

**Trust Fund for the People of the
Federated States of Micronesia**

Financial Statements

September 30, 2015 and 2014



Candor. Insight. Results.

Trust Fund for the People of the Federated States of Micronesia

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Trust Fund for the People of the Federated States of Micronesia

Management's Discussion and Analysis

Fiscal Years Ended September 30, 2015 and 2014

The following represents the Trust Fund Committee's management discussion and analysis of the Trust Fund for the People of the Federated States of Micronesia's ("Trust Fund") financial performance for the years ended September 30, 2015 and 2014. Please read it in conjunction with the Trust Fund's financial statements, which follow this section.

Summary of Fiscal Year 2015 Financial Highlights

- The Trust Fund's fiduciary net position value increased 4.3% to \$397.3 million for fiscal year 2015 from \$380.9 million for fiscal year 2014. The increase was due to a contribution from the United States government of \$27.0 million offset by a net investment loss of (\$10.3) million.
- The Trust Fund had a weighted annual rate of return of (2.6%), following three consecutive growth years: 9.1% for fiscal year 2014, 14.4% for fiscal year 2013, and 16.0% for fiscal year 2012. On a performance basis, net of fees, the Trust Fund lost 2.8% compared to a benchmark of (3.4%).¹
- No transfer was made to the C account for fiscal year 2015 since there was no annual income earned over the 6% threshold.² The C account amounts to \$78.2 million as of the end of fiscal year 2015. The ending balance now reflects an approximate \$4.5 million cumulative adjustment to the account from the A account given a change to the methodology to calculate the weighted annual rate of return to conform to the Global Investment Performance Standards (GIPS®). The change in the methodology was a result of a recommendation by an independent and objective external evaluation that occurred in fiscal year 2015. The Committee adopted the recommendation by *Resolution 2015-7 Weighted Annual Rate of Return and C Account Methodology Adjustment*.
- Investment expense amounted to \$3.0 million for fiscal year 2015 compared to \$2.8 million for fiscal year 2014. Overall investment expense amounted to 0.76% of restricted fiduciary net position for fiscal year 2015 compared to 0.75% for fiscal year 2014. The investment expense changes are in line with the Investment Policy Statement's agreed fee schedule.
- Administrative expenses increased to \$292,732 for fiscal year 2015 from \$154,481 for fiscal year 2014. As a percent of restricted fiduciary net position, administrative expenses increased to 0.07% for fiscal year 2015 compared to 0.04% for fiscal year 2014. The main reason for the increase was the contracting for the one-time independent and objective external evaluation. Without that cost, administrative expenses would decrease to 0.04% of restricted fiduciary net position.

¹ The Total Trust Benchmark is comprised of 25.5% Russell 3000, 25.5% MSCI ACWIxUS Net Dividend, 19.0% fixed income benchmark, 10% NCREIF NFI ODCE, 9.5% S&P 500+3%, and 10.5% T-Bills+3%.

² The C account contains any annual income on the Fund over 6%. The C account shall contain no more than three times the estimated equivalent of the fiscal year 2023 annual grant assistance, including the estimated inflation adjustment provided in the Amended Compact of Free Association (Section 217). After fiscal year 2023, the C account may be drawn on, to the extent it has sufficient funds, to address any shortfall in the B account, if income from the A account falls below the previous year's distribution adjusted for inflation. Transfers were made to the C account in fiscal years 2006, 2007, 2010, 2012, 2013, and 2014, the years with over 6% annual income. The A and C accounts are managed collectively and are only separated for accounting purposes.

Trust Fund for the People of the Federated States of Micronesia

Management's Discussion and Analysis

Fiscal Years Ended September 30, 2015 and 2014

The Trust Fund for the People of the Federated States of Micronesia Fiduciary Net Position Summary

	September 30,	
	2015	2014
Assets		
Cash and investments	\$ 397,448,461	\$ 381,020,231
Total assets	397,448,461	381,020,231
Liabilities		
Accrued expenses	134,873	119,220
Total liabilities	134,873	119,220
Restricted fiduciary net position	\$ 397,313,588	\$ 380,901,011

Financial Highlights - Fiduciary Net Position at September 30, 2015

The fair value of the Trust Fund's fiduciary net position was \$397.3 million as of September 30, 2015, compared to \$380.9 million as of September 30, 2014. The 4.3% increase of fiduciary net position of \$16.4 million is attributable to the annual contribution from the Government of the United States that amounted to \$27.0 million and a net investment loss of \$10.3 million attributable to negative public equity and capital market performance periodically throughout the year. The investment loss breaks the streak of significant investment gains during the fiscal year 2012-2014 period. The total weighted annual rate of return on investment for the year was (2.6%). Given the negative performance for the year, no transfer was made to the Trust Fund's C account for fiscal year 2015.

At September 30, 2015, the Trust Fund's assets consisted of managed assets (79.4% of the Trust Fund) and non-discretionary assets (20.6%). The managed assets portfolio consisted of U.S. domestic equity funds (26.6% of the Trust Fund), international equity funds (25.2%), fixed income securities (18.3%), a managed hedge fund (5.9%), and a managed private equity fund (3.4%). The non-discretionary assets portfolio consisted of real estate (12.3%), a hedge fund (4.2%), and private equity investments (4.0%). The asset category percentages are within the ranges set by the Trust Fund's Investment Policy Statement.

Accrued expenses represent amounts payable for accounting, custodial, and investment management services incurred during the fiscal year.

Trust Fund for the People of the Federated States of Micronesia

Management's Discussion and Analysis

Fiscal Years Ended September 30, 2015 and 2014

Financial Highlights - Fiduciary Net Position at September 30, 2014

The fair value of the Trust Fund's fiduciary net position was \$380.9 million as of September 30, 2014, compared to \$323.1 million as of September 30, 2013. The 17.9% increase of fiduciary net position of \$57.8 million is attributable to the annual contribution from the Government of the United States that amounted to \$26.1 million and \$31.9 million in net investment income. The gain in investment earnings is attributable to periodic gains in investment assets mainly by interest and dividends of \$12.3 million, unrealized gains of \$13.9 million and realized gains of \$6.7 million. Given the investment gain, a contribution was made to the Trust Fund's C account.

At September 30, 2014, the Trust Fund's assets consisted of managed assets (80.8% of the Trust Fund) and non-discretionary assets (19.2%). The managed assets portfolio consisted of domestic equity funds (28.3% of the Trust Fund), international equity funds (26.6%), fixed income securities (19.8%), a managed hedge fund (4.8%), and a managed private equity fund (1.3%). The fixed income portfolio was adjusted with the non-discretionary fixed income funds (emerging market debt and convertible bond funds) liquidated during fiscal year 2014 and the monies transferred to the managed fixed income funds (a core fixed income fund and an opportunistic fixed income fund). The non-discretionary assets portfolio consisted of real estate (9.8%), a hedge fund (4.3%), and private equity investments (5.0%). The asset category percentages are within the ranges set by the Trust Fund's Investment Policy Statement.

