



# Fiscal Year 2013 Annual Report

August 25, 2014

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## I. Introduction

The Annual Report for the Trust Fund for the People of the Federated States of Micronesia (the Fund) is presented per Article 20 of the Trust Fund Agreement between the governments of the United States and the Federated States of Micronesia:<sup>1</sup>

*“Within six months of the end of each Fiscal Year, the Joint Trust Fund Committee shall publish and shall submit to the Government of the United States and to the Government of the Federated States of Micronesia:*

- (a) an annual report on the activities and management of the Fund, including on the operations of the Accounts described in Article 16 of this Agreement, and on the effectiveness of the Fund to accomplish its purpose as described in Article 3 of this Agreement, which annual report may include recommendations regarding improving the effectiveness of the Fund to accomplish that purpose;*
- (b) the accounts of the Fund for that year audited in accordance with Article 19; and,*
- (c) reports of the Auditor under Article 19.”*

All documentation provided pursuant to Article 20 should be considered together.

The Annual Report’s information is mainly sourced from the annual financial statements prepared by the Fund’s accountant and verified by the Fund’s auditor, and quarterly investment reports prepared by the Fund’s Investment Adviser with information from the Custodian.

The Trust Fund Committee (the Committee) approved the Annual Report on 25 August 2014.

Summary highlights for FY13 are:

- The Fund’s total net position value increased 25.5% to \$323,083,136 from \$257,346,108 in FY12. The increase was primarily due to a contribution from the United States government of \$24,993,360 and net investment income of \$40,897,014.
- The Fund had a dollar-weighted annual rate of return of 13.47% - the Fund’s third best return since inception in 2004 and continued gains from FY12 (14.76%).
- Given the positive return, an allocation of \$22,592,935 was made to the “C” account for FY13 bringing the total of that account to \$63,776,663.

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<sup>1</sup> The full text of the Agreement between the Government of the United States of America and the Government of the Federated States of Micronesia Implementing Section 215 and 216 of the Compact, as Amended, Regarding a Trust Fund (the “Trust Fund Agreement”) and other relevant documents is available at [www.uscompact.org](http://www.uscompact.org).

## II. Trust Fund Background, Committee Updates, Contributions and Service Providers

### A. Trust Fund Background

The Compact of Free Association, as Amended (the “Amended Compact”) -- as codified in the Compact of Free Association Amendments Act of 2003 (US Public Law 108-188, December 17, 2003; “the Amended Compact Act”) -- under Title Two: Economic Relations, Section 215, provides for the establishment of a trust fund in accordance with the Trust Fund Agreement between the Original Parties: the United States government (US government) and the Federated States of Micronesia government (FSM government). Sections 215 through 217 of the Amended Compact set forth the funding to be contributed by both governments to 2023.

The Fund was incorporated as a non-profit corporation under the laws of the District of Columbia in August 2004. The Trust Fund Agreement is supported by a set of by-laws initially approved by the Committee on 24 March 2006. Resolutions are considered and approved periodically to improve the overall management and operations of the Fund, as determined by the Committee. The Investment Policy Statement provides the Fund’s main investment guidance. The latest version of the Investment Policy Statement was approved in September 2010 and was most recently amended in December 2012.

As stated in Article 3 of the Trust Fund Agreement:

*“The Purpose of the Fund is to contribute to the economic advancement and long-term budgetary self-reliance of the Federated States of Micronesia by providing an annual source of revenue, after Fiscal Year 2023, for assistance in the sectors 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.”*

The broad investment objective, as set forth in the Investment Policy Statement, is to:

*“maximize investment returns, subject to constraints aimed at containing fluctuations in returns over shorter periods within acceptable limits. Over shorter periods, outperformance will be sought relative to the notional return on a benchmark portfolio designed to reflect the risk profile according to which the assets are invested at the time.”*

### B. Trust Fund Committee Updates

Under Article 7 of the Trust Fund Agreement, the Trust Fund Committee’s functions include overseeing the:

1. Operation, supervision, and management of the Fund;

2. Investment and distribution of Fund resources; and
3. Conclusion of agreements and arrangements with Subsequent Contributors and other organizations.

For FY13, the Committee consisted of 5 members. According to the Trust Fund Agreement, the US government maintains a majority of voting members including the Chairman. The FSM government appoints two voting members. Other voting or non-voting members may be appointed from Subsequent Contributors. Currently, the Fund does not have any Subsequent Contributors.

The FY13 Committee members were:

1. Nikolao Pula, Chairman (Department of the Interior), US
2. Aren Palik, Member (Private Sector), FSM
3. Dan Larsen, Member (Department of State), US
4. Craig Allen, Member (Department of Commerce), US
5. Willy Kostka, Member (Semi-Government Sector), FSM

Willy Kostka replaced Rose Nakanaga during the fourth quarter of the fiscal year as an FSM member. Dan Larsen replaced Chris Marut as a US member in October 2012.

The Committee met quarterly during FY13 to review investment performance and conduct Fund business on the following dates. Minutes were recorded, approved and signed for each meeting.

1. 26 November 2012 (Washington, DC-based teleconference)
2. 6 March 2013 (Washington, DC-based teleconference)
3. 21 May 2013 (Washington, DC-based teleconference)
4. 17 August 2013 (Honolulu, HI)

The Committee approved 6 resolutions in FY13. Following are the title and brief description of each resolution.

*FSM Resolution 2013-1      Asset Allocation for Private Equity Investment*

Based upon the recommendation of the Investment Adviser, the Committee approved the inclusion of private equity class investments into the managed asset portion of the portfolio and adjusted the asset allocation of the Investment Policy Statement to allow for these investments.

*FSM Resolution 2013-2      FSM Trust Fund Annual Report, Fiscal Year 2012*

Approved the FY12 Annual Report and approved the transmission of the Annual Report and Audited Annual Financial Statements to the respective governments.

*FSM Resolution 2013-3      Executive Administrator Contract Extension*

Extended the Executive Administrator's contract to April 2015.

*FSM Resolution 2013-4      Engagement Agreement with Bookminders for Accounting Support Services*

Approved a service proposal with Bookminders for accounting services to June 2014.

*FSM Resolution 2013-5 Engagement Agreement with ParenteBeard LLC for Audit Services, FY13 and FY14*

Approved a service proposal with ParenteBeard LLC to perform the FY13 and FY14 annual audits.

*FSM Resolution 2013-6 Authorization for Internal Trust Fund Cash Movements*

Authorized the Executive Administrator to direct the Custodian and Investment Adviser to invest and move funds within the Fund per the Investment Policy Statement.

**C. Contributions to the Fund**

Contributions to the Fund by the US and FSM governments are governed by the schedule in Section 216 of the Amended Compact. The US government is committed to contribute \$16 million from FY04 to FY23 plus a cumulative \$0.8 million addition annually beginning in FY07, which correlates to the amount of the reductions in direct sector grant assistance, plus a partial inflation adjustment as indicated in the Amended Compact.<sup>2</sup> The FSM government was to contribute at least \$30 million prior to 30 September 2004. Initial contributions began in FY05 as the U.S. contribution was dependent on the FSM contribution that occurred in FY05.

**Table 1: Contributions to the Trust Fund through FY13**

Dollars in millions

Year	United States	FSM	Total
<b>FY04</b>	0.00	0.00	0.00
<b>Date Contributed</b>			
<b>FY05</b>	32.19	30.30	62.49
<b>Date Contributed</b>	10/5/04	10/1/04	
<b>FY06</b>	16.44		16.44
<b>Date Contributed</b>	10/6/05		
<b>FY07</b>	17.69		17.69
<b>Date Contributed</b>	10/6/06		
<b>FY08</b>	19.00		19.00
<b>Date Contributed</b>	10/9/07		
<b>FY09</b>	20.91		20.91
<b>Date Contributed</b>	10/4/08		
<b>FY10</b>	21.52		21.52
<b>Date Contributed</b>	10/2/09		
<b>FY11</b>	22.39		22.39
<b>Date Contributed</b>	10/1/10		

<sup>2</sup> As stated in Section 217 of the Amended Compact, the U.S. government contribution “shall be adjusted for each United States Fiscal Year by the percent that equals two-thirds of the percent change in the United States Gross Domestic Product Implicit Price Deflator, or 5 percent, whichever is less in any one year, using the beginning of Fiscal Year 2004 as a base.”

