' meeting occurred in August 2024. The new target date for the financial close is September 30, 2024.

In the interim, RFA will continue to pay the agreed interest rate each month. Repayment of the loan principal will commence from the time the restructuring is signed."

2.8.2 Results of the St. Maarten Investment Agency (SMIA/SMIC)

On 28 April 2020, the SXM Investment Agency (SMIA) was incorporated as a limited liability company (BV) and a subsidiary of APS. SMIA received a loan from APS. In 2021, after analysis, APS concluded that costs incurred during the preparation phase of SMIA's establishment (2018-28 April 2020) should not be included in the loan. These costs were removed from the SMIA loan and recorded as costs to

[21] Response of the Management Board of APS to the Memorandum of Findings, dated September 13, 2024.
[22] Senior Secured Term Loan Facility: 14 years (later extended by eight months), an interest rate of the LIBOR rate applicable in 2016, plus a margin of 5.25%, with a fixed minimum interest rate of 6%, Financial Statements 2020, page 52.
[23] APS 2022 Financial Statements, page 15.
[24] APS 2023 Financial Statements, page 49.

the fund. Due to the worsened economic situation in 2020-2021 (COVID-19 pandemic), SMIA did not generate the expected revenue, which required the fund to finance additional operating costs for SMIA.[25]

APS considers it unlikely that SMIA will repay the initial investment. The loan to SMIA was considered fully impaired at the end of December 2021. In 2022, the APS board decided to restructure the entire investment in SMIA since its inception. The financial statements report that in 2023, discussions continued and would be completed by the end of the second quarter of 2024.

APS management noted that the discussions have been completed and that the agreements between APS and the new entity SMIC, including the articles of association, have been adopted. SMIC is now operating as envisioned in the restructuring plans.[26]

According to the APS 2023 Financial Statements, due to the losses incurred by SMIA in previous periods, the entity has negative equity, and the investment in subsidiary SMIC has been recognized as a financial asset with a zero value.

2.8.3 Governance of the St. Maarten Investment Agency (SMIA/SMIC)

We issued a report on the governance of SMIA / SMIC in 2023. In this section, we provide an update since then.

According to APS' 2023 Financial Statements, significant organizational and operational changes have been made. Namely, SMIA has become SMIC. On May 1, 2023, SMIA's Supervisory Board was dissolved, simultaneously with the appointment of Curaçao Financial Group (CFG) as SMIC's new management. According to the Fund, this concerns the professionalization of the organization. SMIC has become the fiduciary manager of APS' local investment portfolio since May 1, 2023. SMIC's objective is to seek, select, execute, manage, and monitor APS' local investments in Sint Maarten and Curaçao.[27]

On July 4th, 2024, we received an excerpt from the Chamber of Commerce, which indicated that, at that time, it still mentioned SMIA and not SMIC. During our audit, we received the amended Articles of Incorporation, dated July 11th, 2024, indicating that the SMIA was changed in SMIC.

Upon reviewing the documents related to the Sint Maarten Investment Company (SMIC), we identified several key issues regarding its governance, legal structure, operational transparency, and the necessity of setting up a subsidiary in the first place. In 2023, we reported separately on these issues and informed Parliament accordingly.

The decision to transform SMIC into a specialized investment management entity presents several areas of concern regarding the adequacy of oversight and accountability mechanisms. Namely, APS's local investment portfolio is outsourced to SMIC in terms of management, yet APS remains the owner of the assets. According to APS, management has been placed at arm's length as a risk mitigation measure. APS also indicates that this arrangement secures expertise and focuses on achieving the return target for the local portfolio.[28] At the time of our audit, APS is pursuing an application for tax exemption, which has been submitted to the Minister of Finance. The outcome of the application may affect the financial and compliance aspects of both APS and SMIC.

APS indicates that any transfer will be subject to real estate investment transfer tax. In addition, SMIC is still subject to income tax so long as the exemption is not received. We refer to Chapter 5 of this report, which contains APS's epilogue.

APS decided to change the structure before completing the necessary due diligence. Given the history surrounding SMIB, SMIA, and now SMIC, with APS searching for the right investment vehicle in each case, we believe APS should have waited for the Minister's decision before deciding on the legal structure. So far, the outcomes have mainly been costs.

