



Fiscal Year 2016 Annual Report

March 27, 2017

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I. Introduction and Summary

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

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

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

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

The Annual Report’s information is mainly sourced from the annual financial statements prepared by the Fund’s bookkeeper and verified by the Fund’s auditor, and quarterly investment reports prepared by the Fund’s Investment Adviser with information from the Custodian. Any questions or comments regarding the Annual Report can be sent to Anthony Costanzo, Executive Administrator, at ExecutiveAdministrator@fsmcfatf.com.

The Trust Fund Committee (the Committee) approved the Annual Report on 1 April 2017.

Summary highlights for FY16 are:

- The Fund’s restricted fiduciary net position value increased 17.5% to \$466,938,730 for FY16 from \$397,313,588 for FY15. The increase was primarily due to interest, dividend, and realized and unrealized gains from investment of \$42,148,280 and a contribution from the United States government of \$28,288,800. Together with contributions, investment income and deductions for investment expenses, there were total additions of \$69,808,102.
- The Fund had a weighted annual rate of return of 9.7% for FY16 following a decline of 2.6% for FY15 and three consecutive growth years: 9.1% for FY14, 14.4% for FY13, and 16.0% for FY12. On a performance basis, net of fees, the Fund gained 9.5% compared to a benchmark of 10.7%.

¹ The full text of the Agreement between the Government of the United States of America and the Government of the Federated States of Micronesia Implementing Section 215 and 216 of the Compact, as Amended, Regarding a Trust Fund (the “Trust Fund Agreement”) and other relevant documents is available at www.doi.gov/oia/press/trustfund/FSMTrustFunds.

- A transfer was made to the C account for fiscal year 2016 in the amount \$15,800,198 given that annual income was earned over the 6% threshold. The C account amounts to \$93,950,969 as of the end of FY16. The current amount in the C account is 118.4% of the amount of estimated Annual Grant Assistance estimated for fiscal year 2023 per the Amended Compact.²
- Investment expenses increased to \$3,584,662 for FY16 from \$3,206,087 for FY15. As a percent of restricted fiduciary net position, investment expenses were at 0.77% for FY16 compared to 0.81% for FY15, in line with the agreed fee schedule.
- Administrative expenses decreased to \$182,960 for FY16 from \$292,732 for FY15. As a percent of restricted fiduciary net position, administrative expenses decreased to 0.04% for FY16 compared to 0.07% for FY15. The main reason for the decrease was the contracting for the one-time independent and objective external evaluation in FY15.
- An analysis by the Investment Adviser estimates that if the Fund were to achieve an average 8% return annually, the Fund would provide for FY24 an amount equivalent to 84.5% of estimated FY23 Annual 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. Since inception, the Fund has an annual average growth rate of 5.0%, net of fees.

² Annual Grant Assistance is defined in the Trust Fund Agreement as: “annual monetary assistance provided by the Government of the United States to the Government of the Federated States of Micronesia for the purposes set forth in section 211 of the Compact, as amended.”

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

A. Trust Fund Background

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

The Fund was incorporated as a non-profit corporation under the laws of the District of Columbia in August 2004. The Trust Fund Agreement is supported by a set of by-laws initially approved by the Committee on 24 March 2006. Resolutions are considered and approved periodically to improve the overall management and operations of the Fund, as determined by the Committee. The Investment Policy Statement provides the Fund’s main investment guidance. The latest version of the Investment Policy Statement was approved in September 2010 and was most recently amended in January 2014.

As stated in Article 3 of the Trust Fund Agreement:

“The purpose of the Fund is to contribute to the economic advancement and long-term budgetary self-reliance of the Federated States of Micronesia by providing an annual source of revenue, after Fiscal Year 2023, for assistance in the sectors described in Section 211 of the Compact, as amended, or other sectors as mutually agreed by the Original Parties, with priorities in education and health care.”