Year	United States	FSM	Total
<b>FY12</b>	23.59		23.59
<b>Date Contributed</b>	10/14/11		
<b>FY13</b>	24.99		24.99
<b>Date Contributed</b>	10/4/12		
<b>Contributed to Date</b>	<b>198.72</b>	<b>30.30</b>	<b>229.02</b>

Source: Audited Annual Financial Statements

#### D. Service Providers

##### **Executive Administrator**

The Fund contracts an Executive Administrator who serves in support of the governance, administration and operations of the Fund. The current Executive Administrator began providing services in April 2011, and his contract extends through April 2015, by the terms of Resolution FSM 2013-3.

The key duties of the Executive Administrator are to maintain all official Committee documents and records; update the Chairman, Vice Chairman, and other members of the Committee on activities of the Fund; coordinate Fund service providers; provide administrative services regarding fund payments, decisions and deliberations; assist in audit preparation and prepare the annual report; and prepare periodic performance and other assessments to inform Committee members and staff.

Key FY13 activities included the following:

- Maintained service agreements and liaised with Investment Adviser, Custodian, accountant, auditor, legal counsel and others, as needed.
- Negotiated service agreements or adjustments with the service providers.
- Organized, conducted and provided follow-up for the four quarterly review meetings including meeting agenda, support documents and meeting minute preparation.
- Prepared or coordinated the preparation and approval of Committee resolutions.
- Coordinated with the Investment Adviser, Custodian, Committee and others, updating the Investment Policy Statement and implemented the asset allocation revisions.
- Drafted the annual report for Committee review and approval and coordinated annual audit process for the Committee and provided input.
- Coordinated with US and FSM government members and staff in support of the above activities.

##### **Custodian**

State Street Bank and Trust Company (State Street), as the Custodian, provides all the services of the Trust Fund Agreement's Article 13, per below, with the exception of the record keeping function.

- Collect and receive any and all money and other property of whatever kind or nature due or owing or belonging to the Fund.
- Follow written directions of the Committee with respect to retention, purchase, sale or encumbrance of trust property and the investment and reinvestment of principal and income.
- Disburse income or corpus only pursuant to the conditions set forth in the Trust Fund Agreement.
- Make all payment of liabilities and administrative expenses.
- Maintain a web site portal for Fund financial information.
- Provide plan accounting that helps track each contributor's balance and the C account.<sup>3</sup>

State Street's fee is 3 basis points annually of the Fund's value assessed quarterly plus an additional flat fee -- a Supplemental Custody and Accounting Fee. State Street has served as Custodian since September 2010.

### **Investment Adviser and Money Managers**

Mercer Investment Consulting, Inc. (Mercer), serves as Fund Investment Adviser and as a Money Manager, providing the services described in Article 14 of the Trust Fund Agreement. The Fund also engages other Money Managers with non-discretionary oversight provided by Mercer. Key services provided include:


- Advise and recommend to the Committee one or more Money Managers who will invest the assets of the Fund to produce a diversified portfolio.
- Provide the Committee with data relating to any prospective Money Manager, indicating performance and relevant comparisons with similar Money Managers to assist the Committee in evaluating the performance of the prospective Money Managers.
- Direct trades and manage liquidity, amongst other Money Manager-type functions.
- Provide monthly and quarterly performance reports on all Fund assets and compare performance to agreed upon industry standard benchmarks and to similar trusts, endowments and foundations within the Mercer client pool.

Mercer has served as the Fund's Investment Adviser since 2005. Mercer is currently engaged under a contract between Mercer and the Committee signed in September 2010. Mercer's managed asset fee (including sub-advisors) was 58 basis points annually and assessed daily for FY13 with part of the managed asset fee as compensation for Mercer's services and part as compensation to underlying Money Managers who are independent of Mercer. The fee rate was agreed to in August 2012 per Resolution FSM 2012-9 Asset Allocation Revision.

In addition, Mercer applies 9 basis points annual advisory fee on the non-discretionary assets. Each of the non-discretionary asset allocations has their own Money Manager. Each non-

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<sup>3</sup> Plan accounting is a breakdown of the Fund by contributor (U.S. and FSM governments) and by the A and C account. The breakdown allows the allocation of contributions, investment gains and losses, and expenses to each contributor and helps to calculate the proportions of each contributor of the A and C accounts.



discretionary Money Managers charges their own rates on the assets they invest which ranges from 0.70 to 1.50 basis points. These Money Managers are identified in Table 3, below, under Non-Discretionary Funds. The fee schedule is provided as Attachment 1.

### **Accountant**

Bookminders has prepared the Fund's financial records dating back to inception in 2004. Bookminders produces monthly financial statements and the annual financial statements that include the year-end reporting package with supporting schedules for the annual audit. The service agreement with Bookminders was extended by one year to June 2014.

### **Auditor**

ParenteBeard LLC serves as the Fund's auditor. ParenteBeard conducts the audits in accordance with generally accepted US auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. The Committee engaged ParenteBeard in May 2013 to prepare the FY13 and FY14 audits. ParenteBeard has performed the annual audits dating back to FY04.

### **Legal Counsel**

Vorys, Sater, Seymour and Pease LLP (Vorys) provides support, as requested by the Committee, on any legal matters per a Letter of Engagement and Representation. Vorys also provides a Registered Agent for the Fund, as required by the District of Columbia for registered non-profit corporations. Vorys has served as legal counsel since February 2012.



### III. FY13 Account Balances and Performance

#### A. Changes to Trust Fund Asset Classes and Allocations

FY13 continued the portfolio’s transition with respect to asset allocation that was initiated at the end of FY12. The portfolio consists of two components: managed assets and non-discretionary assets. The managed assets consist of US equity (small, medium and large cap asset strategy), non-US equity (international developed and emerging market asset strategy), and fixed income. During FY13 a hedge fund and private equity fund, both “funds of funds,” were added to the managed assets portion of the portfolio.<sup>4</sup> The non-discretionary component consists of fixed income (emerging market debt and convertible bonds), private real estate, a hedge fund and private equity.

The managed hedge fund (Mercer Hedge Fund Investors) was added in October 2012 per Resolution FSM 2012-9 Asset Allocation Revision. The managed private equity fund (Mercer Private Investment Partners III) was added in April 2013 per FSM 2013-1 Asset Allocation for Private Equity Investment. The managed private equity fund, like other private equity assets in the portfolio, will take several years to build-up to its strategic target allocation given the timing of capital calls.

