

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

Annual Report Fiscal Year 2010

This report covers the Fiscal Year from October 1, 2009, through September 30, 2010.

Trust Fund Assets in Fiscal Year 2010:

The Trust Fund ended FY 2010 with net assets of \$112,794,544.

Net Assets, Oct. 1, 2009:	\$90,451,765
U. S. Government Contribution:	11,132,214
Other Contribution:	2,400,000
<u>Total Contribution Income:</u>	<u>13,532,214</u>
Investment Earnings and Unrealized Gain:	9,582,112
Less investment fees	(651,166)
<u>Net Investment Income:</u>	<u>8,930,946</u>
<u>Total Income:</u>	<u>22,463,160</u>
Less administrative expenses:	(120,381)
<u>Change in Net Assets:</u>	<u>22,342,779</u>
Net Assets, Sept. 30, 2010:	\$112,794,544

Asset Performance and Allocation:

The weighted average return on assets was 9.6 percent for FY 2010. The asset value, performance and allocation by asset class as of Sept. 30, 2010 were as follows:

	<u>Value</u>	<u>Performance</u>	<u>Allocation</u>	<u>Target</u>
Domestic Equity:	\$46.7	10.9%	41.4%	43%
International Equity:	\$35.4	4.5%	31.4%	26%
Fixed Income:	\$24.6	9.8%	21.8%	26%
Real Estate (REITs):	\$5.3	22.1%	4.7%	5%
Cash:	\$0.9	0.5%	0.8%	0%

Mercer proposed to maintain the same target allocations pending a thorough review by the Trust Fund Committee. The assets were transferred from exchange traded iShares to State Street Global Advisors (SSgA) mutual funds on Oct. 1, 2010.

Performance Comparisons by Year:

The table below shows performance since FY 2006 for the RMI and FSM trust funds and an average for foundations, as provided by Mercer.

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
RMI:	11.8%	15.6%	-18.5%	1.3%	9.6%
FSM:	6.8%	17.4%	-16.6%	-2.1%	11.2%
Foundations Universe Median:	16.3%		-14.6%	-1.1%	10.0%

These figures are net of the cost of exchange traded funds (expense ratios) for the RMI and net of manager fees for the FSM, but are not adjusted for the investment adviser's fees, which are shown below. In FY 2006, FSM funds were not invested with money managers until near the end of the fiscal year, accounting for the difference with RMI funds. FY 2005 comparative figures are not available; since both trust funds were invested entirely in certificates of deposit, returns for both were about 3 percent. The Foundations Universe, provided by Mercer, is a median of managers for investments of foundations.

Account History:

RMI Accounts, FY 2004 to FY 2010

	<u>FY04-10</u>	<u>FY04</u>	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>
		\$ millions						
<u>Opening Net Assets:</u>		32.16	45.15	63.10	83.81	76.33	90.45	
<u>Contribution Income:</u>	102.18	32.00	11.84	11.47	9.70	10.46	13.18	13.53
United States	63.38	7.00	7.59	8.22	8.95	9.71	10.78	11.13
Marshall Islands	30.00	25.00	2.50	2.50				
Other Contributor	8.80		1.75	0.75	0.75	0.75	2.40	2.40
<u>Net Investment Income:</u>	10.62	0.16	1.16	6.48	11.01	-17.94	0.94	8.81
Earnings	12.86	0.16	1.21	6.62	11.24	-17.54	1.59	9.58
Fees and Expenses	-2.24		-0.05	-0.14	-0.23	-0.40	-0.65	-0.77
<u>Closing Net Assets:</u>		32.16	45.15	63.10	83.81	76.33	90.45	112.79

Funding of the C Account; Plan Accounting;

Article 16 of the Trust Fund Agreement requires that any Annual Income of the Fund over six percent (6%) shall be deposited in the C Account. The value of each sub-account since FY2006, as calculated by Bookminders, is shown below. State Street will maintain the C Account and sub-accounts for each contributor under its plan accounting service.

