

Annual Report
Fiscal Years 2004 and 2005
Trust Fund for the People of the Republic of the Marshall Islands

The Compact of Free Association between the Government of the United States of America and the Government of the Republic of the Marshall Islands (RMI) provides for the establishment of a trust fund. After fiscal year 2023, the proceeds of the trust fund will provide an ongoing source of revenue for assistance in the sectors receiving annual grant assistance through fiscal year 2023.

Pursuant to the provisions of the Compact of Free Association and its subsidiary *Agreement Between the Government of the United States of America and the Government of the Republic of the Marshall Islands Implementing Section 216 and Section 217 of the Compact, as Amended, regarding a Trust Fund* (Trust Fund Agreement), the *Trust Fund for the People of the Republic of the Marshall Islands* (Fund) was incorporated in Washington, D.C. on April 28, 2004. The Compact of Free Association, as amended, including the Trust Fund Agreement, came into force and effect on May 1, 2004, through the exchange of diplomatic notes between the two governments.

Because the initial start-up activities of the Fund straddled fiscal years, this initial Annual Report will briefly describe all activities through September 30, 2005. Future Annual Reports, starting with the Annual Report for fiscal year 2006, will have a more limited focus on activity during the particular fiscal year.

Organization

The Fund's governing board, the Trust Fund Committee (TFC), was initially composed of three members from the United States and two members from the RMI.¹ As agreed by the two countries, the chairperson of the Fund would be selected from among the United States members of the Committee. Mr. David B. Cohen was selected as chairperson of the Trust Fund Committee. Mr. Gerald M. Zackios was selected as Vice-Chairman.

At its first meeting, the TFC selected Wachovia Bank to hold its assets during the process for selecting and concluding contractual agreements with an Investment Adviser and Trustee, because it paid the highest rate of return with the most liquidity of the banks that responded to the request for information issued on behalf of the Fund.² The United States Department of the Interior provided an initial \$25,000 in technical assistance to the RMI Government, on behalf of the TFC to aid the Fund in the search for an Investment Adviser and Trustee. With later installments, this technical assistance was augmented, ultimately reaching \$53,400.

¹ In April, 2005, Taiwan became a subsequent contributor to the Fund, committing to contribute \$40,000,000 to the A account, over time by 2023. Pursuant to the Trust Fund Agreement, the TFC was expanded to seven members, with Taiwan and the United States each gaining one voting member.

² Funds were kept in a money market account at Wachovia Bank, and subsequently at First Hawaiian Bank until November, 2005.

The process of incorporating the Fund and then putting proper and transparent procedures in place was long and arduous. Before incorporation, the United States Department of the Interior issued requests for information on Investment Advisers and Trustees, which requests also sought interest rate information for the initial investment of Fund assets. Once incorporated, the TFC unanimously decided that a full, fair and transparent selection process was in order for the positions of Investment Adviser and Trustee. These lengthy processes included selecting a law firm to prepare a comprehensive request for proposals (RFPs), issuing the RFPs, reviewing the numerous and voluminous responses that were submitted, selecting the top candidates for interviews, conducting the interviews, obtaining additional responses to important follow-up questions, selecting the Investment Adviser and Trustee, executing contracts to engage the Investment Adviser and Trustee, working with the Investment Adviser to develop an appropriate investment policy and asset allocation strategy, and supervising the Investment Adviser as it developed criteria and searched for money managers on behalf of the Fund.

After requests for proposals were issued by DLA Piper Rudnick Gray Cary US LLP of Washington, D.C. and the responses were analyzed by the TFC with expert guidance from Public Resources Advisory Group of New York, the top four candidates for Investment Adviser were interviewed. The firm of Goldman Sachs was selected as the Fund's Investment Adviser. First Hawaiian Bank was selected as the Fund's Trustee.

During the accrual period through fiscal year 2023, the Fund will grow through contributions and returns on investments. The Investment Adviser presented the TFC with alternative strategies for the Fund's investment policy and asset allocation. The TFC adopted an aggressive strategy for the early years of this accrual period. As the Fund approaches fiscal year 2024, the date when income begins to be paid out to the Government of the RMI for the people of the RMI, it is anticipated that the Fund will shift to an increasingly conservative investment strategy.

Contributions and Earnings

The following contributions have been made to the Fund's A Account:

Date	Amount	Contributor
June 1, 2004	\$25,000,000	RMI
June 3, 2004	7,000,000	United States
October 5, 2004	7,588,500	United States
February 17, 2005	1,500,000	RMI
May 19, 2005	1,000,000	RMI
May 19, 2005	1,750,000	Taiwan ³⁴

³³ Taiwan became a subsequent contributor to the Fund.

⁴ The Trust Fund's fiscal year begins on October 1. The following fiscal year 2006 contributions to the Trust Fund's A Account have been made prior to publication of this Annual Report:

October 6, 2005	2,500,000	RMI
October 6, 2005	8,220,800	United States
May 15, 2006	750,000	Taiwan

From June 1, 2004 through September 30, 2005, the Fund's A Account received \$43,838,500 in contributions. With earnings, the principal balance of the A Account grew to \$45,072,097.55, as of September 30, 2005.

Despite certain outstanding issues regarding the relationship between the Trustee and Investment Adviser, most of the assets of the Trust Fund were invested in November, 2005, based on the advice of the Trust Fund's Investment Adviser, Goldman Sachs. Attached please see (1) the Trust Fund's investment policy, and (2) the Trust Fund's asset allocation (contained in a Goldman Sachs' report dated March 22, 2006).

Attachments