**Table 2: Asset Allocations and Targets from Investment Policy Statement for FY12 and FY13**

Asset Class	Strategic Target Allocation & Permitted Range 9/30/12	Strategic Target Allocation & Permitted Range 9/30/13	Allocation as of 9/30/12	Allocation as of 9/30/13	Actual % Difference
<b>Managed Assets</b>					
<b>Domestic Equity</b>	25.5% 20.5-30.5	25.5% 20.5-30.5	29.9%	28.6%	-1.3%
U.S. Large Cap Equity	18%	18%	22.3%	20.9%	-1.4%
U.S. Small/Med Cap Equity	7.5%	7.5%	7.6%	7.7%	0.1%
<b>Non-U.S. Equity</b>	25.5% 20.5%-30.5%	25.5% 20.5%-30.5%	29.9%	28.5%	-1.4%
<b>Fixed Income</b>	2.5% 0%-5%	2.5% 0%-5%	10.2%	2.6%	-7.6%
<b>Hedge Fund (Managed)</b>	5.5 3%-8%	5.5 3%-8%	0.0%	5.3%	5.3%
<b>Private Equity Fund (Managed)</b>		0% 0%-10%	0.0%	0.4%	0.4%
<b>Total Managed Assets</b>	59%	59%	70.0%	65.4%	-4.6%
<b>Non-Discretionary Assets</b>					
<b>Emerging Market Debt</b>	10% 5%-15%	10% 5%-15%	7.2%	8.3%	1.1%
<b>Convertible Bonds</b>	6.5% 4%-9%	6.5% 4%-9%	4.2%	6.1%	1.9%
<b>Private Equity*</b>	9.5% 4.5%-14.5%	9.5% 0%-10%	7.6%	6.0%	-1.6%
<b>Private Real Estate</b>	10% 5%-15%	10% 5%-15%	7.3%	9.4%	2.1%
<b>Hedge Fund</b>	5% 2.5%-7.5%	5% 2.5%-7.5%	3.7%	4.7%	1.0%
<b>Cash</b>	0% 0%-3%	0% 0%-3%	0.0%	0.1%	0.1%
<b>Total Non-Discretionary</b>	41%	41%	30.0%	34.6%	4.6%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100.0%</b>	<b>100.0%</b>	

\* Allocation of Non-Discretionary Private Equity will shift to Managed Assets Private Equity as capital is called for that fund.

<sup>4</sup> A “fund of funds” is a combination of multiple independent funds managed by sub-advisers who are contracted to Mercer.

Source: Investment Policy Statement, 12/12 Amendment; Mercer Quarterly Reports- 9/30/12 and 9/30/13

The individual asset change is illustrated in Table 3. As indicated above, the Fund added the two funds to the managed asset component of the portfolio: the Mercer Hedge Fund Investors and Mercer Private Investment Partners III funds. Also, Mercer split its Core Opportunistic Fixed Income Fund to the Core Fixed Income Fund and the Opportunistic Fixed Income Fund.<sup>5</sup>

**Table 3: Asset Change FY12 to FY13**

<b>Asset Class</b>	<b>Assets Held as of 9/30/12</b>	<b>Assets Held as of 9/30/13</b>
<b>Managed Assets</b>		
<b>Domestic Equity</b>		
US Large Cap Equity	SSgA S&P 500 Index Fund	SSgA S&P 500 Index Fund
US Small/Med Cap Equity	Mercer Small/Mid Cap Growth Equity Fund Mercer Small/Mid Cap Value Equity Fund	Mercer Small/Mid Cap Growth Equity Fund Mercer Small/Mid Cap Value Equity Fund
<b>Non-US Equity</b>	Mercer Non-US Core Equity Fund Mercer Emerging Markets Equity	Mercer Non-US Core Equity Fund Mercer Emerging Markets Equity
<b>Fixed Income</b>	Mercer Core Opportunistic Fixed Income Fund	Mercer Core Fixed Income Fund Mercer Opportunistic Fixed Income
<b>Hedge Fund</b>	NA	Mercer Hedge Fund Investors
<b>Private Equity</b>	NA	Mercer Private Investment Partners III
<b>Non-Discretionary Funds</b>		
<b>Emerging Market Debt</b>	Ashmore Investment Management	Ashmore Investment Management
<b>Convertible Bonds</b>	Shenkman Capital Management	Shenkman Capital Management
<b>Private Equity</b>	HarbourVest Partners- VIII Venture Fund; VIII Buyout Fund; VIII Mezzanine & Distressed Debt Fund; Private Equity V Portfolio Advisors Private Equity Fund I	HarbourVest Partners- VIII Venture Fund; VIII Buyout Fund; VIII Mezzanine & Distressed Debt Fund; Private Equity V Portfolio Advisors Private Equity Fund I
<b>Private Real Estate</b>	Prudential Real Estate Investors	Prudential Real Estate Investors
<b>Hedge Funds</b>	Blackstone Alternative Asset Mgm't	Blackstone Alternative Asset Mgm't
Note: NA means Not Applicable since there were no holdings of such assets.		

<sup>5</sup> The core fixed income fund mainly consists of US Treasury instruments and high quality corporate debt. The opportunistic fixed income fund holds a diverse portfolio of high yield US public bond and debt instruments and emerging market debt.

Source: Trust Fund for the People of the Federated States of Micronesia Investment Performance, September 30, 2013, Mercer Investment Consulting.

Fund performance is measured utilizing a set of performance standards established in the Investment Policy Statement. Individual asset class benchmarks are identified in the Statement, and the Investment Adviser also measures performance according to its Total Trust Benchmark and Foundation Performance Universe Median. A summary of benchmarks for the entire Fund and for each asset class is provided as Attachment 2. Table 6 provides information on the Fund's annual performance compared to the relevant benchmarks.

### B. Summary of FY13 Performance and Expenses

The Fund ended FY13 with a net position of \$323,083,136. The amount is a 25.5% gain from FY12, as shown in Table 4. The gain is attributable to two factors: continued and increasing US contributions and investment earnings.

The US contribution increased to \$24,993,360 based on the FY13 scheduled amount per the Amended Compact including the \$800,000 annual increment and the annual inflation adjustment. No other contributions were provided to the Fund.

Net investment income increased to \$40,897,014 for FY13 from \$35,455,835 for FY12 due to increases in interest and dividend income and realized and unrealized gains on investments.

**Table 4: Trust Fund Income Change FY12- FY13 and Percent Change**

	FY12	FY13	% Change
<b>Additions</b>			
Contributions			
U.S. Government	<u>23,587,200</u>	<u>24,993,360</u>	6.0%
Investment Income			
Interest and dividends	6,684,643	4,886,086	-26.9%
Net increase in the fair value of investments	<u>29,509,141</u>	<u>37,011,204</u>	25.4%
Gross investment income	36,193,784	41,897,290	15.8%
Less: Investment expenses	<u>737,949</u>	<u>1,000,276</u>	35.5%
Net investment income	<u>35,455,835</u>	<u>40,897,014</u>	15.3%
Total additions	<u>59,043,035</u>	<u>65,890,374</u>	11.6%

### Deductions

	FY12	FY13	% Change
Administrative expenses	<u>156,960</u>	<u>153,346</u>	-2.3%
Change in net position	58,886,075	65,737,028	11.6%
<b>Restricted Net Position, Beginning</b>	<u>198,460,033</u>	<u>257,346,108</u>	29.7%
<b>Restricted Net Position, Ending</b>	<b>257,346,108</b>	<b>323,083,136</b>	<b>25.5%</b>

Source: FY13 Audited Annual Financial Statements

The Fund's increased investment returns in FY12 and FY13 plus the continued contributions by the United States have helped the Fund to recover from negative returns in FY08, FY09 and FY11. As of the end of FY09, the Fund has increased 134.0%. As of the end of FY11, the Fund has increased 62.8%. Annual net positions since inception are provided in Attachment 3, Table A.

Total Fund expenses increased by 18.5% compared to FY12, per Table 5, but were reduced as a total percentage of the Fund's net position to 0.86% from 0.91%. All expenses are within those rates agreed to by the Committee. Annual expense history since inception is provided in Attachment 3, Table B.

**Table 5: Investment and Administrative Expenses, FY12 and FY13**

	FY12	FY13	% Change
<b>Investment Expenses</b>	<b>\$2,177,580</b>	<b>\$2,613,679</b>	<b>20.0%</b>
Custodian	67,313	85,449	26.9%
Investment Adviser	179,738	359,658	100.1%
Money Manager	490,898	555,169	13.1%
Money Manager*	1,439,631	1,613,403	12.1%
<i>% of Net Position</i>	<i>0.85%</i>	<i>0.81%</i>	<i>-4.4%</i>
<b>Administrative Expenses</b>	<b>\$156,960</b>	<b>\$153,346</b>	<b>-2.3%</b>
Executive Administrator	102,760	98,280	-4.4%
Audit Fees	39,900	41,088	3.0%
Accounting Fees	6,639	5,893	-11.2%
Legal Fees	780	2,889	270.3%
Miscellaneous	6,881	5,197	-24.5%
<i>% of Net Position</i>	<i>0.06%</i>	<i>0.05%</i>	<i>-22.2%</i>
<b>Total Dollar Expenses</b>	<b>\$2,334,540</b>	<b>\$2,767,026</b>	<b>18.5%</b>
<b>Total % of Net Position</b>	<b>0.91%</b>	<b>0.86%</b>	<b>-5.6%</b>

\* Money Manager fees directly subtracted from fund asset value.

