

April 2008

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

Annual Report

Fiscal Year 2007

This report covers the Fiscal Year that began October 1, 2006, and ended September 30, 2007.

Performance of the Trust Fund's Assets in Fiscal Year (FY) 2007;
(Please see the attached Performance Reviews for additional detail.)

The Trust Fund has invested its assets consistent with the Trust Fund Investment Policy Statement and the approved asset-allocation plan prepared by Goldman Sachs, the Trust Fund's Investment Adviser.

The market value of total assets of the Trust Fund for the People of the Republic of the Marshall Islands (RMI) grew from \$63,137,158 on September 30, 2006 to \$83,939,236 on September 30, 2007. (Note: The balance in the A account was \$85,236 on that date; however, this amount included \$1,750 in assets corresponding to a deposit of that amount from a contribution by Taiwan that should have been placed in the D Account, which is not part of the Trust Fund.)

The following accounted for the change during FY 2007:

<u>Receipts:</u>	<u>9,699,592</u>
United States Contribution:	8,949,592
Taiwan Contribution:	750,000
<u>Investment Activity:</u>	<u>11,273,232</u>
Income earned:	2,169,518
Miscellaneous income:	8,746
Realized gain:	11,038
Unrealized gain:	9,083,930
<u>Administrative Expenses:</u>	<u>169,776</u>
Legal fees, DLA Piper	9,746
Custody fees, First Hawaiian Bank	160,976
Wire fees, First Hawaiian Bank:	54

Fees:

The Trust Fund paid administrative fees in Fiscal Year 2007 that totaled \$169,776. The Trust Fund paid legal fees to its Counsel, DLA Piper; custody fees to the Trustee, First Hawaiian Bank; and paid no fees to the Investment Adviser.

Goldman Sachs has been the Trust Fund's Investment Adviser since August of 2005, but has not requested to be compensated by a management fee during the start-up and organizing period of the relationship. Goldman Sachs has been successful since the inception in allocating the portfolio into index funds. Starting in August of 2007, Goldman Sachs has begun submitting invoices and will continue to charge their agreed upon fee going forward.

The Trust Fund paid no general administrative fees in FY 2007; however, in FY 2008, under its contract with Richard W. Miller as Executive Administrator, it may incur up to \$60,000 in hourly fees.¹

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 the 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"

¹ However, the U.S. 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
May 3, 2007	750,000	Taiwan
Total Contributions through FY 2007:		\$65,008,892
October 9, 2007	9,713,700	
Total Contributions through Calendar Year 2007:		\$74,722,592

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.