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

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

B. Trust Fund Committee Updates

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

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

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

For FY16, the Committee consisted of 5 members. According to the Trust Fund Agreement, the U.S. government maintains a majority of voting members including the Chairman. The FSM government appoints two voting members. Other voting or non-voting members may be appointed from Subsequent Contributors. Currently, the Fund does not have any Subsequent Contributors.

The FY16 Committee members were:

1. Nikolao Pula, Chairman (Department of the Interior), U.S.
2. Sihna Lawrence (Department of Finance and Administration), FSM
3. Nicholas Dean (Department of State), U.S.
4. Aren Palik (Private Sector), FSM
5. Phil Maestri (Department of Education), U.S.

Sihna Lawrence replaced Evelyn Adolph during March 2016. Nicholas Dean replaced Stephen Schwartz during August 2016.

The Committee met quarterly during FY16 to review investment performance and conduct Fund business on the following dates. Minutes were recorded, approved, and signed for each meeting.

1. 17 November 2015 (Washington, DC-based teleconference)
2. 22 March 2016 (Washington, DC-based teleconference)
3. 25 May 2016 (Washington, DC-based teleconference)
4. 26 August 2016 (Honolulu, HI)

The Committee approved 5 resolutions in FY16. Following are the title and brief description of each resolution.

FSM Resolution 2016-1 FY16 Budget Approval

The resolution approved the FY16 budget for investment, custodial, and administrative expenses.

FSM Resolution 2016-2 Engagement Agreement with Sabra Design for Web Design and Implementation, and File Access System

The resolution approved the selection of Sabra Design to design and implement a web site for the Trust Fund and establish a file access system. The resolution also approved the contractual amount maximum and authorized the Chairman to sign the service agreement.

FSM Resolution 2016-3 FSM Trust Fund Annual Report, Fiscal Year 2015

Approved the FY15 Annual Report and approved the transmission of the Annual Report and Audited Financial Statements to the respective governments.

FSM Resolution 2016-4 FY17 Budget Approval

The resolution approved the FY17 budget for investment, custodial and administrative expenses.

FSM Resolution 2016-5 Engagement Agreement with Bookminders for Accounting Support Services

Approved a service proposal with Bookminders for accounting services for a 12-month period as of 8/26/16 and a maximum amount for those services.

C. Contributions to the Fund

The U.S. contributed \$28,288,800 on 1 October 2015, per Table 1.

Contributions to the Fund by the U.S. and FSM governments are governed by the schedule in Section 216 of the Amended Compact. The U.S. government is obligated to contribute \$16 million in FY04 through FY06 and to contribute \$16 million, plus a cumulative amount that increases by \$0.8 million annually beginning in FY07, until FY23. This additional amount corresponds to the amount by which Annual Grant Assistance provided under the Amended Compact is reduced in that fiscal year. A partial inflation adjustment is also added to the amount of the U.S. contribution as indicated in the Amended Compact.³ The FSM government was to contribute at least \$30 million prior to 30 September 2004. Initial contributions began in FY05, as the U.S. contribution was dependent on the FSM contribution that occurred in FY05.

Table 1: Contributions to the Trust Fund through FY16
Dollars in millions

| Year | United States | FSM | Total |
|-------------------------|---------------|---------|-------|
| FY04 | 0.00 | 0.00 | 0.00 |
| Date Contributed | | | |
| FY05 | 32.19 | 30.30 | 62.49 |
| Date Contributed | 10/5/04 | 10/1/04 | |
| FY06 | 16.44 | | 16.44 |

³ As stated in Section 217 of the Amended Compact, the U.S. government contribution “shall be adjusted for each United States Fiscal Year by the percent that equals two-thirds of the percent change in the United States Gross Domestic Product Implicit Price Deflator, or 5 percent, whichever is less in any one year, using the beginning of Fiscal Year 2004 as a base.”