	FY12	FY13	% Change
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Note: Amounts rounded.

Source: FY12 and FY13 Annual Audited Annual Financial Statements and Fund Data Collection

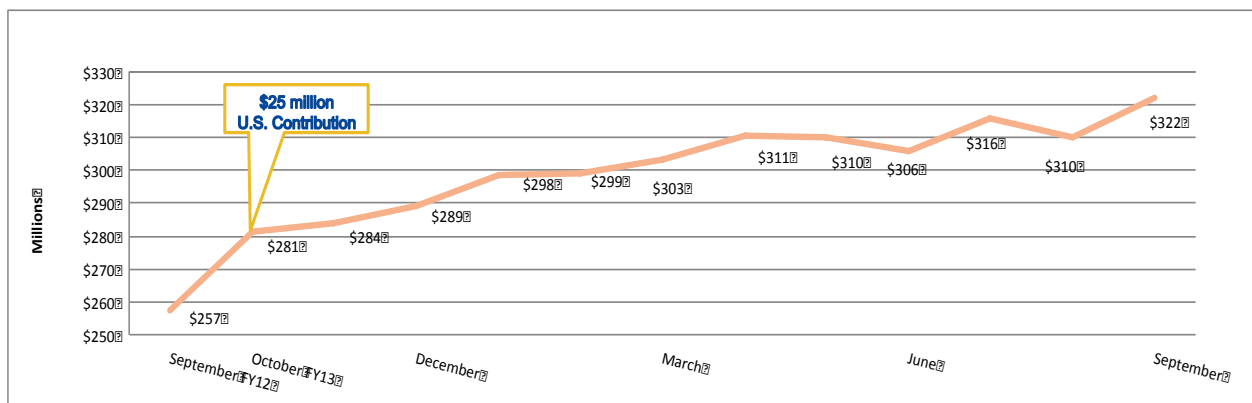
Custodian expense increased 26.9% mainly due to the Fund’s increased value.

The Investment Adviser’s expense increased to \$359,658. Total Money Manager fees increased 12.3% to \$2,168,572.<sup>6</sup> The increases were due to 1) the managed asset fee increase to 58 basis points from 52 basis points agreed to in FY12 and fully in effect for FY13; 2) the increased value of the Fund on which the fees are based, driven by an additional contribution and market appreciation; and 3) the addition of three more funds to be managed (hedge fund, private equity fund and opportunistic fixed income fund). The Investment Adviser expenses listed also include the 9 basis point fee for non-discretionary asset oversight by the Investment Adviser.

Total administrative expenses decreased -2.3% compared for FY13. Decreases occurred for Executive Administrator, accounting and miscellaneous expenses. Increases were for audit and legal fees. Overall, administrative expenses were a reduced portion of the Fund, amounting to 0.05% of the total net position compared to 0.06% for FY12- the lowest percentage since FY07.

Per Figure 1, the Fund followed the positive performance of US and non-US public equity markets throughout the fiscal year. An increase in the Fund value occurred when the US contribution was deposited. The Fund was mainly on an upward trend except during market downturns towards the end of the Fund’s third quarter and early in the fourth quarter.

**Figure 1: FY13 Monthly Trust Fund Net Position**  
Dollars in millions



Source: Mercer Monthly Reports; contribution information from State Street Statement

For the fiscal year, in terms of performance measurement, the Fund grew 13.9% net of fees.<sup>7</sup> The return rate compares to a Total Trust Benchmark of 14.3% and a Foundation Performance Universe Median of 10.2%.<sup>8</sup>

<sup>6</sup> Money Manager fees range from 0.70% to 1.50% of assets under their respective management.

<sup>7</sup> The performance rates in this section are from the Mercer 9/30/13 Quarterly Report. The report contains performance measurements over different time periods and comparisons to various benchmarks for the

Table 6 provides Fund performance measures for the fund as whole, per portfolio category (managed assets and non discretionary assets) and per asset strategy, net of fees.

**Table 6: Annual and Since Inception Performance Compared to Benchmarks**

	Market Value 9/30/13	% of Fund	FY13	3 Years	5 Years	Since Inception	Date of Inception
<b>Total Fund</b>	<b>\$322,450,148</b>	<b>100.0%</b>	<b>13.9%</b>	<b>9.5%</b>	<b>7.4%</b>	<b>4.9%</b>	<b>Oct. 2004</b>
Total Trust Benchmark			14.3%	10.7%	8.7%	5.4%	
<b>Total Managed Assets</b>	<b>\$210,901,140</b>	<b>65.4%</b>	<b>18.3%</b>	<b>NA</b>	<b>NA</b>	<b>9.8%</b>	<b>Oct. 2010</b>
Total Managed Assets Benchmark			16.5%	NA	NA	9.5%	
<b>US Domestic Equity</b>	<b>\$92,132,741</b>	<b>28.6%</b>	<b>21.2%</b>	<b>16.3%</b>	<b>10.7%</b>	<b>6.8%</b>	<b>Jul-06</b>
Russell 3000 Index			21.6%	16.8%	10.6%	6.6%	
<b>Non-US Equity</b>	<b>\$91,752,521</b>	<b>28.5%</b>	<b>20.4%</b>	<b>6.9%</b>	<b>8.5%</b>	<b>4.6%</b>	<b>Jul-06</b>
Total Non-US Equity Benchmark			16.5%	6.1%	5.0%	1.8%	
<b>Fixed Income</b>	<b>\$8,436,579</b>	<b>2.6%</b>	<b>-0.6%</b>	<b>NA</b>	<b>NA</b>	<b>3.7%</b>	<b>Oct. 2010</b>
Barclays Aggregate			-1.7%	2.9%	5.4%	2.8%	
<b>Hedge Fund</b>	<b>\$17,183,322</b>	<b>5.3%</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>12.0%</b>	<b>Oct. 2012</b>
T-Bills +3%			3.1%	3.1%	3.1%	2.8%	
<b>Private Markets (Private Equity)</b>	<b>\$1,395,976</b>	<b>0.4%</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>Apr-13</b>
S&P 500 +3%			22.9%	19.7%	13.3%	7.6%	
Venture Economics All Private Equity Index			12.4%	13.6%	7.0%	4.9%	
<b>Total Non-Discretionary Assets</b>	<b>\$111,549,008</b>	<b>34.6%</b>	<b>5.6%</b>	<b>8.9%</b>	<b>7.1%</b>	<b>4.7%</b>	<b>Oct. 2004</b>
<b>Fixed Income</b>	<b>\$46,225,584</b>	<b>14.3%</b>	<b>0.8%</b>	<b>5.1%</b>	<b>6.7%</b>	<b>5.3%</b>	<b>May-07</b>
Custom Fixed Income Benchmark			5.3%	7.8%	11.2%	6.8%	

fund as a whole, asset categories and individual asset strategies. The rates are different than the dollar-weighted annual rate of return that results from the audited asset values and all expenses including accrued expenses. The dollar-weighted return includes weighted earnings, expenses and contributions for a more true performance measurement. Figure 4 contains the dollar-weighted annual rate of return.

<sup>8</sup> As of 1/1/13, the Total Trust Benchmark is comprised of 25.5% Russell 3000, 25.5% MSCI ACWIxUS Net Dividend, 2.5% Barclays Capital Aggregate, 10% JPMorgan Emerging Market Bond Index, 6.5% BofA Merrill Lynch All US Convertibles, 10.5% T-Bills+3%, 10% NCREIF NFI ODCE, 9.5% S&P 500+3%. The Foundation Performance Universe Median is a performance median of a Mercer pool of foundations, endowments and trust funds.

