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

Financial Statements

September 30, 2015 and 2014

BAKER TILLY

Candor. Insight. Results.

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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 Republic of the Marshall Islands' ("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 2.9% to $247.1 million for fiscal year 2015 from $240.1 million for fiscal year 2014. The increase was mainly due to contributions from the United States ($14.5 million), Taiwan ($2.4 million), and the Republic of the Marshall Islands ($650,000).

- The Trust Fund had a weighted annual rate of return of (4.1%), following three coneutive growth years: 8.0% for fiscal year 2014, 13.9% for fiscal year 2013 and 18.5% for fiscal year 2012. On a performance basis, net of fees, the Trust Fund lost 4.1% compared to a benchmark of (4.8%).[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 $48.2 million as of the end of fiscal year 2015. The ending balance now reflects an approximate $3.0 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 expenses increased to $1.5 million for fiscal year 2015 from $1.4 million for fiscal year 2014. As a percent of restricted fiduciary net position, investment expenses were at 0.62% for fiscal year 2015 compared to 0.57% for fiscal year 2014, in line with the Investment Policy Statement's agreed fee schedule.

- Administrative expenses increased to $193,644 for fiscal year 2015 from $135,751 for fiscal year 2014. As a percent of restricted fiduciary net position, administrative expenses increased to 0.08% for fiscal year 2015 compared to 0.06% 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 remain at 0.06% of restricted fiduciary net position.

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[1] The Total Trust Benchmark is comprised of 25% Russell 3000, 30% MCSI ACWI ex USA, 20% Fixed Income Benchmark, 5% Dow Jones US Select REIT, 15% T-Bills+3% and 5% S&P 500+3%.

[2] The C account contains 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 218). 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 year 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 RMI, and for Special Needs agreed to by the Committee. Income was provided to the C account in fiscal years 2006, 2007, 2010, 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.

The Trust Fund for the People of the Republic of the Marshall Islands
Fiduciary Net Position Summary

	September 30, 2015	September 30, 2014
Assets		
Cash and investments	$ 247,244,991	$ 240,221,872
Total assets	247,244,991	240,221,872
Liabilities		
Accrued expenses	102,933	100,685
Total liabilities	102,933	100,685
Restricted fiduciary net position	$ 247,142,058	$ 240,121,187

Financial Highlights - Fiduciary Net Position at September 30, 2015

The fair value of the Trust Fund's fiduciary net position was $247.1 million as of September 30, 2015, compared to $240.1 million as of September 30, 2014. The 2.9% increase in fiduciary net position of $7.0 million is attributable to contributions from member governments that totaled $17.6 million and an investment loss of $10.0 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 was (4.1%). 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 commingled funds invested in U.S. domestic public equities (29.5% of the portfolio as of September 30, 2015), international equities (27.4%), fixed income (18.0%), real estate (5.5%), a hedge fund (15.0%) and a private equity fund (4.6%). The asset category percentages are within the ranges established by the Trust Fund's Investment Policy Statement.

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

Financial Highlights - Fiduciary Net Position at September 30, 2014

The fair value of the Trust Fund's fiduciary net position was $240.1 million as of September 30, 2014, compared to $206.2 million as of September 30, 2013. The 16.5% increase in fiduciary net position of $34.0 million was mainly attributable to contributions from member governments that totaled $16.4 million and, given positive public equity and capital market performance periodically throughout the year, net investment income of $17.7 million. The total weighted annual rate of return on investment was 8.0%, continuing net position growth from fiscal year 2013 (13.9%) and 2012 (18.5%). Given the investment gain, a transfer was made to the Trust Fund's C account in the amount of $4.4 million bringing the C account total to $48.2 million.