Accrued expenses represent amounts payable for accounting, custodial, and investment management services incurred during the fiscal year.

The Trust Fund for the People of the Federated States of Micronesia Changes in Fiduciary Net Position Summary

	Year Ended September 30,	
	2015	2014
Contributions	\$ 26,976,960	\$ 26,104,960
Net investment (loss) income	(10,271,651)	31,867,396
Total additions	16,705,309	57,972,356
Administrative expenses	292,732	154,481
Change in fiduciary net position	16,412,577	57,817,875
Restricted fiduciary net position, beginning	380,901,011	323,083,136
Restricted fiduciary net position, ending	\$ 397,313,588	\$ 380,901,011

Trust Fund for the People of the Federated States of Micronesia

Management's Discussion and Analysis

Fiscal Years Ended September 30, 2015 and 2014

Financial Highlights - Changes in Fiduciary Net Position for Fiscal Year Ended September 30, 2015

The Government of the United States, the sole contributor to the Trust Fund in fiscal year 2015, contributed \$27.0 to the Trust Fund on October 6, 2014. The contribution consisted of the base amount of \$22.4 million, an \$0.8 million increment, plus a cumulative partial inflation adjustment.

The net investment loss of \$10.3 million was mainly due to: interest and dividends of \$19.8 million, realized gains of \$3.4 million, and an unrealized loss of (\$32.3) million during the fiscal year ended September 30, 2015, net of investment expenses of \$1.1 million. The losses were experienced mainly in the managed asset portion of the portfolio from the periodic losses in U.S. and international public equities and fixed income assets. The non-discretionary assets contributed positively to the annual performance.

Investment expenses increased by 1.2% compared to fiscal year 2014 to \$1,118,573 from \$1,105,359. For fiscal year 2015, the Trust Fund incurred investment advisory fees of \$426,352, custodian fees of \$99,777 and money manager fees of \$592,444. In addition, as occurred in past fiscal years, part or all of money manager fees, totaling \$1,912,514 for fiscal year 2015, were deducted from the asset values and not included in the investment adviser's fee and the investment expense category. All investment expenses, inclusive of custodial, investment advisory and all money manager fees, amounted to \$3,031,087 in fiscal year 2015 compared to \$2,849,842 in fiscal year 2014. The increase was due to the increased value of the Trust Fund on which the fees are based, driven by additional contributions and market appreciation during points of the year, as well as full asset strategy implementation for the entire fiscal year based on a fee adjustment made during fiscal year 2014. The overall investment expense amounted to 0.76% of restricted fiduciary net position for the 2015 fiscal year compared to 0.75% for fiscal year 2014.

Administrative expenses amounted to \$292,732 in fiscal year 2015, an increase of 89.5% over the fiscal year 2014 amount of \$154,481. The increase is mainly due to a one time service charge for the conduct of the independent and objective external evaluation of the Trust Fund approved by the Trust Fund Committee per Resolutions 2015-1 *Independent and Objective Trust Fund Evaluation Search and Approval* and Resolution 2015-2 *Independent and Objective Trust Fund Evaluation Firm Selection*. There were also slight increases in the executive administrator's fee and legal fees. Decreases occurred for accounting and audit fees. The percentage of administrative expenses of restricted net position increased to 0.07% for fiscal year 2015 compared to 0.04% for fiscal year 2014. Minus the additional cost of the independent and objective external evaluation, administration expenses would have remained at 0.04% of fiscal year 2015 restricted net position.

The U.S. Departments of the Interior, State and Education contributed staff time, equipment usage and incidental expenses during the fiscal year ended September 30, 2015. No amounts for these contributions were recorded in the accompanying financial statements.

Trust Fund for the People of the Federated States of Micronesia

Management's Discussion and Analysis

Fiscal Years Ended September 30, 2015 and 2014

Financial Highlights - Changes in Fiduciary Net Position for Fiscal Year Ended September 30, 2014

The Government of the United States, the sole contributor to the Trust Fund for fiscal year 2014, made a contribution to the Trust Fund on October 21, 2013 in the amount of \$26.1 million. The contribution consisted of the base amount of \$21.6 million, an \$0.8 million increment, plus a cumulative partial inflation adjustment.

The net investment income of \$31.9 million was due to: interest and dividends of \$12.3 million, unrealized gains of \$13.9 million, realized gains of \$6.7 million, interest of \$0.2 million, and a slight loss due to accretion of \$0.02 million and a currency value change of \$0.01 million during the fiscal year ended September 30, 2014, net of investment expenses of \$1.1 million. The gains were experienced mainly in the managed asset portion of the portfolio from the periodic gains in U.S. equities. The non-discretionary assets also contributed to the positive performance but at lower growth rates.

Investment expenses increased by 10.5% compared to fiscal year 2013 to \$1,105,359 from \$1,000,276. For fiscal year 2014, the Trust Fund incurred investment advisory fees of \$402,713, custodian fees of \$98,437 and money manager fees of \$604,209. In addition, as occurred in past fiscal years, part or all of money manager fees, totaling \$1,744,483, were deducted from the asset values and not included in the investment adviser's fee and the investment expense category. All investment expenses, inclusive of custodial, investment advisory, and all money manager fees, amounted to \$2,849,842 for fiscal year 2014 compared to \$2,613,679 for fiscal year 2013. The increase was due to 1) the managed asset fee increase to 63 basis points from 58 basis points agreed to in fiscal year 2014, and; 2) the increased value of the Trust Fund on which the fees are based, driven by an additional contribution and market appreciation. The overall investment expense amounted to 0.75% of restricted fiduciary net position for the 2014 fiscal year, down from 0.81% for fiscal year 2013.

Administrative expenses amounted to \$154,481 in fiscal year 2014, a slight increase of 0.7% over the fiscal year 2013 amount of \$153,346. The increase is attributed to slight increases in the executive administrator's fee, accounting fee, audit fee and miscellaneous expenses. Decreases occurred for accounting and legal fees. The percentage of administrative expenses was reduced to 0.04% of restricted fiduciary net position for fiscal year 2014 from 0.05% for fiscal year 2013, continuing the downward trend of administrative expenses since fiscal year 2009.