| Year | United States | FSM | Total |
|----------------------------|-----------------|----------------|-----------------|
| Date Contributed | 10/6/05 | | |
| FY07 | 17.69 | | 17.69 |
| Date Contributed | 10/6/06 | | |
| FY08 | 19.00 | | 19.00 |
| Date Contributed | 10/9/07 | | |
| FY09 | 20.91 | | 20.91 |
| Date Contributed | 10/6/08 | | |
| FY10 | 21.52 | | 21.52 |
| Date Contributed | 10/2/09 | | |
| FY11 | 22.39 | | 22.39 |
| Date Contributed | 10/14/10 | | |
| FY12 | 23.59 | | 23.59 |
| Date Contributed | 10/14/11 | | |
| FY13 | 24.99 | | 24.99 |
| Date Contributed | 10/4/12 | | |
| FY14 | 26.10 | | 26.10 |
| Date Contributed | 10/21/13 | | |
| FY15 | 27.00 | | 27.00 |
| Date Contributed | 10/6/14 | | |
| FY16 | 28.29 | | 28.29 |
| Date Contributed | 10/1/15 | | |
| Contributed to Date | \$280.11 | \$30.30 | \$310.41 |

Source: Trust Fund for the People of the Federated States of Micronesia
Financial Statements, September 30, 2015 and 2016

D. Service Providers

Executive Administrator

The Fund contracts an Executive Administrator who serves in support of the governance, administration, and operations of the Fund. The current Executive Administrator began providing services in April 2011 and is contracted through October 2017 per FSM Resolution 2015-8.

The Executive Administrator's key duties are to maintain all official Committee documents and records; update the Chairman and Committee members on Fund activities; maintain agreements with and coordinate Fund service providers; provide administrative services regarding payments, decisions and deliberations; assist in audit preparation and prepare the annual report; prepare periodic performance and other assessments to inform Committee members and staff; organize, conduct and provide follow-up for the four quarterly review meetings including meeting agenda, support documents and meeting minute preparation; and coordinate with U.S. and FSM government members and staff in support of the above activities.

Custodian

State Street Bank and Trust Company (State Street), as the Custodian, provides all the services of the Trust Fund Agreement's Article 13. In addition, they also provide a record keeping function and maintain a web site portal for Fund financial information. Key services provided, consistent with Article 13, include:

- Collect and receive any and all money and other property of whatever kind or nature due or owing or belonging to the Fund.
- Follow written directions of the Committee with respect to retention, purchase, sale, or encumbrance of trust property, and the investment and reinvestment of principal and income.
- Disburse income or corpus only pursuant to the conditions set forth in the Trust Fund Agreement.
- Make all payment of liabilities and administrative expenses.
- Provide plan accounting that helps track each contributor's balance and the C account.⁴

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


Investment Adviser and Money Managers

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

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

Mercer has served as the Fund's Investment Adviser since 2005. Mercer is currently engaged under a contract between Mercer and the Committee signed in September 2010. Mercer's managed asset fee (including sub-advisers) is 63 basis points annually. It is assessed daily with

⁴ Plan accounting is a breakdown of the Fund by contributor (U.S. and FSM governments) and by the A and C account. The breakdown allows the allocation of contributions, investment gains and losses, and expenses to each contributor and helps to calculate the proportions of each contributor of the A and C accounts.



one part of the managed asset fee as compensation for Mercer's services and another as compensation to underlying Money Managers who are independent of Mercer. The fee rate was agreed to in December 2013 per FSM Resolution 2014-1 Fixed Income Asset Category Adjustment and was applied beginning in February 2014.

In addition, Mercer applies a 9 basis point annual advisory fee on the non-discretionary assets. Each of the non-discretionary asset allocations has a Money Manager. In addition, each non-discretionary Money Manager charges its own rates on the assets it invests which range from 0.70 to 1.25 basis points. These Money Managers are identified in Table 3, below, under Non-Discretionary Funds. The fee schedule is provided as Attachment 1.

Bookkeeper

Bookminders has prepared the Fund's financial records since inception in 2004. Bookminders produces monthly financial statements and the annual financial statements that include the year-end reporting package with supporting schedules for the annual audit. The service agreement with Bookminders was extended by one year to August 2017 per FSM Resolution 2016-5.