	Market Value 9/30/13	% of Fund	FY13	3 Years	5 Years	Since Inception	Date of Inception
<i>Real Estate</i>	\$30,256,112	9.4%	11.9%	14.8%	-1.4%	-1.2%	Mar-08
NCREIF NFI ODCE			13.0%	14.3%	0.7%	0.6%	
<i>Hedge Fund</i>	\$15,206,422	4.70%	9.0%	5.6%	NA	5.6%	Dec. 2009
T-Bills +3			3.1%	3.1%	3.1%	3.1%	
<i>Private Markets (Private Equity)</i>	\$19,380,218	6.00%	9.3%	12.0%	4.0%	4.6%	Sept. 2006
S&P 500 +3%			22.9%	19.7%	13.3%	8.8%	
Venture Economics All Private Equity Index			12.4%	13.6%	7.0%	9.2%	
Cash	\$480,672	0.10%					

Source: Mercer Quarterly Report, Period Ending September 30, 2013

Notes: NA= Not Available; %'s based on performance net of fees

Overall, the Fund's asset class performances, as described in this section net of fees, were either above, equal to or near their respective benchmarks.

Total managed assets (65.4% of Fund value as of September 30, 2013) had an 18.3% gain. This gain outperformed the benchmark of 16.5% and compared to a 19.1% gain for total managed assets in FY12.

US domestic equity investments (28.6% of the portfolio) had a 21.2% return that was just below the benchmark of 21.6%. Gains in the small and mid cap growth and value equity funds were each up over 27.0%. The large cap fund also had gains of 19.3% for the fiscal year.

International equity assets (28.5% of the portfolio) performed slightly below US equity assets with a 20.4% return but exceeded that category's benchmark of 16.5%. The non-US core equity fund benefitted from the stabilization of the European equity markets and the growth in the Japanese equity markets resulting in a significant gain of 25.3%. The emerging market equity fund weighed down this category with only a 2.6% gain for the fiscal year.

The managed fixed income component (2.6% of the portfolio) had a negative return of -0.6 percent, yet outperformed the benchmark of -1.7%. The negative return was a result of poorly performing bond markets.

The newly added hedge fund was not invested for a full year so limited performance data is available. Partial year performance shows a gain of 9.7%, above the benchmark of 5.1% at fiscal year end.<sup>9</sup> Contributions were provided to the fund periodically throughout the fiscal year and it consisted of 5.3% of the portfolio as of fiscal year end.

The newly added private equity fund was also not invested for a full year so limited performance data is available. Also, given the nature of private equity funds, the fund will continue to call

<sup>9</sup> Benchmark quoted is HFRI Fund of Funds Composite Index.

capital over the next several years as the underlying Money Managers invest in private equity deals that may or may not come to fruition for several years.

The non-discretionary component of the portfolio (34.6% of Fund value) had lower return levels but was also additive to the total return. As in the past, these asset classes provided more consistent and stable gains as intended for the portfolio. This component had a 5.6% return for FY13 compared to a 10.4% return for FY12.

The non-discretionary fixed income investment strategy (14.3% of the portfolio), consisting of a convertible bond fund and emerging market debt fund, gained only 0.8%, underperforming its benchmark of 5.3%. This segment of the portfolio will transition to the managed asset section of the portfolio in FY14 under that component's fixed income strategy.

The real estate strategy (9.4% of the portfolio) had another significant gain following strong growth in FY12 (10.4% gain). The strategy gained 11.9% for FY13, below its benchmark of 13.0%.

The non-discretionary hedge fund (4.7% of the portfolio) gained 9.0%, almost triple the benchmark's 3.1% performance. The Fund also outperformed the Mercer Institutional Funds of Hedge Funds (net) Median (8.1%).

The non-discretionary private equity strategy (6.0% of the portfolio) gained 9.3%, below its benchmark return of 22.9% (S&P 500 +3%) and closer to the Venture Economics All Private Equity Index benchmark (12.4% gain). For the more mature non-discretionary private equity strategy, distributions from the investments are being realized. As of the end of FY13, for both the managed and non-discretionary private equity strategy, the Fund had paid in capital of \$21.8 million of a total \$29.8 million commitment. Since the inception of these investments, \$7.0 million in distributions were received resulting in a 5.24% net internal rate of return.<sup>10</sup>

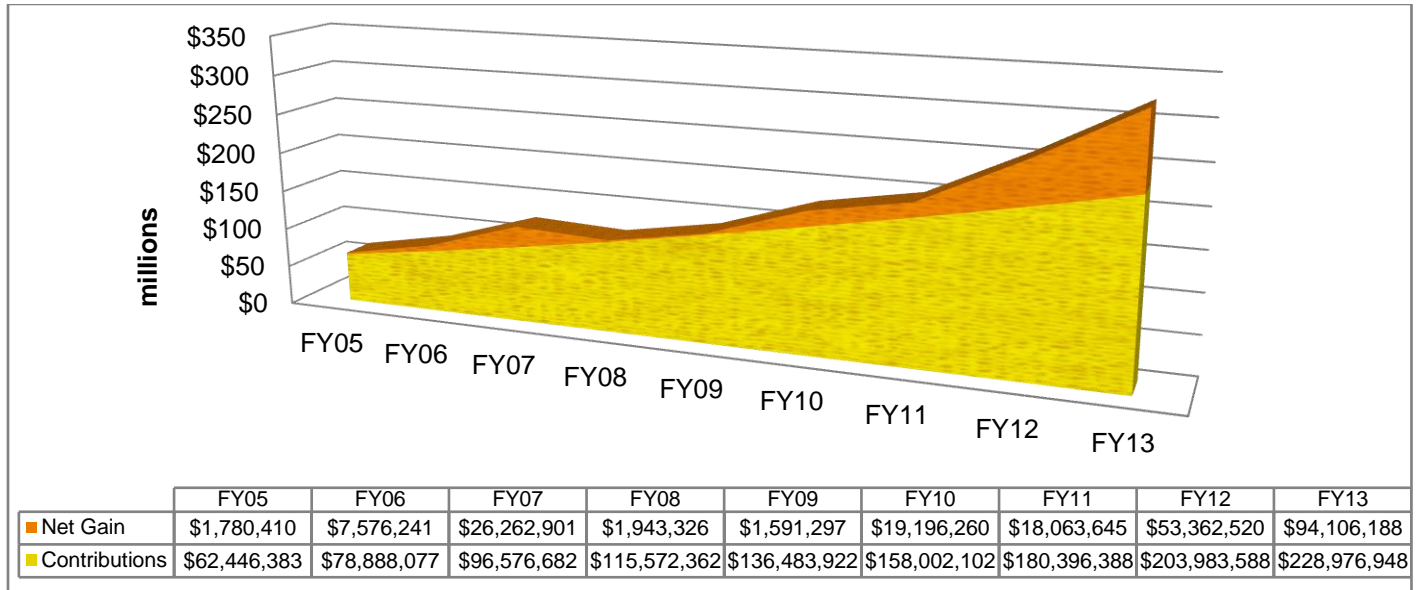
As of the end of FY13, the Fund's average annual return rate since inception was 4.9%, net of fees, below the Total Trust Benchmark (5.4%) and the Foundation Performance Universe Median (6.3%). The gains for FY13 raise this average annual return rate from 3.8%, net of fees, as of the end of FY12 and more than doubles the FY11 overall average annual rate of 2.2%, net of fees.

Figure 2 shows the growth of the Fund with a steady incline of contributions and the periodic investment income gains and losses. As of FY13 a total of \$228,976,948 has been contributed to the Fund. The US government contributed 86.8% of funds and the FSM government 13.2%. As of the end of FY13, the Fund has gained a total of \$94,106,188 from those contributions. No contributor's capital investment has been diminished since Fund inception.