The U.S. Departments of the Interior, State and Education contributed staff time, equipment usage and incidental expenses during the fiscal year ended September 30, 2014. No amounts for these contributions were recorded in the accompanying financial statements.

Trust Fund for the People of the Federated States of Micronesia

Management's Discussion and Analysis

Fiscal Years Ended September 30, 2015 and 2014

Future Prospects Beyond September 30, 2015

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 ("FSM") 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 investment objective as set forth in the Investment Policy Statement of September, 2010, and amended in April 2014 with an effective date of January 2014 states: *"The broad investment objective will be 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."*

The Trust Fund's weighted annual rate of return on investment, after discounting for contributions, fees and expenses, was (2.6%) for the fiscal year compared to a rate of 9.1% for fiscal year 2014, 14.4% for fiscal year 2013 and 16.0% for fiscal year 2012. In terms of performance measurement, the Trust Fund lost (2.8%), net of fees. This loss compares to a (3.4%) loss for the Total Trust Benchmark.

The portfolio mainly experienced losses in U.S. and non-U.S. equity as well as fixed income strategies. The losses were somewhat mitigated by the alternative investments to include the real estate, hedge fund and private equity strategies.

The managed asset portion of the portfolio, net of fees, had a negative return of (6.1%) for fiscal year 2015. U.S. domestic equities posted a (1.0%) loss (benchmark loss (0.5%)), international equities (8.5%) (benchmark (12.2%)), fixed income (12.9%) (benchmark (10.8%)) and the managed hedge fund 1.5% (benchmark gain 3.0%). The managed private equity fund strategy grew as a component of the Fund to approximately 3.4% of total fund assets from 1.3% for fiscal year 2014 and provided an estimated return of 9.6% compared to the S&P 500 +3% benchmark return of 2.4%. Given the nature of private equity funds, the private equity strategy will continue to call 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 total non-discretionary asset portfolio, net of fees, gained 11.8%. Gains were made in real estate (14.9%, equaling its benchmark), hedge fund (3.2%; benchmark gain 3.0%), and private equity (14.4%; benchmark 2.4%). The more mature non-discretionary private equity funds continue producing more consistent distributions given the progress of those investments through the "J-curve" effect as distributions have further outpaced capital infusions to these funds.

The negative fiscal year 2015 performance resulted in no contribution to the C account for fiscal year 2015. However, the C account value was increased based on the findings of the independent and objective external evaluation that recommended the adjustment to the methodology to calculate the weighted annual rate of return to conform to the Global Investment Performance Standards (GIPS®). The Committee accepted the recommendation by approving Resolution FSM 2015-7 *Weighted Annual Rate of Return and C Account Calculation Methodology Adjustment*. The change to the methodology resulted in slightly increased dollar weighted annual rates of return and, thus, slight additions to the previously recorded C account transfers. The total adjustment for all fiscal years added \$4.5 million to the C account from the A

Trust Fund for the People of the Federated States of Micronesia

Management's Discussion and Analysis

Fiscal Years Ended September 30, 2015 and 2014

account as of the end of fiscal year 2015. The C account now holds approximately 98.0% of the estimated FY23 sector grant amount to be provided to the FSM through the Amended Compact of Free Association.

Since inception, the Trust Fund's average annual net rate of return on investment is 4.6%, net of fees. The return rate is below the Total Trust Benchmark of 5.0%.

An analysis by the Investment Adviser estimates that, assuming a 6% payout from the Trust Fund, if the Trust Fund manages an average 5% return annually from fiscal year 2016 to fiscal year 2023, the distribution from the estimated assets would probably provide for fiscal year 2024 an amount equivalent to about 69.9% of the Amended Compact's Section 211 estimated 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.

If the Trust Fund were to achieve an average 8% return annually, the Trust Fund would probably provide for fiscal year 2024 an amount equivalent to 83.5% of estimated fiscal year 2023 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 Trust Fund has achieved 8% or more return in five fiscal years: 2007, 2010, 2012, 2013, and 2014.

If the Trust Fund were to achieve an average 10% return annually, the Trust Fund would probably provide fiscal year 2024 revenue equivalent to about 94.7% of estimated partially inflation adjusted fiscal year 2023 sector grant assistance. However, it is unlikely that post-2023 distributions would provide for future inflation adjustments beyond the fiscal year 2023 amount. The C account would achieve the maximum level permitted under the Trust Fund Agreement prior to fiscal year 2023. However, there is a low probability of achieving such growth annually.

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.

Independent Auditors' Report

Joint Trust Fund Committee
Trust Fund for the People of the Federated States of Micronesia

Report on the Financial Statements

We have audited the accompanying financial statements of Trust Fund for the People of the Federated States of Micronesia (a District of Columbia not for profit corporation), which comprise the statement of fiduciary net position as of September 30, 2015 and 2014, and the related statement of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to an express opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Trust Fund for the People of the Federated States of Micronesia as of September 30, 2015 and 2014, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 7, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2016 on our consideration of Trust Fund for the People of the Federated States of Micronesia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Trust Fund for the People of the Federated States of Micronesia's internal control over financial reporting and compliance.

Baker Tilly Viechow Krause, LLP

Philadelphia, Pennsylvania
March 28, 2016

Trust Fund for the People of the Federated States of Micronesia

Statement of Fiduciary Net Position

September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Cash equivalents	\$ 491,988	\$ 143,046
Investments, at fair value	<u>396,956,473</u>	<u>380,877,185</u>
Total assets	<u>\$ 397,448,461</u>	<u>\$ 381,020,231</u>
Liabilities and Restricted Fiduciary Net Position		
Liabilities		
Accrued expenses	<u>\$ 134,873</u>	<u>\$ 119,220</u>
Total liabilities	134,873	119,220
Restricted Fiduciary Net Position	<u>397,313,588</u>	<u>380,901,011</u>
Total liabilities and restricted fiduciary net position	<u>\$ 397,448,461</u>	<u>\$ 381,020,231</u>

See notes to financial statements

Trust Fund for the People of the Federated States of Micronesia

Statement of Changes in Fiduciary Net Position
Years Ended September 2015 and 2014

	<u>2015</u>	<u>2014</u>
Additions		
Contributions:		
Government of the United States of America	\$ 26,976,960	\$ 26,104,960
Investment income:		
Interest and dividends	19,765,695	12,348,471
Net (decrease) increase in the fair value of investments	<u>(28,918,773)</u>	<u>20,624,284</u>
Gross investment (loss) income	(9,153,078)	32,972,755
Less: investment expenses	<u>1,118,573</u>	<u>1,105,359</u>
Net investment (loss) income	<u>(10,271,651)</u>	<u>31,867,396</u>
Total additions	<u>16,705,309</u>	<u>57,972,356</u>
Deduction		
Administrative expenses	<u>292,732</u>	<u>154,481</u>
Change in fiduciary net position	16,412,577	57,817,875
Restricted Fiduciary Net Position, Beginning	<u>380,901,011</u>	<u>323,083,136</u>
Restricted Fiduciary Net Position, Ending	<u>\$ 397,313,588</u>	<u>\$ 380,901,011</u>

