

June 2007

**Trust Fund for the People of the Republic of the Marshall Islands**

**Annual Report**

**Fiscal Year 2006**

The Trust Fund made significant progress during the Fiscal Year ended September 30, 2006, and during the succeeding quarter.

**Performance of the Trust Fund in Fiscal Year 2006:**

(Please see the attachment for additional detail.)

Goldman Sachs, the Trust Fund's Investment Adviser, has fully invested the Trust Fund's assets in investments consistent with the applicable Trust Fund Investment Policy Statement.

The market value of total assets of the Trust Fund for the People of the Republic of the Marshall Islands (RMI) grew from \$45,072,098 on October 1, 2005, to \$63,137,158 on September 30, 2006. The following accounted for the change:

<u>Receipts:</u>	<u>11,470,800</u>
RMI Contribution:	2,500,000
United States Contribution:	8,220,800
Taiwan Contribution:	750,000
<u>Investment Activity:</u>	<u>6,752,023</u>
Income earned:	1,790,932
Miscellaneous income:	134,424
Realized gain:	36,061
Unrealized gain:	4,790,606
<u>Disbursements:</u>	<u>157,763</u>
Miscellaneous fees:	25,857
Legal fees:	15,483
Custody fees:	116,369
Other fees and expenses:	54

As shown in the attached report from First Hawaiian Bank, the time-weighted return on total Trust Fund assets was 11.79 percent for Fiscal Year 2006.

**Fees:**

The Trust Fund paid fees in Fiscal Year 2006 that totaled \$157,763. The miscellaneous fees shown were paid to Public Resources Advisory Group for help in evaluating responses to Requests for Proposals (RFPs) for the services of Trustee and Investment Adviser. The Trust Fund paid legal fees to Counsel, DLA Piper; custody fees to the Trustee, First Hawaiian Bank; and incurred no fees for the Investment Adviser. Goldman Sachs has been the Trust Fund's Investment Adviser since August of 2005, but has not charged fees during the start-up and organizing period of the relationship; it does plan to begin charging fees at some point in calendar year 2007. Goldman Sachs has been successful in allocating and tactically weighting the portfolio into index funds, pending its implementation of active management.

As a percent of assets, the Trust Fund expended slightly over 20 basis points, or 0.2 percent on fees. The Trust Fund pays no general administrative fees. <sup>1/</sup>

**Organization:**

Pursuant to the provisions of the Compact of Free Association and its subsidiary Trust Fund Agreement, The Trust Fund for the People of the Republic of the Marshall Islands was incorporated in Washington, D.C., on April 28, 2004. The Trust Fund Agreement came into effect on May 1, 2004. The Trust Fund Agreement established the organization and structure of the Trust Fund, including a Joint Trust Fund Committee (TFC), which exercises all the powers of the Trust Fund.

The Trust Fund Agreement provides that the TFC is to be composed of four members who represent the United States, two members who represent the RMI, and one member who represents Subsequent Contributor Taiwan.

The Trust Fund Agreement also provides for the appointment by the TFC of a Trustee, an Investment Adviser, Money Managers and an Auditor. The Agreement provides that "The Trustee shall follow the written directions of the Joint Trust Fund Committee with respect to the retention, purchase, sale or encumbrance of trust property and investment and reinvestment of Principal and Income held hereunder . . . ."

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<sup>1</sup> However, the Department of the Interior estimates its contribution--mainly in staff time, but also including equipment use and incidental expenses--at over \$60,000 annually.

**Contributions:**

The following is a history of contributions to the Fund's A Account:

<u>Date</u>	<u>Amount</u>	<u>Contributor</u>
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
October 6, 2005	2,500,000	RMI
October 18, 2005	8,220,800	United States
May 15, 2006	750,000	Taiwan
October 6, 2006	8,949,592	United States
Total Contributions:	64,258,892	

**Management:**

The Trust Fund Agreement gives the Trust Fund juridical personality and the capacity to contract, acquire and dispose of property; institute legal proceedings; and take other action to protect the Fund.

The Trust Fund Agreement also assigns the following specific responsibilities to the TFC:

- select Investment Advisers and negotiate and execute management agreements with such Investment Advisers;
- direct the Trustee to pay the compensation costs of such Investment Advisers;
- enter into such contracts, agreements or other arrangements as the Trust Fund Committee deems appropriate;
- direct the Trustee, in writing, to pay the compensation and costs of brokers, from Fund assets;
- establish and revise from time to time, an investment and distribution policy consistent with this Agreement;
- select and appoint an independent Auditor, who shall submit a report to the TFC; and
- within six months of the end of each Fiscal Year, publish and submit to the Governments of the US and RMI an *Annual Report* on the activities and

management of the Fund, and on the effectiveness of the Fund to accomplish its purpose (“to contribute to the economic advancement and long-term budgetary self-reliance of the Republic of the Marshall Islands by providing any annual source of revenue, after Fiscal Year 2023...”); which annual report may include recommendations regarding improving the effectiveness of the Fund to accomplish that purpose.

**Effectiveness of the Fund to provide an annual source of revenue after FY 2023:**

The Trust Fund’s assets are fully invested in investments consistent with the applicable Trust Fund Investment Policy Statement. The Investment Policy Statement is designed to provide an annual source of revenue after FY 2023. As shown in the attached report from First Hawaiian Bank, the time weighted return on total Trust Fund assets was 11.79 percent for fiscal year 2006. Returns for FY 2006 are on a course to fulfill the purpose of the Fund to provide an annual source of revenue after FY 2023.

**Reports on Trust Fund Investment and Performance:**

The Trust Fund’s Investment Adviser, Goldman Sachs, has been providing quarterly performance reports to the TFC since their engagement in November of 2005. The Trustee, First Hawaiian Bank, also provides monthly and cumulative reports on assets and transactions. Beginning this year, the Trustee also issues regular reports on performance. Reports covering Fiscal Year 2006 appear as attachments to this *Report*.