<sup>10</sup> Given the nature of such private equity strategies, the total capital commitment (\$29.8 million) may not be called. Thus the Committee elected to include the new managed private equity fund (Mercer Private Investment Partners III) into the portfolio during FY13.



**Figure 2: Total Cumulative Contribution and Net Position Annual Gain, FY04-FY13**



Source: Audited Financial Statements FY04-FY13

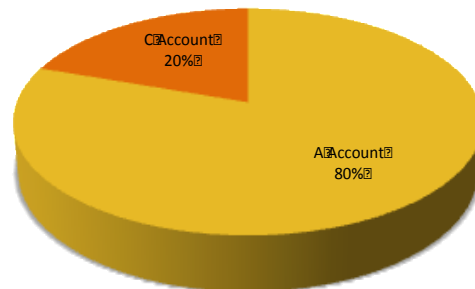
### C. The C Account

Article 16 of the Trust Fund Agreement requires that any annual income on the Fund over 6% shall be transferred to the C account. The C account may be drawn upon, to the extent it contains sufficient funds, to address any shortfall in the B account after FY23, if income on the A account falls below the previous year's distribution adjusted for inflation and for Special Needs agreed to by the Committee.

The C account is maintained as a sub account for accounting purposes. It is not invested separately but as part of the overall corpus. The end-of-year financial statements provide a calculation to determine if the Fund achieved the 6% annual income threshold and, if so, the amount to be transferred to the C account. Also, the breakdown of the A and C accounts is reported annually by contributor as shown in Table 7. Historical account balances are provided as Attachment 3, Table C.

Given the significant investment gains in FY13, the 6% threshold was surpassed with a 13.47% dollar-weighted annual rate of return and the amount of \$22,592,935 was

**Figure 3: FY13 A and C Account Breakdown**  
Source: FY13 Audited Financial Statements



**Figure 10:** The C account has grown as a portion of the Fund to 20% for FY13 from 16% for FY12.

transferred to the C account. The amount is the largest dollar amount provided to the C account since inception. The total amount in the C account increased to \$63,776,663.

**Table 7: A and C Account Net Position Balances, FY12-FY13**

	FY12	FY13
<b>Total Assets</b>	<b>\$257,346,108</b>	<b>\$323,083,136</b>
<b>A Account</b>	<b>\$216,162,380</b>	<b>\$259,306,473</b>
US	\$183,186,779	\$223,762,511
FSM	\$32,975,601	\$35,543,962
<b>C Account</b>	<b>\$41,183,728</b>	<b>\$63,776,663</b>
US	\$34,901,145	\$55,034,593
FSM	\$6,282,583	\$8,742,070

Source: Audited Annual Financial Statements FY12 and FY13

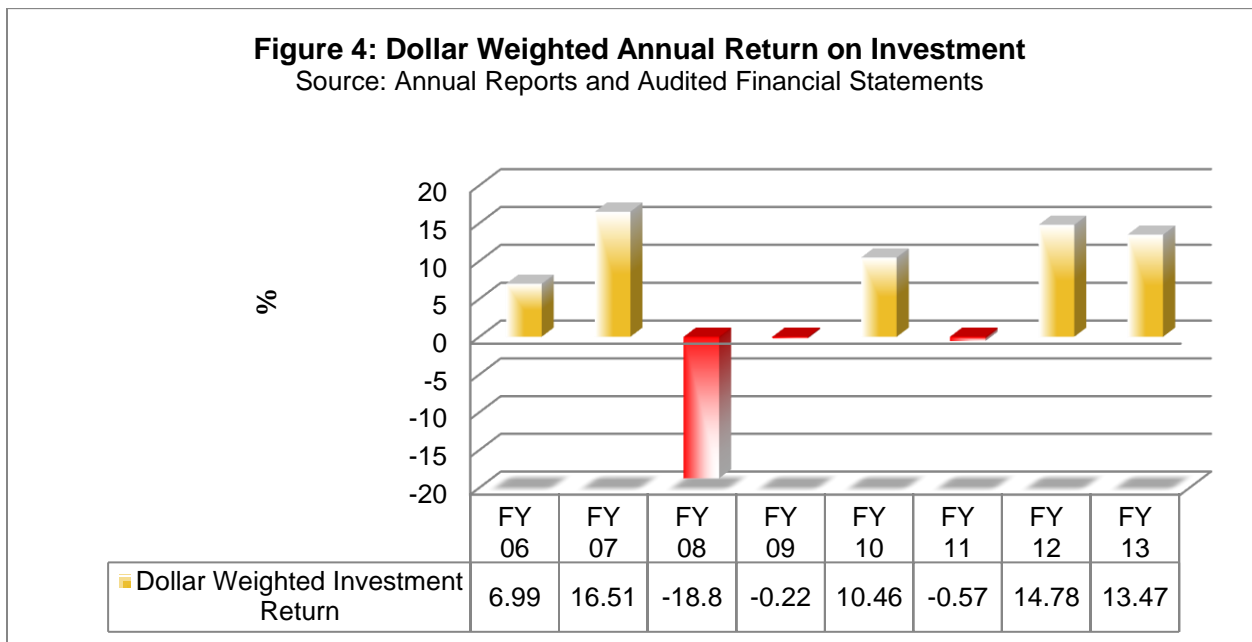
The C account has gained income in FY06, FY07, FY10, FY12 and FY13. Per the Trust Fund Agreement, the C account is allowed to contain up to three times the estimated equivalent of the Amended Compact's FY23 sector grant assistance plus an inflation adjustment. The current amount in the C account is about 77% of annual Amended Compact sector grant assistance estimated for FY23.

## IV. Trust Fund Effectiveness

### A. Effectiveness to Achieve Purpose

Article 3 of the Trust Fund Agreement between the U.S. and FSM governments states that, “*The purpose of the Fund is to contribute to the economic advancement and long-term budgetary self-reliance of the Federated States of Micronesia by providing an annual source of revenue, after Fiscal Year 2023, for assistance in the sectors 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.*”

The Trust Fund Agreement states in Article 20 that the Committee shall publish an annual report that includes the “effectiveness of the Fund to accomplish its purpose” and may include “recommendations regarding improving the effectiveness of the Fund to accomplish that purpose.”



The Fund’s dollar-weighted annual rate of return on investment, after discounting for contributions, fees and expenses, was 13.47% for the year compared to a rate of 14.78% for FY12 and -0.57% for FY11. The FY13 return is the third largest percentage annual investment gain experienced since Fund inception in 2004.