At September 30, 2014, the Trust Fund's assets consisted of commingled funds invested in domestic public equities (32.3% of the portfolio as of September 30, 2014), international equities (28.8%), fixed income (19.3%), real estate (4.6%), a hedge fund (13.4%) and a private equity fund (1.7%). The fixed income asset strategy was adjusted in fiscal year 2014 with funds placed in a core fixed income fund (2.6% of the portfolio as of September 30, 2014) and an opportunistic fixed income fund (16.7%). The asset category percentages were within the ranges established by the Trust Fund's Investment Policy Statement.

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

The Trust Fund for the People of the Republic of the Marshall Islands
Changes in Fiduciary Net Position Summary

	Year Ended September 30, 2015	2014
Contributions	$ 17,584,573	$ 16,384,800
Net investment (loss) income	(10,370,058)	17,715,682
Total additions	7,214,515	34,100,482
Administrative expenses	193,644	135,751
Change in fiduciary net position	7,020,871	33,964,731
Restricted fiduciary net position, beginning	240,121,187	206,156,456
Restricted fiduciary net position, ending	$ 247,142,058	$ 240,121,187

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

The following contributions were received: scheduled annual contribution of $14.5 million inclusive of a base amount of $12.0 million, a $0.5 million increment plus a cumulative partial inflation adjustment from the Government of the United States on October 6, 2014, a scheduled annual contribution of $2.4 million from the Government of Taiwan on April 17, 2015 and an additional contribution by the Government of the Republic of the Marshall Islands of $0.65 million made in two tranches with $0.44 million contributed on July 15, 2015 and $0.21 million contributed on September 11, 2015.

The net investment loss of ($10.4) million was due to a realized gain of $0.24 million, interest and dividends of $11.1 million and an unrealized loss of $21.3 million, net of investment expenses of $0.4 million during the fiscal year ended September 30, 2015.

Investment expenses increased by 3.7% compared to fiscal year 2014 to $399,083 from $384,949. For fiscal year 2015, the Trust Fund incurred investment advisory fees of $338,400 and custodian fees of $60,683. In addition, as similar to fiscal year 2014, as the portfolio was invested in actively managed funds, part or all of money manager fees, totaling $1,139,346, were deducted from the asset values and not included in the investment advisor's fee and the investment expense category. All investment expenses, inclusive of custodial, investment advisory and all money manager fees, amounted to $1,538,430 for fiscal year 2015 compared to $1,360,998 for 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 0.62% of restricted net position for fiscal year 2015, up from 0.57% for fiscal year 2014.

Administrative expenses amounted to $193,644, an increase of 42.6% over the fiscal year 2014 amount of $135,751. 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 .08% for fiscal year 2015 compared to .06% for fiscal year 2014. Minus the additional cost of the independent and objective external evaluation, administration expenses would have remained at .06% 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.

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

The following contributions were received: scheduled annual contribution of $14.0 million inclusive of a base amount of $11.5 million, a $0.5 million increment plus a cumulative partial inflation adjustment from the Government of the United States on October 21, 2013 and a scheduled annual contribution of $2.4 million from the Government of Taiwan on June 26, 2014.

The net investment income of $17.7 million was due to a realized gain of $18.2 million, interest and dividends of $7.8 million and an unrealized loss of $8.0 million, net of investment expenses of $0.4 million during the fiscal year ended September 30, 2014.

Investment expenses increased by 14.4% compared to fiscal year 2013 to $384,949 from $336,550. For fiscal year 2014, the Trust Fund incurred investment advisory fees of $327,972 and custodian fees of $56,977. In addition, as similar to fiscal year 2013, as the portfolio was invested in actively managed funds, part or all of money manager fees, totaling $976,049 were deducted from the asset values and not included in the investment advisor's fee and the investment expense category. All investment expenses, inclusive of custodial, investment advisory and all money manager fees, amounted to $1,360,998 in fiscal year 2014 compared to $1,068,896 in fiscal year 2013. The increase was due to 1) the managed asset fee increase to 59 basis points from 54 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 additional contributions and market appreciation. The overall investment expense amounted to 0.57% of restricted net position for the fiscal year 2014, up from 0.52% for fiscal year 2013.