Auditor

Baker Tilly Virchow Krause, LLP serves as the Fund's auditor. Baker Tilly conducts the audits in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. FSM Resolution 2015-5 authorized the audit services for the FY15 and FY16 audits. ParenteBeard had performed the annual audits dating back to FY04. On 1 October 2014 ParenteBeard LLC merged with Baker Tilly Virchow Krause, LLP.

Legal Counsel

Vorys, Sater, Seymour and Pease LLP (Vorys) provide support, as requested by the Committee, on any legal matters per a Letter of Engagement and Representation. Vorys has served as legal counsel since February 2012.

III. FY16 Account Balances and Performance

A. Changes to Trust Fund Asset Classes and Allocations

There were no major asset allocation changes for FY16. As shown in Table 2, all asset classes were within the permitted ranges and near the target allocations as allowed by the Investment Policy Statement last adjusted by the Committee in February 2014.

There were two changes within two of the asset classes during FY16 as shown in Table 3. Mercer merged the Mercer Small/Mid Cap Growth Equity Fund and Mercer Small/Mid Cap Value Equity Fund after Mercer realigned the sub advisers to those funds into one fund- the Mercer Small/Mid Cap Equity Fund, in June 2016. For the private equity asset class, the Mercer Public Investment Partners (PIP) IV fund was added to that class to help achieve the asset allocation target over time. Given the nature of private equity funds, investments in those funds are called periodically by the funds to invest in transactions.

Table 2: Investment Policy Statement Asset Allocations and Targets, FY15 and FY16

| Asset Class | Strategic Target Allocation & Permitted Range 9/30/15 | Strategic Target Allocation & Permitted Range 9/30/16 | Allocation as of 9/30/15 | Allocation as of 9/30/16 | Actual % Difference |
|--------------------------------------|---|---|--------------------------|--------------------------|---------------------|
| Managed Assets | | | | | |
| Domestic Equity | 25.5% 20.5%-30.5% | 25.5% 20.5%-30.5% | 26.5% | 27.4% | 0.9% |
| U.S. Large Cap Equity | 18% | 18% | 19.1% | 19.4% | 0.3% |
| U.S. Small/Med Cap Equity | 7.5% | 7.5% | 7.4% | 7.9% | 0.5% |
| Non-U.S. Equity | 25.5% 20.5%-30.5% | 25.5% 20.5%-30.5% | 25.3% | 25.8% | 0.5% |
| Fixed Income | 19% 14%-24% | 19% 14%-24% | 18.3% | 19.1% | 0.8% |
| Core Fixed Income | 2.50% | 2.5% | 2.7% | 2.5% | -0.2% |
| Opportunistic Fixed Income | 16.50% | 16.5% | 15.6% | 16.6% | 1.0% |
| Hedge Fund (Managed) | 5.5 3%-8% | 5.5 3%-8% | 6.0% | 5.0% | -1.0% |
| Private Equity Fund (Managed) | 0% 0%-10% | 0% 0%-10% | 3.2% | 4.8% | 1.6% |
| Total Managed Assets | 75.5% | 75.5% | 79.3% | 82.1% | 2.8% |
| Non-Discretionary Assets | | | | | |
| Private Equity* | 9.5% 0%-10% | 9.5% 0%-10% | 4.0% | 2.6% | -1.4% |
| Private Real Estate | 10% 5%-15% | 10% 5%-15% | 12.3% | 11.4% | -0.9% |
| Hedge Fund | 5% 2.5%-7.5% | 5% 2.5%-7.5% | 4.3% | 3.7% | -0.6% |
| Cash | 0% 0%-3% | 0% 0%-3% | 0.1% | 0.2% | 0.1% |
| Total Non-Discretionary | 25% | 24.5% | 20.7% | 17.9% | -2.8% |
| Total | 100% | 100% | 100.0% | 100.0% | |

*Allocation to Non-Discretionary Private Equity will shift to Managed Assets Private Equity as capital is called for those funds.