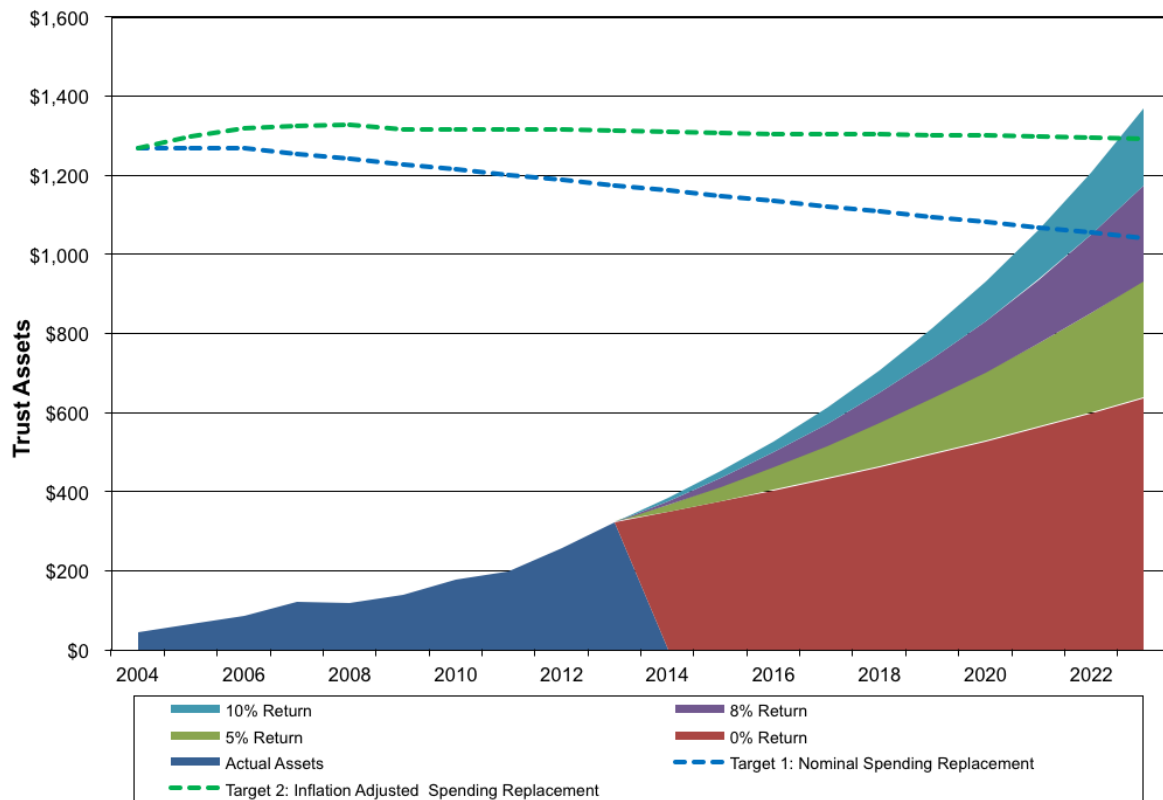
An analysis by the Investment Adviser (Figure 5) estimates that, assuming a 6% payout from the Fund, if the Fund manages an average 5% return annually from FY14 to FY23, the distribution from the estimated assets would provide for FY24 an amount equivalent to about 68.5% of the Amended Compact’s Section 211 FY23 sector grant level with the partial inflation adjustment. There would also be a build-up of the C account but not to the maximum level

permitted under the Trust Fund Agreement. As of FY13, the average annual rate of return is 4.9%, net of fees.

If the Fund were to achieve an average 8% return annually, the Fund would provide for FY24 an amount equivalent to 86.2% of FY23 sector grant assistance with the partial inflation adjustment. There would also be a build-up of the C account but not to the maximum level permitted under the Trust Fund Agreement. The Fund has achieved 8% or more return in four fiscal years: 2007, 2010, 2012 and 2013.

**Figure 5: Projected Growth Trends, FY04-FY23**

**Projected FSM Trust Fund Assets at Various Asset Growth Rates**



Source: Mercer Investment Consulting

If the Fund were to achieve an average 10% return annually, the Fund would provide FY24 revenue equivalent to about 100.4% of partially inflation adjusted FY23 sector grant assistance. However, it is unlikely that post 2023 distributions would provide for future inflation adjustments beyond the FY23 amount. The C account would achieve the maximum level permitted under the Trust Fund Agreement prior to FY 2023. However, there is a low probability to achieve such growth annually.

In addition to potential earnings on investment, analysis shows that additional contributions beyond those currently scheduled would improve the Fund's potential to achieve a value to provide sustainable distributions such as the Amended Compact's Section 211 FY23 sector

grant level with the partial inflation adjustment and at least partially inflation adjusted amounts beyond.

Any growth projections are estimates, subject to fluctuation based on actual market performance. This also extends to future fiscal planning. As intended in the Amended Compact, Trust Fund payments will be a post-2023 “source of revenue” to supplement other financial resources of the FSM government.

### B. Recommendations Moving Forward

Per Resolution FSM 2012-5 Additional Subsequent Contributors, the Committee has taken steps to identify other subsequent contributors to the Fund. The steps taken to date include research to identify potential contributors, applying to foundations and other sources of funding, and some inquiries with other potential bilateral donors. The U.S. and FSM governments may, in cooperation or separately, initiate discussions or negotiations connected with efforts to seek contributions to the Fund from other sources. Any Subsequent Contributor to the Fund would then need to be approved by the Committee.

The Fund’s positive performance, as previously mentioned, was mainly based on U.S. and international public equity performance. The Investment Adviser remained within the investment allocation classes and percent ranges as indicated by the Investment Policy Statement. As well, the non-discretionary assets consisting of alternative investments are intended to provide stability to the portfolio and also to invest the portfolio in more medium and long-term assets. The Committee will continue to monitor the portfolio’s performance to determine, based on the Investment Adviser’s advice, if any such changes to the Statement are needed.

Last, investment and administrative expenses for FY13 as a proportion of the overall Fund are within agreed upon fee structures. The Committee intends to remain prudent in ensuring expenses are appropriate relative to the services provided.

Attachment 1: Manager Roster and Investment Manager Fee Schedule as of September 30, 2013

Account	Fee Schedule	Estimated Annual Fee (%)
<b>Trust Fund Managed Assets</b>	<b>0.58%</b>	<b>0.58%</b>
Private Equity- Mercer PIP III	0.50% of Committee Capital	0.50%
<b>Non-Discretionary Assets</b>		
<b>Fixed Income</b>		
Shenkman Capital Management	0.75% of Assets	0.75%
Ashmore Investment Management*	1.50% of Assets	1.50%
<b>Real Estate</b>		
Prudential Real Estate Investors*	0.88% on First \$10 million 0.84% over \$10 up to \$25 million	0.86%
<b>Hedge Fund</b>		
Blackstone Alternative Asset Management*	1.25% of Assets	1.25%
<b>Private Equity*</b>		
HarbourVest Partners VIII Venture Fund	1.00% of Committed Capital	1.00%
HarbourVest Partners VIII Buyout Fund	1.00% of Committed Capital	1.00%
HarbourVest Partners VIII Mezzanine and Distressed Debt Fund	1.00% of Committed Capital	1.00%
HarbourVest International Private Equity V	1.00% of Committed Capital	1.00%
Portfolio Advisors Private Equity Fund I	0.70 of Committed Capital	0.70%
<b>Total Non Discretionary Overlay Feed</b>	<b>0.09 of Assets</b>	<b>0.09%</b>
<b>Total Investment Management Fee</b>		<b>0.84%</b>

Source: Trust Fund for the People of the Federated States of Micronesia Investment Performance, September 30, 2013, Mercer Investment Consulting, p. 140.

\*The fee schedule rates are based on the manager's standard management fees only and do not include performance-based fees, incentives fees, etc.

Note: The management fees payable to third party investment managers to underlying funds in which Mercer PIP III will be borne by that fund and therefore, indirectly by the Discretionary Account.

## Attachment 2: Performance Standard Benchmarks

Asset Class	Benchmarks
<b>Overall</b>	Total Trust Benchmark <sup>11</sup> Ifx All Foundation Gross Median
<b>Total Managed Assets Benchmark</b>	Custom Bench Mark (as of 11/1/12): Russell 3000 (43%), MSCI ACWIxUS (43%), Barclays Capital Aggregate (15%), T-Bills+3% (4%)
<b>Domestic Equity</b>	Russell 3000 Index
<b>US Large Cap Equity</b>	S&P 500 Index (total return) Mercer Institutional US Equity Large Cap Core Median
<b>US Small/Med Cap Equity</b>	Russell 2500 Growth Index Mercer Institutional US Equity SMID Growth Median Russell 2500 Value Index Mercer Institutional US Equity SMID Value Median
<b>Non-US Equity</b>	Total Non-US Equity Benchmark (MSCI ACWI ex US Ne Div.) MSCI EAFE Mercer Institutional World ex US EAFE Equity Median MSCI Emerging Markets Mercer Institutional Emerging Markets Equity Median
<b>Fixed Income</b>	Barclays US Aggregate Bond Index Mercer Institutional US Fixed Core Opportunistic Median Mercer Institutional US Fixed Core Median Mercer Institutional global Equity Median
<b>Hedge Fund (managed)</b>	T-Bills+3% HFRI Fund of Funds Composite Index Mercer Institutional Funds of Hedge Funds (Net) Median
<b>Private Equity (managed)</b>	S&P 500+3% Venture Economics All Private Equity Index
<b>Emerging Market Debt</b>	JP Morgan Emerging Market Bond Index Mercer Institutional Emerging Market Debt Median
<b>Convertible Bonds</b>	BofA Merrill Lynch All US Convertibles Index Mercer Institutional US Convertible Composites Median

<sup>11</sup> As of 1/1/13, the Total Trust Benchmark is comprised of 25.5% Russell 3000, 25.5% MSCI ACWIxUS Net Dividend, 2.5% Barclays Capital Aggregate, 10% JPMorgan Emerging Market Bond Index, 6.5% BofA Merrill Lynch All US Convertibles, 10.5% T-Bills+3%, 10% NCREIF NFI ODCE, 9.5% S&P 500+3%.