Administrative expenses amounted to $135,751, an increase of 3.5% over the fiscal year 2013 amount of $131,129. The increase is attributed to slight increases in the executive administrator's fee, audit fee and miscellaneous expenses. Decreases occurred for accounting and legal fees. The percentage of administrative expenses remained the same for fiscal year 2014 as in fiscal year 2013, at 0.06% of restricted fiduciary net position.

The U.S. Departments of the Interior, State, Education and Commerce 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.

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 Republic of the Marshall Islands ("RMI") by providing an annual source of revenue, after fiscal year 2023, for assistance in education, health care, the environment, public sector capacity building, private sector development, and public infrastructure described in Section 211 of the Compact, as amended, or other sectors as mutually agreed by the Original Parties, with priorities in education and health care."[3]

The investment objective as set forth in the Investment Policy Statement of September 2010, and amended in March 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 (4.1%) for the fiscal year compared to a rate of 8.0% for fiscal year 2014, 13.9% for fiscal year 2013 and 18.5% for fiscal year 2012. In terms of performance measurement, net of fees, the Trust Fund was also down (4.1%), outperforming its benchmark of (4.8%).

Each asset class, net of fees, was above, near or below its benchmark. U.S. domestic equities posted a (0.8%) loss (benchmark loss (0.5%)), international equities (8.7%) (benchmark (12.2%)), fixed income (13.0%) (benchmark (10.9%)), real estate 11.5% (benchmark gain 11.8%), and the hedge fund 1.5% (benchmark 3.0%). The private equity fund strategy grew as a component of the Fund to approximately 4.6% of total fund assets from 1.7% for fiscal year 2014 and provided an estimated return of 9.7% 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 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 RMI 2015-7 *Weighted Annual Rate of Return and C Account Calculation Methodology Adjustment*. The change to the methodology resulted in slightly increased weighted annual rates of return and, thus, slight additions to the previously recorded C account transfers. The total adjustment for all fiscal years added $3,038,942 to the C account from the A

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[3] Original Parties is defined as, collectively, the Government of United States and the Government of the Republic of the Marshall Islands.

account as of the end of fiscal year 2015. The current amount in the C account is 1.87 times the amount of estimated annual Amended Compact sector grant assistance estimated for fiscal year 2023.

Since inception the Trust Fund's average annual net rate of return on investment is 4.9%, net of fees, a decline from the 6.0% rate at the end of fiscal year 2014. The growth rate is slightly above the Total Trust Benchmark of 4.8%.

An analysis by the investment advisor estimates that if the Trust Fund averages a 5% return annually from fiscal year 2016 to fiscal year 2023, and assuming a 6% payout from the Trust Fund, the distribution from the estimated assets for fiscal year 2024 would probably provide revenue equivalent to about 131.9% of the Amended Compact's Section 211(a) estimated fiscal year 2023 sector grant level, with the partial inflation adjustment for fiscal year 2023 but will not provide any inflation adjustment for fiscal years beyond 2023.[4] There would also be a build-up of the C account possibly to the maximum level permitted under the terms of the Trust Fund Agreement.[5] As previously mentioned, the Trust Fund has an annual average growth rate of 4.9%, net of fees.

If the Trust Fund were to achieve an average 8% return annually, the Trust Fund would probably provide fiscal year 2024 revenue equivalent to about 159.9% of the partially inflation adjusted fiscal year 2023 sector grant assistance and possibly allow for 2% annual inflation adjustments for each fiscal year beyond fiscal year 2023. There would also be a build-up of the C account to the maximum level permitted under the terms of the Trust Fund Agreement. The Trust Fund has achieved 8% or more return in 5 of its 12 years of existence- for fiscal years 2006, 2007, 2010, 2012, and 2013.