See notes to financial statements

Trust Fund for the People of the Federated States of Micronesia

Notes to Financial Statements
September 30, 2015 and 2014

1. Summary of Significant Accounting Policies

Overview of the Trust Fund:

Compact

The Compact of Free Association Between the Governments of the United States of America (“United States”) and the Federated States of Micronesia (“FSM”) and the Republic of the Marshall Islands was approved by the United States Congress in Section 201 of Public Law 99-239 (January 14, 1986) and went into effect with respect to the FSM on November 3, 1986 as amended by Public Law 108-188 approved December 17, 2003 (“Compact”) and provided legislation to establish the Trust Fund for the People of the Federated States of Micronesia (“Trust Fund”).

Trust Fund

Pursuant to the provisions of the Compact and its subsidiary *Agreement Between the Government of the United States of America and the Government of the Federated States of Micronesia* (“Original Parties”) *Implementing Section 215 and Section 216 of the Compact, as Amended, regarding a Trust Fund* (“Trust Fund Agreement”), the Trust Fund for the People of the FSM was incorporated in Washington, D.C. on August 17, 2004, as a nonprofit corporation. The purpose of the Trust Fund is to contribute to the economic advancement and long-term budgetary self-reliance of the FSM 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 FSM and United States Governments, with priorities in education and health care. In accordance with the agreement, the situs of the Trust Fund was established within the United States. The Original Parties are committed to contribute to the Trust Fund amounts described in the Compact, as amended. “Subsequent Contributors” are any government, international organization, financial institution, or other entity or person who grants, not lends, funds into the Trust Fund, not including the Original Parties. Subsequent Contributors may contribute to the Trust Fund if first approved by all Joint Trust Fund Committee (“Committee”) voting members. The composition of the Committee consists of three voting members from the United States appointed by the Government of the United States, which include the Chairman of the Joint Trust Fund Committee, and two voting members appointed by and for the Government of the Federated States of Micronesia. The Committee has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has primary accountability for fiscal matters. By a majority vote of the Committee, other voting or non-voting members may be appointed from Subsequent Contributors that contribute to the Trust Fund from time to time, provided that the United States maintains the majority vote in the Committee.

After the initial twenty (20) years beginning October 1, 2023, the Original Parties will consult regarding the future composition of the Committee. The Committee shall remain the same, unless otherwise agreed by the Original Parties.

Trust Fund for the People of the Federated States of Micronesia

Notes to Financial Statements
September 30, 2015 and 2014

The Government of the United States may unilaterally withdraw the accumulated market value of its contributions from the Trust Fund, plus any undistributed income under certain circumstances which include the Government of the FSMs' gross misuse of the Trust Fund's financial resources. The Trust Fund's operations may be terminated by written agreement of the Original Parties.

Tax Exempt Status

As provided by the Compact, the Trust Fund is exempt from U.S. federal income tax.

Trust Fund Financial Statements

The statement of fiduciary net position and the statement of changes in fiduciary net position are private purpose trust fund financial statements. They report information on all of the Trust Fund's assets, liabilities, fiduciary net position, and activities. The Trust Fund's activities are supported primarily by contributions by the Original Parties and investment income. The Trust Fund has no business or proprietary type activities that rely on fees or charges for support.

Contributions represent amounts paid by the Original Parties to help meet the operational requirements of the Trust Fund and represent principal.

The Trust Fund consists of three accounts: the "A" Account, the "B" Account, and the "C" Account, respectively (collectively, the "Accounts"). Each account has a specific purpose with respect to the use of contributions and income derived from investments as specified by the Trust Fund Agreement in accordance with the special purpose of the Trust Fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Trust Fund's financial statements use the economic resources measurement focus and are prepared using the accrual basis of accounting. Contributions are recorded when due and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Additional contributions are recognized as revenue as soon as all eligibility requirements imposed by the Compact have been met. Investment earnings are recorded as earned, since they are both measurable and available.

The Trust Fund has adopted applicable Government Accounting Standards Board ("GASB") pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of the Trust Fund are included in the accompanying statements of fiduciary net position. The Trust Fund's fiduciary net position is restricted for future use after fiscal year 2023.

Trust Fund for the People of the Federated States of Micronesia

Notes to Financial Statements
September 30, 2015 and 2014

Credit Risk, Custodial Credit Risk, Concentration of Credit Risk and Interest Rate Risk

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, the Trust Fund has assessed the credit risk, concentration of credit risk, and the interest rate risk applicable to its cash and cash equivalents, and investments. The Trust Fund's policy is to report cash equivalents at cost which approximates fair value. Cash equivalents consist of money market investments in the custodian, State Street Bank and Trust Company's SSgA Money Market Fund. This portfolio invests in short term, highly liquid certificates of deposit and notes issued by international banks and finance companies, and repurchase agreements with domestic banks collateralized by debt securities issued or guaranteed by the U.S. government or its agencies. Investments in money market funds are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the funds seek to preserve the value of the investment at \$1.00 per share, it is possible to lose money investing in this type of fund. Custodial credit risk for cash and cash equivalents is the risk that in the event of a bank failure, the Trust Fund's deposits may not be returned to it. The Trust Fund does not have a deposit policy for custodial credit risk.

The Trust Fund does not have any concentrations of credit risk. See Note 3 for a discussion of credit risk and interest rate risk.

Investments

Investments are reported at fair value unless a legal contract exists which guarantees a higher value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Open-ended mutual funds are valued at net asset value, generally based on quoted market values of the underlying marketable securities. The fair value of private equities and investments in hedge funds are based on management's valuation of estimates and assumptions from information and representations provided by the respective general partners, in the absence of readily ascertainable market values. Real estate assets are reported at fair value utilizing an income approach to valuation. Investment income consists of interest, dividends and net investment gains or losses resulting from changes in the fair value of investments. Accrued expenses may include amounts due to brokers for purchases of securities as of the fiscal year end which have not settled, and for which payment has not yet been transferred from the broker.