RMI A and C Accounts by Contributor, FY 2006 to FY 2010

(\$ thousands)

	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>
<u>Total Assets</u>	63,101	83,814	76,328	90,452	112,794
<u>A Account:</u>	60,371	74,733	67,248	81,371	102,444
United States	23,461	32,740	36,309	49,567	65,008
Marshall Islands	33,896	38,169	27,573	26,372	28,637
Other Contributor	3,013	3,824	3,366	5,432	8,799
<u>C Account:</u>	2,730	9,080	9,080	9,080	10,350
United States	1,061	3,836	3,836	3,836	4,353
Marshall Islands	1,533	4,784	4,784	4,784	5,473
Other Contributor	136	461	461	461	525

Changes in Adviser and Custodian:

Requests for Proposals for Investment Adviser and Trustee were prepared and distributed in September 2009 by the Executive Administrator. Approximately 10 responses were received by the deadline of Nov. 30, including several proposals for both Investment Adviser and Trustee.

The Custodian:

State Street Bank and Trust was chosen from responses during FY 2010, in conjunction with the FSM Trust Fund Committee. State Street will perform all the duties required by the Trust Fund Agreement of a trustee, although the Trust Fund Committee agreed that State Street can be referred to as the "custodian". Their fee is less than 3 basis points, including all services. The previous Custodian, First Hawaiian Bank, charged a fee varying from 15 to 25 basis points. State Street provides plan accounting, which will track the values of each contributor's balance and the C Account. It can also pay invoices based on a repetitive instruction from the Committee, which will save administrative time

The Investment Adviser:

The previous Investment Adviser, Goldman Sachs, originally proposed an active investment strategy, but that strategy was not implemented. The portfolio was kept in passive investments, primarily iShares. Goldman's advisory fee was 45 basis points. In addition there were "expense ratios" on iShares, varying from 10 to 20 basis points.

After the FY 2010 selection process, Mercer Global Investments was hired as investment adviser starting with FY 2011. Mercer sold the Trust Fund's Exchange Traded Funds (iShares), and has invested the proceeds in Mercer investment funds managed by State Street Global Assets, a corporation distinct from State Street Bank and Trust. Mercer's fee of 22 basis points is inclusive of all fees.

Expenses:

The Trust Fund paid investment fees to the investment adviser and custodian in Fiscal Year 2010 totaling \$651,166. Administrative expenses, including the Executive Administrator and Auditor, were \$120,381 during the year.

RMI Trust Fund: Investment and Administrative Expenses, FY 2006 to FY 2010

	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>
	(\$ thousand)				
<u>Investment Expenses:</u>	<u>139.1</u>	<u>224.5</u>	<u>601.2</u>	<u>524.3</u>	<u>651.2</u>
Custodian	139.1	169.5	175.8	165.8	182.6
Investment Advisers		55.0	425.4	358.5	468.6
 <u>Administrative Expenses:</u>	 <u>1.1</u>	 <u>9.8</u>	 <u>71.0</u>	 <u>127.7</u>	 <u>120.4</u>
Executive Administrator			57.2	67.8	80.4
Audit fees		8.1	9.1	52.3	28.5
Legal fees	1.1	1.8	1.8	1.0	2.1
Bookkeeping fees		2.9	2.9	4.2	4.9
Miscellaneous fees				2.4	4.5
 <u>Total Expenses:</u>	 <u>140.2</u>	 <u>234.5</u>	 <u>672.2</u>	 <u>652.0</u>	 <u>771.6</u>

Note: Some year to year fluctuations were due to delayed invoices.

Resolutions Approved by the Trust Fund Committee in Fiscal Year 2010:**RMI 2010-1: November 16, 2009: Asset Allocation:**

-approved a new asset allocation for the A Account, superseding Resolution RMI 2008-7.

RMI 2010-2: December 7, 2009: Approval of PRAG Engagement:

-approved an expenditure of up to \$10,000 to pay Public Resources Advisory Group to review proposals for investment adviser and trustee.

RMI 2010-3: March 11, 2010: Engagement Agreement with ParenteBeard LLC:

-approved agreements with ParenteBeard to audit the accounts for Fiscal Years 2009 and 2010.

RMI 2010-4: March 11, 2010: Engagement Agreement with Evaluation Associates:

-approved a letter of engagement with Evaluation Associates in an amount not to exceed \$10,000 to advise the Trust Fund on selection of an investment adviser and trustee, and on administration of the Trust Fund.