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 181.6% of fiscal year 2023 grant assistance with the partial inflation adjustment, allow for 2% annual inflation adjustment for each fiscal year beyond fiscal year 2023 and fund the C account fully. However, there is a low probability to achieve such growth annually.

Any growth projections are estimates, subject to fluctuation based on actual market performance. Cautionary advice 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 RMI government.

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[4] The Amended Compact's Section 211(a) estimated fiscal year 2023 sector grant level includes those funds provided by Section 211(a) plus the associated Amended Compact's partial inflation adjustment. It does not include grant funding provided by the Amended Compact's Section 211(b) that consists of Ebeye Special Needs, Kwajalein Impact and Kwajalein Environmental Impact Assessment as these grants will continue per the Agreement between the U.S. and RMI governments Regarding Military Use and Operating Rights.

[5] According to the Trust Fund Agreement's Articles 16.7 and 16.8, for fiscal year 2024 only the amount equal to the fiscal year 2023 sector grant assistance plus a full inflation adjustment may be disbursed to the RMI government. Any remaining funds shall be allocated to the C account if not at its maximum level and, if so, any remaining funds will be returned to the A account (corpus). For fiscal year 2025 and thereafter, the maximum to be disbursed will be the fiscal year 2023 sector grant assistance amount plus the cumulative full inflation adjustment thereon, plus any additional amount for special needs approved by the Committee. Any remaining funds shall be allocated to the C account if not at its maximum level and, if so, any remaining funds will be returned to the A account (corpus).

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Trust Fund for the People of the Republic of the Marshall Islands (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 express an 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 Republic of the Marshall Islands 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 6, 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 Republic of the Marshall Islands' 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 Republic of the Marshall Islands' internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
March 28, 2016

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

Statement of Fiduciary Net Position
September 30, 2015 and 2014

	2015	2014
Assets		
Cash equivalents	$ 4,892	$ 10,591
Investments, at fair value	247,240,099	240,211,281
Total assets	$ 247,244,991	$ 240,221,872
Liabilities and Restricted Fiduciary Net Position		
Liabilities		
Accrued expenses	$ 102,933	$ 100,685
Total liabilities	102,933	100,685
Restricted Fiduciary Net Position	247,142,058	240,121,187
Total liabilities and restricted fiduciary net position	$ 247,244,991	$ 240,221,872

See notes to financial statements

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

Statement of Changes in Fiduciary Net Position

Year Ended September 2015 and 2014

	2015	2014
Additions		
Contributions:		
Government of the United States of America	$ 14,534,573	$ 13,984,800
Government of Taiwan	2,400,000	2,400,000
Government of the Republic of the Marshall Islands	650,000	-
Total contributions	17,584,573	16,384,800
Investment income:		
Interest and dividends	11,102,119	7,848,387
Net (decrease) increase in the fair value of investments	(21,073,094)	10,252,244
Gross investment (loss) income	(9,970,975)	18,100,631
Less: investment expenses	399,083	384,949
Net investment (loss) income	(10,370,058)	17,715,682
Total additions	7,214,515	34,100,482
Deduction		
Administrative expenses	193,644	135,751
Change in fiduciary net position	7,020,871	33,964,731
Restricted Fiduciary Net Position, Beginning	240,121,187	206,156,456
Restricted Fiduciary Net Position, Ending	$ 247,142,058	$ 240,121,187

See notes to financial statements

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 and the Republic of the Marshall Islands ("RMI") 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 RMI on October 21, 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 Republic of the Marshall Islands ("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 Republic of the Marshall Islands* ("Original Parties") *Implementing Section 216 and Section 217 of the Compact, as Amended, regarding a Trust Fund* ("Trust Fund Agreement"), the Trust Fund for the People of the RMI was incorporated in Washington, D.C. on April 28, 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 RMI 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 RMI 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 Government of Taiwan is currently a Subsequent Contributor. The composition of the Committee consists of four voting members from the United States appointed by the Government of the United States, which include the Chairman of the Joint Trust Fund Committee; two voting members appointed by and for the Government of the RMI; and one voting member appointed by and for the Government of Taiwan. 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.