Asset Class	Benchmarks
<b>Private Equity</b>	S&P 500+3% Venture Economics All Private Equity Index
<b>Private Real Estate</b>	NCREIF NFIC ODE Mercer Institutional US Real Estate Open End Median
<b>Hedge Funds</b>	T-Bills +3% Mercer Institutional Funds of Hedge Funds (Net) Median

Source: Trust Fund for the People of the Federated States of Micronesia Investment Performance, September 30, 2013, Mercer Investment Consulting.



### Attachment 3: Historical Tables

**Table A: Total Contributions, Income, Expenses and Net Positions Since Inception**  
(in millions)

	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13
<b>Net Position (Beginning FY)</b>	<b>\$0.00</b>	<b>\$64.23</b>	<b>\$86.46</b>	<b>\$122.84</b>	<b>\$117.52</b>	<b>\$138.07</b>	<b>\$177.20</b>	<b>\$198.46</b>	<b>\$257.34</b>
<i>Contributions</i>									
US	32.19	16.44	17.69	19.00	20.91	21.52	22.39	23.59	\$24.99
FSM	30.26	0.00	0.00	0.00	0.00	0.00	0.00	0.00	\$0.00
Total	62.45	16.44	17.69	19.00	20.91	21.52	22.39	23.59	\$24.99
<i>Investment Earnings Less Fees and Expenses</i>									
Investment Earnings	1.79	5.94	19.41	-23.27	0.83	18.70	-0.34	36.19	\$41.90
Fees and Expenses	0.01	0.14	0.73	1.05	1.18	1.09	0.79	0.89	\$1.15
Total	1.78	5.80	18.69	-24.32	-0.35	17.60	-1.13	35.29	\$40.74
<b>Net Position (End FY)</b>	<b>\$64.23</b>	<b>\$86.46</b>	<b>\$122.84</b>	<b>\$117.52</b>	<b>\$138.07</b>	<b>\$177.20</b>	<b>\$198.46</b>	<b>\$257.34</b>	<b>\$323.08</b>

Note: Amounts rounded. "Fees and Expenses" are not inclusive of all Money Manager fees given that in the Audited Annual Financial Statements those Money Manager fees are deducted directly from the respective asset's value. Table 5 provides all FY12 and FY13 expenses inclusive of Money Manager Fees deducted from the respective asset values.

Source: Audited Annual Financial Statements since FY05.

**Table B: Investment and Administrative Expenses Since Inception and Differences Between FY12 and FY13**

	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	Diff FY11- FY13
<b>Investment Expenses</b>	<b>\$0</b>	<b>\$132,039</b>	<b>\$686,419</b>	<b>\$955,763</b>	<b>\$1,049,150</b>	<b>\$939,224</b>	<b>\$645,382</b>	<b>\$737,949</b>	<b>\$1,000,276</b>	<b>35.5%</b>
Custodian	-	1,997	12,908	42,117	16,280	23,508	59,312	67,313	85,449	26.9%
Investment Adviser	-	125,385	142,402	126,800	187,754	319,704	162,496	179,738	359,658	100.1%
Money Manager	-	4,657	531,109	786,846	845,116	596,012	423,574	490,898	555,169	13.1%
<i>% of Net Position</i>	<i>0.00%</i>	<i>0.15%</i>	<i>0.56%</i>	<i>0.81%</i>	<i>0.76%</i>	<i>0.53%</i>	<i>0.33%</i>	<i>0.29%</i>	<i>0.31%</i>	
<b>Administrative Expenses</b>	<b>\$13,356</b>	<b>\$9,458</b>	<b>\$39,715</b>	<b>\$93,851</b>	<b>\$133,959</b>	<b>\$152,679</b>	<b>\$147,921</b>	<b>\$156,960</b>	<b>\$153,346</b>	<b>-2.3%</b>
Executive Administrator	-	-	-	70,650	85,650	91,850	96,816	102,760	98,280	-4.4%
Audit Fees	-	-	33,906	15,260	39,740	45,062	42,446	39,900	41,088	3.0%
Accounting Fees	-	-	-	3,449	5,868	6,295	6,794	6,639	5,893	-11.2%
Legal Fees	13,356	9,458	5,809	4,457	245	4,344	1,258	780	2,889	270.3%
Miscellaneous Fees	-	-	-	35	2,456	5,128	607	6,881	5,197	-24.5%
<i>% of Net Position</i>	<i>0.02%</i>	<i>0.01%</i>	<i>0.03%</i>	<i>0.08%</i>	<i>0.10%</i>	<i>0.09%</i>	<i>0.07%</i>	<i>0.06%</i>	<i>0.05%</i>	
<b>Total Expenses</b>	<b>\$13,356</b>	<b>\$141,497</b>	<b>\$726,134</b>	<b>\$1,049,614</b>	<b>\$1,183,109</b>	<b>\$1,091,903</b>	<b>\$793,303</b>	<b>\$894,909</b>	<b>\$1,153,622</b>	<b>28.9%</b>
<i>Total % of Net Position</i>	<i>0.02%</i>	<i>0.16%</i>	<i>0.59%</i>	<i>0.89%</i>	<i>0.86%</i>	<i>0.62%</i>	<i>0.40%</i>	<i>0.35%</i>	<i>0.36%</i>	

Note: Amounts rounded.

Source: Audited Annual Financial Statements since FY05

Note: Categories are organized and dollar figures reported per the Audited Annual Financial Statements. Investment expenses are not inclusive of all Money Manager fees given that in the Audited Annual Financial Statements those Money Manager fees are deducted directly from the respective asset's value. Table 5 provides all FY12 and FY13 expenses inclusive of Money Manager Fees deducted from the respective asset values.

**Table C: A and C Account Net Position Balances, FY06-FY13**

	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>
<b>Total Net Position</b>	<b>\$86,464,317</b>	<b>\$122,839,583</b>	<b>\$117,515,688</b>	<b>\$138,075,219</b>	<b>\$177,198,362</b>	<b>\$198,460,033</b>	<b>257,346,108</b>	<b>323,083,136</b>
<i>A Account</i>	<i>\$85,645,391</i>	<i>\$110,126,326</i>	<i>\$104,802,431</i>	<i>\$125,361,962</i>	<i>\$156,981,440</i>	<i>\$178,243,111</i>	<i>216,162,380</i>	<i>259,306,473</i>
US	52,597,064	74,902,144	76,325,412	96,967,855	126,458,760	147,930,868	183,186,779	223,762,511
FSM	33,048,327	35,224,182	28,477,019	28,394,107	30,522,680	30,312,243	32,975,601	35,543,962
<i>C Account</i>	<i>\$818,926</i>	<i>\$12,713,257</i>	<i>\$12,713,257</i>	<i>\$12,713,257</i>	<i>\$20,216,922</i>	<i>\$20,216,922</i>	<i>41,183,728</i>	<i>63,776,663</i>
US	502,911	8,587,013	8,587,013	8,587,013	13,655,271	13,655,271	34,901,145	55,034,593
FSM	316,015	4,126,244	4,126,244	4,126,244	6,561,651	6,561,651	6,282,583	8,742,070

Notes: Amounts rounded.

Source: Audited Annual Financial Statements since FY06.