Source: Investment Policy Statement, January 2014 amendment; Mercer Quarterly Reports- September 30, 2015 and September 30, 2016. Percentages are rounded.

Table 3: Asset Change FY15 to FY16

| Asset Class | Assets Held as of 9/30/15 | Assets Held as of 9/30/16 |
|--------------------------------|---|---|
| Managed Assets | | |
| Domestic Equity | | |
| U.S. Large Cap Equity | SSgA S&P 500 Index Fund | SSgA S&P 500 Index Fund |
| U.S. Small/Med Cap Equity | Mercer Small/Mid Cap Growth Equity Fund Mercer Small/Mid Cap Value Equity Fund | Mercer Small/Mid Cap Equity Fund |
| Non-U.S. Equity | Mercer Non-U.S. Core Equity Fund Mercer Emerging Markets Equity | Mercer Non-U.S. Core Equity Fund Mercer Emerging Markets Equity |
| Fixed Income | Mercer Core Fixed Income Fund Mercer Opportunistic Fixed Income | Mercer Core Fixed Income Fund Mercer Opportunistic Fixed Income |
| Hedge Fund | Mercer Hedge Fund Investors | Mercer Hedge Fund Investors |
| Private Equity | Mercer Private Investment Partners III | Mercer Private Investment Partners III Mercer Private Investment Partners IV |
| Non-Discretionary Funds | | |
| Private Equity | HarbourVest Partners- VIII Venture Fund; VIII Buyout Fund; VIII Mezzanine & Distressed Debt Fund; Private Equity V Portfolio Advisors Private Equity Fund I | HarbourVest Partners- VIII Venture Fund; VIII Buyout Fund; VIII Mezzanine & Distressed Debt Fund; Private Equity V Portfolio Advisors Private Equity Fund I |
| Private Real Estate | Prudential Real Estate Investors | Prudential Real Estate Investors |
| Hedge Fund | Blackstone Alternative Asset Management | Blackstone Alternative Asset Management |

Source: Trust Fund for the People of the Federated States of Micronesia Investment Performance, September 30, 2015 and September 30, 2016, Mercer Investment Management.

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

B. Summary of FY16 Performance and Expenses

The Fund ended FY16 with a restricted fiduciary net position of \$466,938,730. The amount is a 17.5% gain from FY15, as shown in Table 4. The gain is mainly attributable to two factors: 1) continued and increasing U.S. contributions; and 2) investment gains resulting in gross investment income of \$42,148,280.

The U.S. contribution increased to \$28,288,800 for FY16 from \$26,976,960 based on the FY16 scheduled amount per the Amended Compact, including the partial inflation adjustment. No other contributions were provided to the Fund.

Net investment income was \$41,519,302 for FY16, a significant increase from the \$10,271,651 loss in FY15 after three consecutive growth years. Investment income was mainly a result of positive interest and dividend income (\$8,916,245), realized and unrealized gains (\$30,789,477), and other income (\$2,442,559), less investment expenses. Annual net positions since inception are provided in Attachment 3, Table A.

Table 4: Trust Fund Income Change FY15- FY16 and Percent Change

| | FY15 | FY16 | % Change |
|---|---------------------|-------------------|----------|
| Additions | | | |
| Contributions | | | |
| U.S. Government | <u>26,976,960</u> | <u>28,288,800</u> | 4.9% |
| Investment Income | | | |
| Interest and dividends | 19,765,695 | 8,916,245 | -54.9% |
| Net increase (decrease) in the fair value of investments* | <u>(29,511,217)</u> | <u>33,232,035</u> | 212.6% |
| Gross investment income (loss) | (9,745,522) | 42,148,280 | 532.5% |
| Less: Investment expenses | <u>526,129</u> | <u>628,978</u> | 19.5% |
| Net investment income (loss) | <u>(10,271,651)</u> | <u>41,519,302</u> | 504.2% |
| Total additions | <u>16,705,309</u> | <u>69,808,102</u> | 317.9% |
| Deductions | | | |
| Administrative expenses | <u>292,732</u> | <u>182,960</u> | -37.5% |
| Change in net position | 16,412,577 | 69,625,142 | 324.2% |

| | FY15 | FY16 | % Change |
|---|--------------------|--------------------|--------------|
| Restricted Net Position, Beginning | <u>380,901,011</u> | <u>397,313,588</u> | 4.3% |
| Restricted Net Position, Ending | 397,313,588 | 466,938,730 | 17.5% |