SMIA's 2020 to 2023 Financial Statements have now been prepared and submitted. For 2020 to 2023, the auditor has issued an unqualified opinion, and we have received the resolutions of the shareholder (APS) proving that discharge has been granted for 2021, 2022, and 2023. The directors have thus been relieved of liability for the policies and management carried out in those years. We have not

[25] APS 2023 Financial Statements, page 49.
[26] Response of the Management Board of APS to the Memorandum of Findings, dated September 13, 2024.
[27] Idem.
[28] Reaction of the APS Board dated October 4, 2024, with reference: 2024-10/APS-007.

received the shareholder's resolution regarding discharge for 2020. However, we suspect this is an omission in submitting the information to the Audit Chamber.

We believe the participant is entitled to further clarification on how the governance structure contributes to efficiency and transparency. Considering SMIC's activities compared to APS's objectives and responsibilities, we are not convinced of the added value of a wholly owned subsidiary whose shares can only be owned by APS. The pending application regarding tax exemption remains a material risk that could affect SMIC's financial results and strategic choices.

2.9 Opinion on the APS 2023 Financial Statements

Based on our audit, we believe that APS's 2023 Financial Statements present a true and fair view of the size and composition of its assets as of December 31, 2023, and its 2023 result.

3. LEGAL COMPLIANCE

In this chapter, we answer the following audit question: 'Did the APS act in accordance with the National Ordinance APS in 2023?'

3.1. Legislation

In 2023, the APS complied with all legal provisions of the Lvo APS except for the first paragraph of Article 5, which states that the board consists of a chairman and four members; at the end of 2023, there was one vacant position. Effective July 1, 2024, the vacancy has been filled.[29]

3.2. Opinion on Compliance

Based on the above, we are of the opinion that the APS complied with the regulatory provisions in 2023, except for the point mentioned above.

[29] National Decree of August 7, 2024, No. LB-24/621.

4. REFLECTING SINCE PENSION REFORM

In this chapter, we analyze the past years, starting from 2020, when the pension reforms were implemented. The reforms' purpose was to achieve a structurally sound pension fund. What is the situation in 2024 for both the pension fund and the participant's pension?

4.1. The most important changes in the 2020 reform

First, we present the main differences from the old system, shown in Figure 3.

Figure 3: important changes in the pension scheme since reform

	Before pension reform	After pension reform	Result
Pension age	62	65	Work longer
System	Final Salary	Average salary (in final salary) accrued rights preserved and increased by 10% due to delayed retirement age, average salary applies from start in fund	Pension calculated on average salary, not on last earned salary. Consequence: lower pension than with final salary scheme
Accrual percentage	2%	2% (with reduction to 1.75% if the scheme becomes too expensive)	Possibility of lower accrual
Indexation	Determined and paid for by government/ employer	Determined by APS depending on coverage ratio APS; paid by APS	Indexation is not guaranteed in either situation; purchasing power may deteriorate
Premium government/ employer	Employers pay the difference up to 25% of the salary	Employers pays the difference up to 18% of the salary	Government pays less pension contributions
Premium employee	8% of the salary minus the franchise*	8% of the salary minus the franchise	Unchanged

**Franchise: Employees contribute 8% themselves, but that amount is not calculated on the entire salary. Part of the salary, called the 'franchise' (a threshold amount), is omitted.*

The scheme's cost will be reduced mainly by raising the retirement age and eliminating the final salary basis for the pension. These adjustments will have a positive effect on the coverage ratio and a negative impact on the member.

4.2. Indexation of Pension

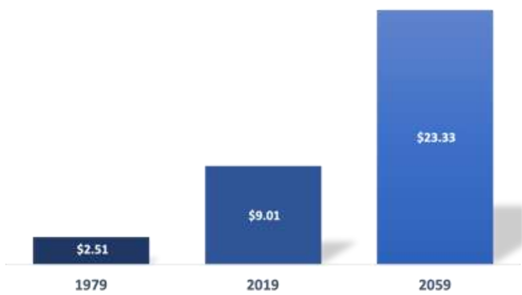
Pension indexation means adjusting benefits in line with inflation to maintain pensioners' purchasing power. This ensures that pensions rise with inflation, allowing pensioners to maintain their living standards. The inflation rate in 2023 was 2.1%. In line with the National Ordinance on Pension Reform for Civil Servants, the fund must index pensions starting from a coverage ratio of 105%. The APS board has decided to index pensions by 2.1% effective January 1, 2024.

To demonstrate the importance of indexation, we use a hypothetical example.

In 1979 (40 years ago), a ticket cost an average of $2.51,[31], or ANG 4.57. Forty years later (2019), the price increased by almost 260% to $9.01 (ANG 16.22).

With equal inflation, a movie ticket in 2059 will cost about $23.33 (ANG 42.00). Figure 4 shows the compounding in price since 1979.