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The investment policy adopted by the Trust Fund Committee on September 15, 2010 and amended through December 17, 2013 requires the Trust Fund to allocate its managed investment portfolios among domestic and foreign equity and fixed income securities. All or a portion of the Trust Fund may be invested in exchange traded funds (ETFs), mutual funds, real estate investment trusts (REITs), separate accounts and common trust funds (commingled vehicles), hedge funds, private equity funds, and other pooled investment vehicles (pooled vehicles). A common trust fund is similar to an open-ended investment company or mutual fund, but participation is limited to investors with trust accounts. Commingled and pooled vehicles that invest exclusively in marketable fixed income securities are considered to be fixed income securities for the purpose of compliance with the Trust Fund's investment policy. The fair values of ETFs, mutual funds, and common trust funds are generally determined by the fair value of the underlying marketable equity and debt securities owned, which are principally common stocks and bonds, respectively. Publicly traded ETFs, mutual funds, and similar vehicles may trade at prices above or below the fair values of the underlying investments held; therefore the fair value of such investments may differ from the sum of the fair values of the underlying investments owned. The core fixed income portfolios may be invested in debt securities issued by the U.S. government and government agencies, foreign governments, domestic and international corporate securities, including asset-backed and mortgage-backed obligations. The fixed income portfolio may invest in convertible and high yield debt securities; however the average quality of the fixed income portfolio must be rated "investment grade" by at least one nationally recognized rating agency at the time of purchase. The Trust Fund's fixed income investment objective is for each portfolio to achieve total return similar to a relevant index, such as Barclays Capital Aggregate Index and the Bank of America Merrill Lynch Global High Yield Index.

The Trust Fund's equity investment objective is for its various portfolios to achieve total returns similar to their benchmark equity indices. Benchmark indices include the Russell 3000, the S&P 500 and the MSCI EAFE.

Private equity funds are a form of pooled investment vehicle, typically limited partnerships controlled by a private equity firm that acts as general partner. The general partner seeks to obtain specific dollar commitments from qualified institutional and accredited investors to invest capital in the fund as limited partners. The passive limited partners fund pro rata portions of their commitments when the general partner has identified an appropriate opportunity, which may be venture capital in the form of equity securities, convertible debt securities, or real estate for which no active markets exist. Venture capital is often used to finance new products and technologies, expand working capital, make acquisitions, or finance leveraged buyouts. A typical private equity fund could make between 15 and 25 separate investments over a ten-year life, with no single investment exceeding 10% of the total capital commitment. The fair values of the underlying investments held by each private equity fund are generally determined by management of the equity investee or as determined by the general partner or manager of the private equity fund and is based upon the Trust Fund's percentage ownership of the underlying investments. Investments in private equity funds generally tend to be illiquid for significant periods of time.

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Hedge funds are a form of pooled investment vehicle, generally a limited partnership or a foreign (off-shore) investment corporation, that seeks to maximize absolute returns whose offering memorandum allows for the fund to take both long and short positions, use leverage and derivatives, and invest in many markets. Hedge funds often take large risks using a broad range of speculative strategies, including investing in unconventional and illiquid investments. The fair value of the Trust Fund's investment in a hedge fund is determined by the hedge fund manager and is based upon the Trust Fund's percentage ownership of the underlying investments.

Commingled separate accounts invested in real estate and related assets are carried at fair value of the underlying investments. The fair value of separate account investments in real property real estate partnerships are generally determined based on independent appraisals obtained no less frequently than annually. The fair value of separate account investments in real estate partnerships are generally determined based upon the equity method of accounting, and the fair value of underlying investments in real estate loans and mortgages are generally determined through the use of cash flow forecasting or other models by management of the insurance company that manages the separate account.

Derivatives, options and future contracts are permitted investments for the purpose of reducing risk and efficient portfolio management. Derivatives, options and futures may not be used for speculative purposes.

Restricted Fiduciary Net Position

Restricted fiduciary net position consists of the "A", "B", and "C" Accounts as described below and are subject to legal, regulatory, budgetary, or other restrictions in accordance with the Compact.

1. The "A" Account:
 - a. The "A" Account, which was established upon the effective date of the Compact, as amended, shall form the corpus and consist of contributions from the Original Parties and Subsequent Contributors. Except as otherwise provided in the Trust Fund Agreement, it also consists of the income from the investments made from contributions (principal), and transfers from the "B" Account and "C" Account in accordance with the Trust Fund Agreement.
 - b. Through September 30, 2022, payment of allowable expenses of the Trust Fund shall be made from the "A" Account. During this period, the amount, if any, of income in each fiscal year which remains after such payment of expenses shall be reinvested into the "A" Account. Except as provided in the Trust Fund Agreement, or upon termination of the Trust Fund, no funds may be removed from the "A" Account.

The balance of the "A" Account as of September 30, 2015 and 2014 was \$319,162,816 and \$302,750,239, respectively.

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2. The "B" Account:
 - a. On October 1, 2022, the "B" Account shall be created.
 - b. During fiscal year 2023, all income earned in fiscal year 2023 shall be deposited into the "B" Account for disbursement in fiscal year 2024.
 - c. For fiscal year 2024, and thereafter, the "B" Account shall consist of the prior year's income from investment of funds in the "A" Account.
3. The "C" Account:
 - a. Shall be created at the same time as the "A" Account, and beginning in fiscal year 2004 through fiscal year 2022, any annual income on the Trust Fund over six percent (6%) shall be deposited in the "C" Account, up to the limit specified in (b) below. Beginning in fiscal year 2023, the "C" Account shall be replenished from the "B" Account in accordance with paragraph 6 below;
 - b. Shall contain no more than three times the estimated equivalent of the fiscal year 2023 annual grant assistance, including estimated inflation calculated in accordance with Section 217 of the Compact. Any excess above the estimated amount shall return to the "A" Account; and
 - c. May be drawn on, to the extent it contains sufficient funds, to address any shortfall in the "B" Account after fiscal year 2023, if income on the "A" Account falls below the previous year's distribution (not including any amount distributed that year for special needs) adjusted for inflation to the Government of the FSM and for special needs agreed to by the Committee.

The "C" Account is maintained as a memorandum account within the Trust Fund, and is not separately invested.

Additions to the "C" Account during the years ended September 30, 2015 and 2014 were \$0 and \$10,851,744, respectively. The amount that is ultimately transferred to the "C" Account will be determined based on actual cumulative investment performance through the date of the transfer. During fiscal year 2015, the Trust Fund Committee adopted Resolution FSM 2015-7 *Weighted Annual Rate of Return and C Account Calculation Methodology Adjustment*, the objective of which was to change the Trust Fund's weighted annual rate of return calculation methodology from that previously approved per Resolution FSM 2011-7 *Trust Fund A and C Account Income, Expense, and End-of-Year Calculation* to conform to the Global Investment Performance Standards utilizing the Modified Dietz Method. The weighted annual rate of return did not exceed 6% during 2015, however the Trust Fund Committee elected to retrospectively apply the new methodology to all previous reporting periods, the result of which amounted to a cumulative adjustment of \$3,522,365 to the "C" Account balance as of October 1, 2014. The balance of the "C" Account as of September 30, 2015 and 2014 was \$78,150,772. The election of the new methodology did not result in a material change to the balance of the "A" Account or the "C" Account as of September 30, 2015 and 2014, or a material adjustment to the amounts transferred for the years then ended.