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 RMIs' gross misuse of the Trust Fund's financial resources. The Trust Fund's operations may be terminated by written agreement of the Original Parties.

On May 2, 2005 the Trust Fund entered into a Subsequent Contributor Accession Agreement ("Accession Agreement") between the Government of the United States and the Government of the RMI in accordance with Section 216 and Section 217 of the Compact of Free Association Act of 2003, as amended, and the Government of Taiwan. The Government of Taiwan has agreed to contribute to the Trust Fund during the Trust Fund period as described in more detail in Note 2.

Tax Exempt Status

As provided by the terms of the Compact, the Trust Fund is exempt from 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 Taiwan, 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 and Taiwan to help meet the operational requirements of the Trust Fund; such contributions 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 statement of fiduciary net position. The Trust Fund's fiduciary net position is restricted for future use after fiscal year 2023.

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 issued 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. 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. The fair value of real estate assets within REITs are based on estimates and assumptions from information and representations provided by the respective general partners, in the absence of readily ascertainable market values and may be 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 to the broker.

The investment policy adopted by the Trust Fund Committee on September 15, 2010 and amended through March 11, 2014 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"), common trust funds ("commingled vehicles"), hedge funds, private equity funds, and other pooled investment vehicles ("pooled vehicles"). Equity securities issued by ETFs, mutual funds, REITs, commingled and pooled vehicles which invest exclusively in 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, commingled and pooled vehicles are generally determined by the fair value of the underlying marketable equity and debt securities owned, which are principally common stocks and bonds, respectively. The fair value of REITs is generally based upon the quoted market value of underlying REIT units owned. Publicly traded ETFs, mutual funds, REITs, and similar vehicles may trade at prices above or below the fair values of the underlying investments owned; therefore the fair value of such investments may differ from the sum of the fair values of the underlying investments owned.

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 2500, the S&P 500 and the MSCI ACWI ex-US Index.

The core fixed income portfolios may be invested in 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 high yield 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.

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.

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.

Derivatives, options and futures 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

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.

    Total amounts included in the “A” Account as of September 30, 2015 and 2014, were $198,936,545 and $191,915,672, respectively.

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 218 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 RMI 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 $4,381,856, 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 RMI 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 RMI 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 $2,511,544 to the “C” Account balance as of October 1, 2014. The balance of the “C” Account as of September 30, 2015 and 2014 was $48,205,513. 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.

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 RMI, 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 RMI 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 RMI 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 RMI 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. As provided by the Trust Fund Agreement to the Compact, a special account (the "'D' Account Trust") was set up as a separate trust to be funded by contributions of the Government of Taiwan in accordance with the schedule of payments prescribed by the Accession Agreement. Income from the "D" Account Trust may be utilized by the Government of the RMI at any time after the "D" Account Trust has a corpus of $10,000,000 and proper prior consultation has been made by the Government of the RMI with the Government of Taiwan. The funds held in the "D" Account Trust are not under the control of the Joint Trust Fund Committee, and the corpus of the "D" Account Trust is not a component of the Trust Fund for the People of the Republic of the Marshall Islands. The Government of Taiwan and the Government of the RMI have contributed to the "D" Account Trust.

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.

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 contributions to the Trust Fund were conditioned on the Government of the RMI contributing at least $25 million to the Trust Fund, prior to October 1, 2003, $2,500,000 prior to October 1, 2004, and $2,500,000 prior to October 1, 2005. Any funds received by the RMI 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 RMI contribution.

Section 108 of U.S. Public Law 108-188 allowed the RMI to request compensatory adjustments for the loss of certain tax and trade provisions of the original Compact of Free Association (PL 99-239). Under Section 216(b) of the Compact, as amended, any amount granted by Congress for this purpose must be contributed to the Trust Fund. During 2009, the RMI government submitted a report to Congress claiming compensatory adjustments, and Congress asked for the U.S. government's interagency review of the RMI's submission.