Figure 4: the cost of a movie ticket



[30] https://www.imf.org/en/News/Articles/2022/05/20/mcs052022-kingdom-of-the-netherlands-sint-maarten-staff-concluding-statement-2022-article-iv-mission
[31] Source: www.boxofficemojo.com.

4.3. The impact of a non-maximum pension accrual

Before 2020, the pension accrual rate was 2%. Since the reforms (until 2023), the accrual rate has been reduced to 1.75% as the 18% premium did not fully cover the cost of pension accrual. With a 2% accrual rate, members accrue 2% of their annual salary (minus the pension deductible) every year.

From 2023, the pension accrual rate has been restored to its pre-reform level of 2% per year. This recovery reflects improved economic conditions and the pension fund's strengthened financial position, allowing more generous accrual levels to be restored for beneficiaries.

The fluctuations in accrual rates between 2020 and 2022 impact employees' pension benefits. However, restoring the 2% accrual rate in 2023 helps increase future pension benefits. Continuous monitoring and periodic reviews are recommended to balance fund sustainability and member welfare.

5. OUR EPILOGUE AND APS' RESPONSE

5.1 Our Epilogue

The APS board was allowed to respond to the draft final report as part of the review process. We received a response on October 4. We are grateful to APS for its response. Based on their comments, we decided to change the report. In section 2.8.3, we emphasize that the structure of local investments and the governance of SMIC are not based on anticipated tax advantages.

In other respects, we have included the APS board's entire response in the following paragraph. We thank APS for its cooperation during this audit.

5.2 Reaction APS

APS ALGEMEEN PENSIOENFONDS SINT MAARTEN

The General Audit Chamber
Attn.: Mr. A. Gumbs – Chair
Juancho Yrausquin Blvd 10, units 4 & 5
Philipsburg,
Sint Maarten

Cul-de-Sac, October 4, 2024

Subject:	Response to Draft Final Report September 24, 2024, version for Board review - audit financial statements 2023 APS
Ref:	2024-10/APS-007
Your number:	AR240924/056

Dear Mr. Gumbs,

The Board of the General Pension Fund Sint Maarten (hereinafter: APS) has received in good order the Draft Final Report for Board review with your accompanying letter dated September 24, 2024, regarding the audit of the 2023 financial statements of APS (hereinafter: Draft Final Report).

We agree with the contents of the Draft Final Report. However, we draw your attention to the following. Your report assumes that expected tax advantages drive the structure of SMIC's local investments and governance. However, this is not the case, and we would question on what basis you assume this. The management of the local investments has been placed at arm's length as a risk mitigation measure. In addition, this setup ensures specific expertise and focuses on achieving the return target on the local portfolio. SMIC (formerly SMIA) is deliberately retained as a vehicle for this with as simple a governance structure as possible. SMIC is now a recognizable entity in St. Maarten. Capital-seeking parties can contact SMIC directly and deal with them quickly and efficiently, after which the potential investment and decision-making process can be started. The APS board always makes decisions on new investments based on the advice of management and the investment committee. SMIC reports its activities to the APS board monthly.

As for transparency, APS followed a thorough and careful process with support from external legal experts. SMIC's bylaws fully describe governance, and the agreements between APS, SMIC, and CFG have been fully prepared, adopted, and signed.

With the signing of the new bylaws and agreements in July 2024, the management of a portion of the local investment portfolio was transferred to SMIC. Some investments remain under management at APS for the time being. For some of these investments under management at APS, preliminary considerations have been formulated for possible future development or disposal.

The tax aspects were important in deciding whether to keep the investments on the APS balance sheet or transfer them to SMIC. This is separate from the management of the investments. Any transfer involves transfer tax for real estate investments. In addition, SMIC is still subject to profit tax as long as this exemption has not yet been received. Taxes payable are charged to the investment return, which is detrimental to APS participants. APS itself is exempt from this profit tax.

The board is convinced that by maintaining SMIA (now SMIC), excess cash can be invested more quickly and that the entire investment process and the management of the actual investments are carried out professionally. Specific knowledge and expertise are now available, and continuity is well assured. In addition, SMIC is now a recognizable entity in St. Maarten, and the opportunities in Curaçao, designated as a local market, can also be better utilized. To illustrate, in 2024, the board approved three new investment recommendations with a size of almost ANG 40 million, and at least three new investments are expected in 2025.

We trust this has provided sufficient information and look forward to your response and the revised final report.

Kind Regards,

Nathalie Tackling	Shaira Bommel
Chair APS Board	Member APS Board

General Audit Chamber

Algemene Rekenkamer