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4. After fiscal year 2023, if the income in the “B” Account is less than the previous year’s distribution to the Government of the FSM, and the “C” Account cannot cover the shortfall in the “B” Account, then the principal and reinvested income not available for distribution (corpus) shall not be accessed to compensate for the shortfall.
5. The Committee may disburse to the Government of the FSM from the “B” Account (supplemented from the “C” Account if the “B” Account is insufficient):
 - a. In fiscal year 2024, an amount equal to the annual grant assistance provided by the Government of the United States to the Government of the FSM in fiscal year 2023, plus an inflation adjustment; and
 - b. Beginning in fiscal year 2025 and thereafter, an amount of funds no more than the amount equal to the United States annual financial assistance to the FSM in fiscal year 2023 plus a cumulative inflation adjustment thereon, plus any additional amounts for special needs as approved above.
6. Beginning in fiscal year 2023, the Committee shall transfer to the “A” Account any funds in the “B” Account in excess of the amount approved for disbursement in the following fiscal year, in accordance with paragraph 5 above, unless such excess funds are needed to bring the “C” Account to its maximum permitted level.
7. A special account, (“D” Account), may be established to allow contributions by the FSM for revenues or income from unanticipated sources. This account shall not be commingled with the Trust Fund and must have a separate account number. The FSM shall have access to funds in this account for unanticipated shortfalls or other purposes. Funds in this account are not part of the Trust Fund corpus and are not under the control of the Joint Trust Fund Committee. There were no contributions to the “D” Account during the periods presented in the accompanying financial statements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Upcoming Accounting Pronouncements

In February, 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, effective for periods beginning after June 15, 2015. This Statement addresses accounting and financial reporting issues related to fair value measurements by defining fair value and providing guidance for determining a fair value measurement for financial reporting purposes. Guidance is also provided for applying fair value to certain investments and disclosures related to all fair value measurements.

The Trust Fund is currently evaluating the effects the above upcoming accounting pronouncement might have on its financial statements.

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2. Contributions

The Government of the United States will contribute to the Trust Fund annually for twenty years from the effective date of the Compact, amounts set forth in Section 216 of the Compact. Upon termination of the annual financial assistance under Section 211 of the Compact, the proceeds of the Trust Fund shall thereafter be used for the purposes described in Section 211 of the Compact or as otherwise mutually agreed by the Original Parties.

The Government of the United States' contribution to the Trust Fund was conditioned on the Government of the FSM contributing at least \$30 million to the Trust Fund prior to September 30, 2004. Any funds received by the Government of the FSM under Section 111 (d) of Public Law 99-239 (January 14, 1986), or successor provisions, would be contributed to the Trust Fund as a Government of the FSM contribution.

Contributions to the Trust Fund's "A" Account from inception are as follows:

<u>Date</u>	<u>Contribution (Millions)</u>	<u>Contributor</u>
October 1, 2004	\$ 30.3	FSM
October 5, 2004	32.2	United States
October 6, 2005	16.4	United States
October 6, 2006	17.7	United States
October 9, 2007	19.0	United States
October 6, 2008	20.9	United States
October 2, 2009	21.5	United States
October 14, 2010	22.4	United States
October 14, 2011	23.6	United States
October 4, 2012	25.0	United States
October 21, 2013	26.1	United States
October 6, 2014	27.0	United States
Total contributions from inception through fiscal year 2015	<u>\$ 282.1</u>	

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Past received and future scheduled contributions to the Trust Fund "A" Account by the Government of the United States during the Trust Fund period are as follows:

<u>Fiscal Year</u>	<u>Contribution (Millions)</u>
2004	\$ 16.0
2005	16.2
2006	16.4
2007	17.7
2008	19.0
2009	20.9
2010	21.5
2011	22.4
2012	23.6
2013	25.0
2014	26.1
2015	27.0
2016	24.0
2017	24.8
2018	25.6
2019	26.4
2020	27.2
2021	28.0
2022	28.8
2023	29.6

The amounts of scheduled contributions as shown above are subject to an inflation adjustment 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 period 2004 as a base.

Contributions to the "D" Account are not reflected in the accompanying financial statements. As described in Note 1, the "D" Account was set up to allow for additional income to the Trust Fund from unanticipated sources. These contributions may not be commingled with assets of the Trust Fund and are required to have a separate account number. As of the end of fiscal year 2015, the FSM government has not established a "D" Account.

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3. Investments

During 2015 and 2014, the Trust Fund realized net gains from the sale of investments of \$3,396,134 and \$6,728,971, respectively. The calculation of net realized investment gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net (decrease) increase in the fair value of investments during the fiscal years ended September 30, 2015 and 2014 was (\$28,918,773) and \$20,624,284, respectively. These amounts take into account all changes in fair value of invested assets (including purchases and sales) that occurred during the years ended September 30, 2015 and 2014, including approximately \$17,252 and \$8,300, respectively, of foreign currency transaction losses. The cumulative net unrealized gain on investments held at September 30, 2015 and 2014 was \$31,107,438 and \$63,402,497, respectively.