The interagency group concluded that the RMI "reasonably demonstrated net adverse impacts based on the loss of Title II benefits in making their request for $20 million in further compensation;" and further notes that under Section 216(b) of the Compact, as amended, "any funds received by the RMI under Section of 111(d) of Public Law 99-239 (January 14, 1986), or successor provisions, would be contributed to the Trust Fund as an RMI contribution." As of March 28, 2016, no compensation had been received.

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

Date	Amount (Millions)	Contributor
June 1, 2004	$ 25.00	RMI
June 3, 2004	7.00	United States
October 5, 2004	7.59	United States
February 17, 2005	1.50	RMI
May 19, 2005	1.00	RMI
May 19, 2005	1.75	Taiwan
October 6, 2005	2.50	RMI
October 18, 2005	8.22	United States
May 15, 2006	0.75	Taiwan
October 6, 2006	8.95	United States
May 3, 2007	0.75	Taiwan
October 9, 2007	9.71	United States
October 6, 2008	10.78	United States
May 5, 2009	0.75	Taiwan
June 5, 2009	2.40	Taiwan
October 2, 2009	11.13	United States
April 8, 2010	2.40	Taiwan
October 14, 2010	11.80	United States
May 9, 2011	2.40	Taiwan
September 20, 2011	0.12	RMI
October 14, 2011	12.47	United States
May 24, 2012	2.40	Taiwan
October 4, 2012	13.31	United States
July 3, 2013	2.40	Taiwan
October 21, 2013	13.98	United States
June 26, 2014	2.40	Taiwan
October 6, 2014	14.53	United States
April 17, 2015	2.40	Taiwan
July 15, 2015	.44	RMI
September 11, 2015	.21	RMI
Total contributions from inception through September 30, 2015	$ 181.04	

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:

Fiscal Year	Contribution (Millions)
2004	$ 7.00
2005	7.59
2006	8.22
2007	8.95
2008	9.71
2009	10.78
2010	11.13
2011	11.80
2012	12.47
2013	13.31
2014	13.98
2015	14.53
2016	13.00
2017	13.50
2018	14.00
2019	14.50
2020	15.00
2021	15.50
2022	16.00
2023	16.50

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.

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

Fiscal Year	Contribution (Millions)
2004	$ 1.00
2005	0.75
2006	0.75
2007	0.75
2008	0.75
2009	2.40
2010-2023	2.40

Contributions to the "D" Account Trust are not reflected in the accompanying financial statements. As described in Note 1, the "D" Account Trust 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. The Government of the RMI has access to funds in this account for unanticipated shortfalls or other purposes. Funds in the "D" Account Trust are not part of the corpus of the Trust Fund for the People of the Marshall Islands.

Fair value of invested assets included in the "D" Account Trust as of September 30, 2015 and 2014 were $11,982,220 and $12,127,193, respectively.

3. Investments

During the fiscal years ended September 30, 2015 and 2014, the Trust Fund realized net gains from the sale of investments of $235,747 and $18,231,199, respectively. The calculation of net realized investment gains and losses is independent of the calculation of the net increase in the fair values 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 ($21,073,094) and $10,252,244, respectively. These amounts take into account the changes in fair value of invested assets (including purchases and sales) that occurred during each year. The cumulative net unrealized (loss) gain on investments held at September 30, 2015 and 2014 was ($8,060,084) and $13,248,756, respectively.