Source: Trust Fund for the People of the Federated States of Micronesia Financial Statements, September 30, 2016 and 2015

* Certain 2015 amounts (net increase (decrease) in the fair value of investments and investment expenses) have been reclassified to conform to the FY16 financial statement presentation. The reclassified amounts are a result of including certain investment-related expenses as a component of the change in net increase (decrease) in the fair value of investments rather than in investment expense.

Note: Investment expenses do not reflect Money Manager fees directly subtracted from Fund asset values. These expenses are reflected in Table 5. Amounts rounded to the nearest dollar.

Total Fund expenses increased by 7.7% to \$3,767,622 for FY16 from \$3,498,819 for FY15, per Table 5. However, total Fund expenses decreased as a percentage of the Fund's net position to 0.81% for FY16 from 0.88% for FY15, the lowest percentage since Money Manager fees were included in investment expenses in FY12. All expenses are within those rates agreed to by the Committee. Annual expense history since inception is provided in Attachment 3, Table B.

Table 5: Investment and Administrative Expenses, FY15 and FY16

| | FY15 | FY16 | % Change |
|--------------------------------|--------------------|--------------------|---------------|
| Investment Expenses | \$3,206,087 | \$3,584,662 | 11.8% |
| Custodian | 99,777 | 106,627 | 6.9% |
| Investment Adviser | 426,352 | 461,216 | 8.2% |
| Money Manager | 767,444 | 1,032,948 | 34.6% |
| Money Manager* | 1,912,514 | 1,983,871 | 3.7% |
| <i>% of Net Position</i> | <i>0.81%</i> | <i>0.77%</i> | <i>-4.9%</i> |
| Administrative Expenses | \$292,732 | \$182,960 | -37.5% |
| Executive Administrator | 105,756 | 105,734 | 0.0% |
| Audit Fees | 41,994 | 43,248 | 3.0% |
| Accounting Fees | 6,036 | 6,677 | 10.6% |
| Legal Fees | 2,997 | 7,649 | 155.3% |
| Public Communications | - | 12,500 | |
| Miscellaneous | 135,949 | 7,152 | -94.7% |
| <i>% of Net Position</i> | <i>0.07%</i> | <i>0.04%</i> | <i>-46.8%</i> |
| Total Dollar Expenses | \$3,498,819 | \$3,767,622 | 7.7% |
| Total % of Net Position | 0.88% | 0.81% | -8.4% |

Note: Amounts rounded to nearest dollar.

* Money Manager Fees directly subtracted from Fund asset value. FY15 Money Manager fees assessed on the Mercer PIP III fund were added, revising the amount for this line item for FY15.

Source: FY15 and FY16 Annual Audited Annual Financial Statements and Fund Data Collection

Investment expenses increased by 11.8% for FY16 totaling \$3,584,662 compared to \$3,206,087 for FY15. Investment expenses were 0.77% of the Fund's net position, down from 0.81% for FY15.

Custodian expense increased by 6.9% mainly due to the Fund's increased value.