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The cost and fair values of cash equivalents and related activity for the years ended September 30 are as follows:

Investment Class	Cost 9/30/15	Fair Value				Ending Fair Value 9/30/15	Change in Fair Value
		Beginning Fair Value 10/1/14	Purchases	Sales	Subtotal		
(In Thousands)							
2015							
Equity:							
Common trust funds and mutual funds - domestic equity	\$ 81,941	\$ 107,611	\$ 14,578	\$ 11,560	\$ 110,629	\$ 105,541	\$ (5,088)
Mutual funds - international equity	109,559	101,405	21,056	3,170	119,291	100,347	(18,944)
Private equity funds - global	15,551	24,260	7,650	6,275	25,635	29,328	3,693
Hedge Funds:							
Mutual funds (Cayman) - global fund of funds	32,830	34,865	4,500	-	39,365	40,260	895
Fixed Income:							
Mutual funds - domestic debt	87,595	75,402	12,982	798	87,586	72,686	(14,900)
Private Real Estate:							
Commingled separate account - domestic real estate	38,373	37,334	6,438	403	43,369	48,795	5,426
Cash:							
Cash equivalents	492	143	42,902	42,553	492	491	(1)
Total	<u>\$ 366,341</u>	<u>\$ 381,020</u>	<u>\$ 110,106</u>	<u>\$ 64,759</u>	<u>\$ 426,367</u>	<u>\$ 397,448</u>	<u>\$ (28,919)</u>

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Investment Class	Cost 9/30/14	Fair Value				Ending Fair Value 9/30/14	Change in Fair Value
		Beginning Fair Value 10/1/13	Purchases	Sales	Subtotal		
(In Thousands)							
2014							
Equity:							
Common trust funds and mutual funds - domestic equity	\$ 75,840	\$ 92,133	\$ 22,288	\$ 18,143	\$ 96,278	\$ 107,611	\$ 11,333
Mutual funds - international equity	91,485	91,753	18,727	7,610	102,870	101,405	(1,465)
Private equity funds - global	14,067	21,571	4,524	5,259	20,836	24,260	3,424
Hedge Funds:							
Mutual funds (Cayman) - global fund of funds	28,330	32,390	-	-	32,390	34,865	2,475
Fixed Income:							
Debentures and Convertible bonds - domestic	-	18,615	4,278	23,695	(802)	-	802
Mutual funds - domestic debt	75,414	8,436	67,088	328	75,196	75,402	206
Mutual funds (U.S. & Cayman) - emerging market debt	-	26,612	775	28,108	(721)	-	721
Private Real Estate:							
Commingled separate account - domestic real estate	32,339	30,255	4,267	316	34,206	37,334	3,128
Cash:							
Cash equivalents	143	1,149	92,233	93,239	143	143	-
Total	\$ 317,618	\$ 322,914	\$ 214,180	\$ 176,698	\$ 360,396	\$ 381,020	\$ 20,624

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The Trust Fund has an investment policy which has been established to reflect the growth objectives and risk tolerance of the Committee. The Trust Fund's investment policy was revised effective December 2013 per resolution FSM 2014-1 *Fixed Income Asset Category Adjustment*. Asset allocations are targets and will be dictated by current and anticipated market conditions, and may be amended by the Trust Fund Committee from time to time. Tactical ranges anticipate fluctuation and provide flexibility for the investment manager's portfolio to vary within the range without the need for immediate rebalancing.

The Trust Fund's allocation by investment classes as of September 30 is as follows:

Investment Class	2015		% of Fund Tactical Range	% of Allocation at 9/30/15
	% of Strategic Target Allocation			
Managed Assets				
Domestic Equity:	25.5	%	20.5 - 30.5 %	26.6 %
U.S. Large Cap	18.0			19.1
U.S. Small/Medium Cap	7.5			7.5
Non-U.S. Equity	25.5		20.5 - 30.5	25.2
Fixed Income:	19.0		14.0 - 24.0	18.3
Opportunistic Fixed Income	16.5			15.6
Cored Fixed Income	2.5			2.7
Private Market	0.0		0.0 - 10.0	3.4
Hedge Funds	5.5		3.0 - 8.0	5.9
Non-Discretionary Assets				
Private Real Estate	10.0		5.0 - 15.0	12.3
Private Market	9.5		0.0 - 10.0	4.0
Hedge Fund	5.0		2.5 - 7.5	4.2
Cash and Cash Equivalents	0.0		0.0 - 3.0	0.1
	<u>100.0</u>	<u>%</u>		<u>100.0</u> %

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Investment Class	2014		% of Allocation at 9/30/14
	% of Strategic Target Allocation	% of Fund Tactical Range	
Managed Assets			
Domestic Equity:	25.5 %	20.5 - 30.5 %	28.3 %
U.S. Large Cap	18.0		20.5
U.S. Small/Medium Cap	7.5		7.8
Non-U.S. Equity	25.5	20.5 - 30.5	26.6
Fixed Income:	19.0	14.0 - 24.0	19.8
Opportunistic Fixed Income	16.5		17.1
Cored Fixed Income	2.5		2.7
Private Market	0.0	0.0 - 10.0	1.3
Hedge Funds	5.5	3.0 - 8.0	4.8
Non-Discretionary Assets			
Private Real Estate	10.0	5.0 - 15.0	9.8
Private Market	9.5	0.0 - 10.0	5.1
Hedge Fund	5.0	2.5 - 7.5	4.3
Cash and Cash Equivalents	0.0	0.0 - 3.0	0.0
	<u>100.0 %</u>		<u>100.0 %</u>

As of September 30, 2015, the Trust Fund's fixed income allocation consists of a Mercer Investment Management Opportunistic Fixed Income mutual fund ("MIM OFI") and a Mercer Investment Management Core Fixed Income Fund ("MIM CFI"); the performance of these funds is expected to closely replicate the performance of 50% of the JP Morgan Government Bond Index Emerging Market Global Diversified Index / 50% Bank of America/Merrill Lynch Global High Yield and the Barclays Capital U.S. Aggregate Bond Index, respectively. The bonds held by MIM CFI vary in credit quality with an average overall rating of "Aa3" as rated by Moody's as of September 30, 2015. High yield debt receiving a credit rating below "A" comprises approximately 26.5% of the MIM CFI fixed income portfolio as rated by Moody's at September 30, 2015. At September 30, 2015, the weighted average maturity of the bonds comprising MIM CFI is 7.95 years. The bonds held by MIM OFI vary in credit quality with an average overall rating of "BB" as rated by Moody's as of September 30, 2015. High yield debt receiving a credit rating below "A" comprises approximately 84.0% of the MIM OFI fixed income portfolio as rated by Moody's at September 30, 2015. At September 30, 2015, the weighted average maturity of the bonds comprising MIM OFI is 3.35 years.

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As of September 30, 2014, the Trust Fund's fixed income allocation consists of a Mercer Investment Management Opportunistic Fixed Income mutual fund ("MIM OFI") and a Mercer Investment Management Core Fixed Income Fund ("MIM CFI"); the performance of these funds is expected to closely replicate the performance of 50% of the JP Morgan Government Bond Index Emerging Market Global Diversified Index / 50% Bank of America/Merrill Lynch Global High Yield and the Barclays Capital U.S. Aggregate Bond Index, respectively. The bonds held by MIM CFI vary in credit quality with an average overall rating of "Aa2" as rated by Moody's as of September 30, 2014. High yield debt receiving a credit rating below "A" comprises approximately 22.5% of the MIM CFI fixed income portfolio as rated by Moody's at September 30, 2014. At September 30, 2014, the weighted average maturity of the bonds comprising MIM CFI is 7.62 years. The bonds held by MIM OFI vary in credit quality with an average overall rating of "BB" as rated by Moody's as of September 30, 2014. High yield debt receiving a credit rating below "A" comprises approximately 83.2% of the MIM OFI fixed income portfolio as rated by Moody's at September 30, 2014. At September 30, 2014, the weighted average maturity of the bonds comprising MIM OFI is 3.39 years.