The cost and fair values of cash equivalents, investments and related activity for the years ended September 30, 2015 and 2014 are as follows:

	Fair Value (In Thousands)						
Investment Security	Cost	Beginning Fair Value 10/1/14	Purchases	Sales	Subtotal	Ending Fair Value 9/30/15	Change in Fair Value
2015							
Cash equivalents	$ 5	$ 11	$ 26,157	$ 26,163	$ 5	$ 5	$ -
Common trust funds:							
Fixed Income - domestic	54,894	46,231	8,136	698	53,669	44,543	(9,126)
Equity - domestic	75,579	77,673	6,503	8,803	75,373	72,952	(2,421)
Equity - international	72,847	69,046	13,601	2,100	80,547	67,777	(12,770)
Hedge funds	31,100	32,264	4,100	-	36,364	36,941	577
Private markets	10,392	4,040	6,750	687	10,103	11,490	1,387
Real estate funds	10,487	10,957	1,300	-	12,257	13,537	1,280
	$ 255,304	$ 240,222	$ 66,547	$ 38,451	$ 268,318	$ 247,245	$ (21,073)

Investment Security	Cost	Beginning Fair Value 10/1/13	Purchases	Sales	Subtotal	Ending Fair Value 9/30/14	Change in Fair Value
	Fair Value (In Thousands)						
2014							
Cash equivalents	$ 11	$ -	$ 21,952	$ 21,941	$ 11	$ 11	$ -
Common trust funds:							
Fixed Income - domestic	47,473	36,492	47,899	37,035	47,356	46,231	(1,125)
Equity - domestic	77,849	65,657	71,377	68,241	68,793	77,673	8,880
Equity - international	61,123	63,369	7,902	1,393	69,878	69,046	(832)
Hedge funds	27,000	30,123	-	-	30,123	32,264	2,141
Private markets	4,330	918	3,250	46	4,122	4,040	(82)
Real estate funds	9,187	9,686	-	-	9,686	10,957	1,271
	$ 226,973	$ 206,245	$ 152,380	$ 128,656	$ 229,969	$ 240,222	$ 10,253

The Trust Fund operates under an investment policy adopted by the Trust Fund Committee. The investment policy has been established to reflect the growth objectives and risk tolerance of the Committee. The Investment Policy Statement was adjusted in March 2014 per resolution RMI 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 each investment manager's portfolio to vary within the range without the need for immediate rebalancing.

The asset allocation of the Trust Fund's invested assets as of each fiscal year end is as follows:

Investment Class	% of Fund Strategic	% of Fund Tactical Range	% Allocation at 9/30/15
Domestic Equity	30 %	25.0 - 35.0 %	29.5 %
International Equity	30	25.0 - 35.0	27.4
Fixed Income	20	15.0 - 25.0	18.0
Hedge Funds	15	10.0 - 20.0	15.0
Real Estate	5	0.0 - 10.0	5.5
Private Markets	0	0.0 - 16.0	4.6
Cash	0	0.0 - 3.0	0.0
	100.00 %		100.00 %

Investment Class	% of Fund Strategic	% of Fund Tactical Range	% Allocation at 9/30/14
Domestic Equity	30.0 %	25.0 - 35.0 %	32.3 %
International Equity	30.0	25.0 - 35.0	28.7
Fixed Income	20.0	15.0 - 25.0	19.3
Hedge Funds	15.0	10.0 - 20.0	13.4
Real Estate	5.0	0.0 - 10.0	4.6
Private Markets	0.0	0.0 - 16.0	1.7
Cash	0.0	0.0 - 3.0	0.0
	100.00 %		100.00 %

At September 30, 2015 and 2014 all fixed income investments were held in ETFs.

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 and 50% Bank of America/Merrill Lynch Global High Yield, and 100% of the Barclays Capital U.S. Aggregate Bond Index, respectively. 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. 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.

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 and 50% Bank of America/Merrill Lynch Global High Yield, and 100% of the Barclays Capital U.S. Aggregate Bond Index, respectively. 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 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 Trust Fund's investment policy does not require direct investment in fixed maturity securities ("Bonds") as a means of managing its exposure to loss of principal due to increasing interest rates. The Trust Fund's investment policy requires the performance of each investment class to be periodically compared with an associated benchmark. Bonds and bond funds generally decrease in value in response to rising interest rates. Bonds, however, have a fixed date of maturity and do not have exposure to loss of principal from rising interest rates, whereas shares of a common trust fund, ETF, or similar investment vehicle have no maturity date.