RMI 2010-5: March 26, 2010: RMI Annual Report, FY 2009:

-approved the Annual Report for Fiscal Year 2009 and transmission of the report and audited financial statements to the Governments of the United States, RMI and Taiwan.

RMI 2010-6: June 1, 2010: Engagement of Evaluation Associates:

-approved letter of engagement in an amount not to exceed \$10,000 with Evaluation Associates to prepare a study and advise on administrative structures and evaluate responses to the RFP for Executive Administrator. (This expenditure was not made.)

RMI 2010-7: June 1, 2010: Extension of Executive Administrator Contract:

-approved the extension of the contract with Richard Miller as Executive Administrator to Sept. 30, 2010, pending evaluation of responses to an RFP for this position.

RMI2010-8: June 1, 2010: Engagement of Custodian and Investment Adviser:

-approved State Street Bank and Trust Company as Custodian for the Trust Fund and Mercer Global Investments as Investment Adviser.

RMI 2010-9: September 3, 2010: Election of Jack Ading as Vice Chairman:

-unanimously elected Jack Ading, RMI Minister of Finance, as Vice Chairman of the Trust Fund Committee.

RMI 2010-10: September 3, 2010: Approval of Contract with State Street:

-approved the custodian contract between the Trust Fund and State Street Bank and Trust, dated September 3, 2010.

RMI 2010-11: September 3, 2010: Approval of Agreement with Mercer:

-approved the Investment Management and Consulting Services Agreement with Mercer Global Investments, dated September 3, 2010.

RMI 2010-12: September 3, 2010: Contracting of Executive Administrator:

-approved a position description and authorized the Chairman to post and circulate an announcement of the position; directed the Chairman to transmit responses to the Committee members and present finalists for review at the November 2010 meeting.

-authorized the Chairman to expend up to \$5,000 for costs of posting the announcement and reviewing responses.

-authorized the Chairman to extend the contract with Richard Miller until 10 business days after the position is filled, which was to be not later than December 31, 2010.

Audits:

Audited financial statements for the Trust Fund have been completed for all years through Fiscal Year 2010. The audited financial statement for Fiscal Year 2010, prepared by ParenteBeard LLC, will be transmitted to member governments along with the Annual Report.

Purpose and Organization:**Purpose of the Trust Fund:**

The Trust Fund was incorporated in the District of Columbia on April 24, 2004 pursuant to an *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*.

The purpose of the Fund is to contribute to the economic advancement and long-term budgetary self-reliance of the Republic of the Marshall Islands by providing an annual source of revenue, after Fiscal Year 2023, for assistance in education, health care, the environment, public sector capacity building, private sector development, and public infrastructure described in Section 211 of the Compact, as amended, or other sectors as mutually agreed by the Original Parties, with priorities in education and health care.

Organization:

The Trust Fund Committee is 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 composition of the Trust Fund Committee was as follows on Sept. 30, 2010:

Nikolao Pula, Chairman; Director, Office of Insular Affairs, Office of the Secretary, U. S. Department of the Interior

Jack Ading, Vice Chairman; Minister of Finance, Government of the RMI

James Kulikowski, Deputy Director for Policy, Office of Global Health Affairs, the Office of the Secretary, U.S. Department of Health and Human Services

Robert Muller, RMI

Christopher Marut, Director, Office for Australia, New Zealand and Pacific Island Affairs, U.S. Department of State

Jeanette Lim, Senior Adviser to the Director of Risk Management, Office of the Secretary, U.S. Department of Education

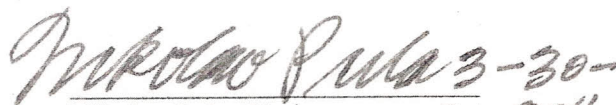

Matthew S. Lee, Ministry of Foreign Affairs, Taiwan.

Service Providers:

As of September 30, 2010, the Trust Fund had contracts or agreements with the following service providers:

- Executive Administrator: Richard W. Miller
- Auditor: ParenteBeard, LLC
- Bookkeeper: Bookminders
- Counsel: DLA Piper, LLP
- Conference Calling and Recording: AT&T Teleconference Service

Approved by the Trust Fund Committee, March 23, 2011

Nikolao Pula, Chairman Date 3-30-2011 Jack Ading, Vice Chairman Date 4/6/11

Jmd