The Trust Fund's investment policy permits investments in the following types of marketable and non-marketable fixed income investments: debentures, high yield bonds, convertible bonds, non-convertible corporate debt, synthetic convertible securities, non-convertible preferred stocks and other equity securities with characteristics of debt securities. The Trust Fund's investment policy considers investments in debt securities held by common trust funds, investment companies, ETFs, separate accounts, and mutual funds to be fixed income investments. The Trust Fund's investment policy limits its investment in corporate debt securities to a maximum of 5% in any single issuer. The Trust Fund's investment policy does not require debt securities to be held to maturity and imposes no restrictions on trading of debt securities. As a means of managing its exposure to losses from rising market interest rates or deterioration of credit quality, the Trust Fund may trade or liquidate its positions in fixed income investments.

The Trust Fund's investment in hedge funds includes ownership of the Mercer Hedge Fund Series A ("Mercer Hedge Fund") and the Blackstone Partners Offshore Fund Ltd. Mercer Hedge Funds Investors SPC, who incorporated the Mercer Hedge Fund, and the Blackstone Partners Offshore Fund Ltd. are registered under the Mutual Funds Law of the Cayman Islands. The fair value of the Trust Fund's position in the hedge fund pools are equivalent to the value of the pool shares.

The Trust Fund also holds investments in private equity funds - global and commingled separate account - domestic real estate, which have been legally formed as partnerships under Delaware law. Such investments include the Trust Fund's interest in HarbourVest Partners VIII - Buyout Fund, L.P., HarbourVest Partners VIII - Mezzanine and Distressed Debt Fund L.P., HarbourVest Partners VIII - Venture Fund L.P., HarbourVest International Private Equity Partners V - Partnership Fund L.P., Portfolio Advisors Private Equity Fund IV, L.P., and PRISA LP. The fair value of the Trust Fund's position in the private equity funds and commingled separate account are equivalent to the value of the pool shares.

The Trust Fund's exposure to foreign currency risk is derived from its investments in commingled and pooled investment vehicles that hold investments in securities of foreign issuers. The underlying investments expose the Trust Fund to foreign currencies.

Foreign currency exposure data is not available for the Trust Fund's investment in the Hedge Funds and its investments in Global Private Equity Funds, which comprise 17.5% and 15.5% of invested assets at September 30, 2015 and 2014, respectively.

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The Trust Fund's exposure to foreign currencies at September 30 is as follows:

2015	
Currency	\$USD Fair Value of Investments in Foreign Issuers Total (In Thousands)
Australian Dollar	\$ 2,587
Bermudian Dollar	250
Brazilian Real	3,731
British Pound	14,913
Canadian Dollar	376
Cayman Island Dollar	1,850
Chilean Peso	225
Chinese Yuan	2,352
Columbian Peso	2,020
Czech Koruna	42
Danish Krone	2,165
European Euro	26,375
Hong Kong Dollar	1,755
Hungarian Forint	2,513
Indian Rupee	2,217
Indonesian Rupiah	2,949
Israeli New Shekel	376
Japanese Yen	17,163
Malaysian Ringgit	2,006
Mexican Peso	4,022
New Romanian Leu	1,646
New Zealand Dollar	114
Norwegian Krone	1,127
Pakistani Rupee	14
Panamanian Balboa	14
Peruvian Nuevo Sol	900
Philippine Peso	118
Polish Zloty	2,098
Qatari Riyal	135
Russian Ruble	3,179
Singapore Dollar	168
South African Rand	2,941
South Korean Won	2,488
Swedish Krona	2,278
Swiss Franc	7,388
Taiwan New Dollar	2,812
Thai Baht	2,461
Turkish Lira	3,901
United Arab Emirates Dirham	165
Total	<u>\$ 123,834</u>

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2014	
Currency	\$USD Fair Value of Investments in Foreign Issuers Total (In Thousands)
Australian Dollar	\$ 2,163
Bermudian Dollar	1,208
Brazilian Real	7,668
British Pound	13,658
Canadian Dollar	720
Cayman Island Dollar	1,432
Chilean Peso	376
Chinese Yuan	2,508
Columbian Peso	1,692
Czech Koruna	133
Danish Krone	2,498
European Euro	26,155
Hong Kong Dollar	1,751
Hungarian Forint	1,484
Indian Rupee	3,302
Indonesian Rupiah	3,789
Japanese Yen	16,032
Malaysian Ringgit	4,612
Mexican Peso	2,870
New Romanian Leu	723
New Zealand Dollar	346
Nigerian Naira	28
Norwegian Krone	1,347
Panamanian Balboa	26
Peruvian Nuevo Sol	357
Philippine Peso	66
Polish Zloty	1,888
Russian Ruble	3,209
Singapore Dollar	1,589
South African Rand	5,155
South Korean Won	2,842
Swedish Krona	1,768
Swiss Franc	6,099
Taiwan New Dollar	2,835
Thai Baht	1,970
Turkish Lira	4,293
Total	<u>\$ 128,592</u>

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4. Commitments

At September 30, 2015 and 2014, the Trust Fund had capital funding commitments relating to its investments in hedge fund and private equity funds. Capital commitments, capital contributions, and unfunded capital commitments at September 30, 2015 and 2014 were as follows:

2015			
Currency	Capital Commitments	Capital Contributions	Unfunded Capital Commitments
Hedge fund and Private equity funds	<u>\$ 64,922,672</u>	<u>\$ 39,614,041</u>	<u>\$ 25,308,631</u>

2014			
Currency	Capital Commitments	Capital Contributions	Unfunded Capital Commitments
Hedge fund and Private equity funds	<u>\$ 66,044,514</u>	<u>\$ 27,622,223</u>	<u>\$ 38,422,291</u>

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Joint Trust Fund Committee
Trust Fund for the People of the Federated States of Micronesia

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Trust Fund for the People of the Federated States of Micronesia (a District of Columbia not for profit corporation) ("Trust Fund"), which comprise the statement of fiduciary net position as of September 30, 2015 and 2014, and the related statement of changes in fiduciary net position for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Trust Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Trust Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Viechow Krause, LLP

Philadelphia, Pennsylvania
March 28, 2016