The Trust Fund's exposure to foreign currency risk is derived from its investment in common trust funds, ETFs and REITs that hold investments in securities of foreign issuers and sovereigns.

The Trust Fund's investment in hedge funds includes ownership of the Mercer Hedge Fund Series A fund. Mercer Hedge Funds Investors SPC, who incorporated the hedge fund, are registered under the Mutual Funds Law of the Cayman Islands. The fair value of the Trust Fund's position in the pool is equivalent to the value of the pool shares.

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

Currency	$USD Fair Value Securities of Foreign Issuers Held by Common Trust Funds
	(In Thousands)
2015	
Australian Dollar	$ 1,726
Bermudian Dollar	170
Brazilian Real	2,400
British Pound	9,939
Canadian Dollar	251
Cayman Islands Dollar	1,284
Chilean Peso	156
Chinese Yuan	1,663
Colombian Peso	1,253
Czech Koruna	30
Danish Krone	1,446
European Euro	17,394
Hong Kong Dollar	1,217
Hungarian Forint	1,569
Indian Rupee	1,570
Indonesian Rupiah	1,876
Israeli New Shekel	251
Japanese Yen	11,452
Malaysian Ringgit	1,272
Mexican Peso	2,567
New Romanian Leu	1,020
New Zealand Dollar	76
Norwegian Krone	752
Pakistani Rupee	10
Panamanian Balboa	10
Peruvian Nuevo Sol	558
Philippine Peso	82
Polish Zloty	1,317
Qatari Riyal	96
Russian Ruble	2,010
Singapore Dollar	112
South African Rand	1,911
South Korean Won	1,753
Swedish Krona	1,520
Swiss Franc	4,929
New Taiwan Dollar	1,978
Thai Baht	1,571
Turkish Lira	2,447
United Arab Emirates Dirham	118
Total	$ 81,756

Currency	$USD Fair Value Securities of Foreign Issuers Held by Common Trust Funds
	(In Thousands)
2014	
Australian Dollar	$ 1,452
Bermudian Dollar	819
Brazilian Real	4,934
British Pound	9,159
Canadian Dollar	483
Cayman Islands Dollar	1,006
Chilean Peso	261
Chinese Yuan	1,780
Colombian Peso	1,059
Czech Koruna	95
Danish Krone	1,679
European Euro	17,323
Hong Kong Dollar	1,219
Hungarian Forint	919
Indian Rupee	2,321
Indonesian Rupiah	2,424
Japanese Yen	10,763
Malaysian Ringgit	2,924
Mexican Peso	1,888
New Romanian Leu	446
New Zealand Dollar	232
Nigerian Naira	18
Norwegian Krone	904
Panamanian Balboa	18
Peruvian Nuevo Sol	221
Philippine Peso	47
Polish Zloty	1,190
Russian Ruble	2,049
Singapore Dollar	1,002
South African Rand	3,304
South Korean Won	2,014
Swedish Krona	1,187
Swiss Franc	4,096
New Taiwan Dollar	2,005
Thai Baht	1,297
Turkish Lira	2,682
Total	$ 85,220

4. Commitments

At September 30, 2015 and 2014, the Trust Fund had capital funding commitments relating to its investment in a private equity fund. 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
Private equity fund	$ 30,000,000	$ 10,875,000	$ 19,125,000

2014

Currency	Capital Commitments	Capital Contributions	Unfunded Capital Commitments
Private equity fund	$ 30,000,000	$ 4,375,000	$ 25,625,000

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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 Republic of the Marshall Islands

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 Republic of the Marshall Islands (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 Virchow Krause, LLP

Philadelphia, Pennsylvania
March 28, 2016