The Investment Adviser's expense increased 8.2% to \$461,216 mainly based on the Fund's increased value. Total Money Manager fees increased 12.6% to \$3,016,819 mainly based on the increased asset values of the amounts being managed and the addition of the new private equity fund (Mercer PIP IV).⁵

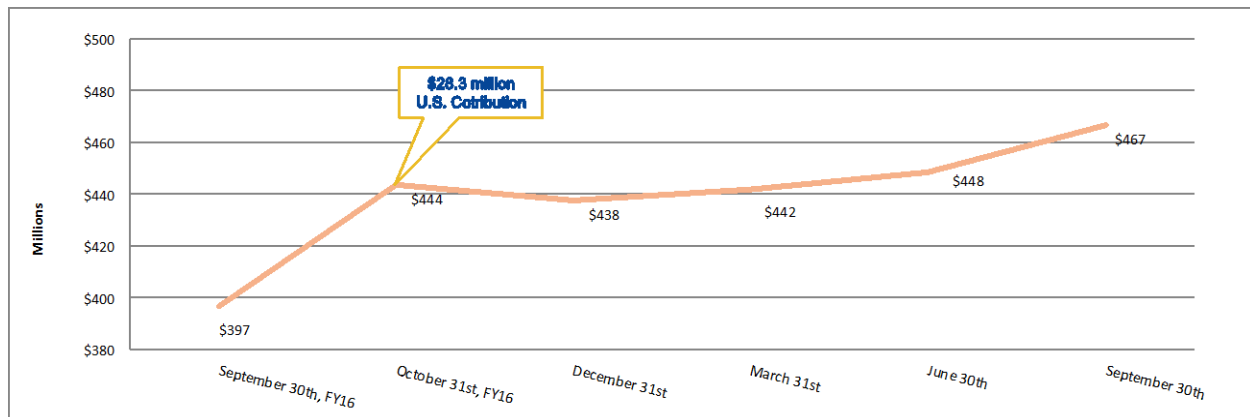
Administrative expenses decreased by 37.5% for FY16 totaling \$182,960 compared to \$292,732 for FY15. The decrease is mainly attributable to the one-time expense of contracting of a firm to conduct an independent and objective external evaluation of the Fund during FY15. For FY16, a line for Public Communication Fees was added for the development and implementation of a public web site for the Fund and for a file access system for Committee and administrative use. For other cost categories, Executive Administrator expenses were the same as in FY15 and audit fees slightly increased. Accounting fees also slightly increased in dollar value and percent given increased services for accounting and auditing support. Legal fees significantly increased in dollar and percent terms due to increased services to review Fund subscription agreements (for the Mercer PIP IV private equity fund), and support and education on various other topics. Administrative expenses were 0.04% of the Fund's net position, down from 0.07% for FY15.

The Fund's annual audit was completed in March 2017, within the 6-month time period after the end of the previous fiscal year, as required per the Trust Fund Agreement. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Management is responsible for 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. The audit found no deficiency in internal control over financial reporting and found that there were no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Per Figure 1, the Fund followed the moderate to positive performance of U.S. and non-U.S. public equity markets throughout the fiscal year. An increase in the Fund value occurred when the U.S. contribution was deposited in addition to when positive investment performance was experienced.

⁵ Money Manager fees range from 0.70% to 1.25% of assets under their respective management.

Figure 1: FY16 Monthly Trust Fund Net Position
Dollars in millions



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

For the fiscal year, in terms of performance measurement, the Fund increased 9.5% net of fees.⁶ The return rate underperformed the Total Trust Benchmark of 10.7%.⁷ The Fund was positively impacted by the strong performance of the managed assets, namely the U.S., non-U.S., and fixed income assets as well as the discretionary assets, namely the real estate fund asset. As of the end of FY16, the Fund's average annual return rate since inception was 5.0%, net of fees compared to a benchmark gain of 5.4%. The FY16 gain was an increase from the FY15 average annual return rate since inception of 4.6%.

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

⁶ The performance rates in this section are from the Mercer September 30, 2016 Quarterly Report and other updates since that time. The report contains performance measurements over different time periods and comparisons to various benchmarks for the fund as a whole, asset categories, and individual asset strategies. The rates are different than the weighted annual rate of return that results from the audited asset values and all expenses including accrued expenses. The weighted return includes weighted earnings, expenses and contributions for a more true performance measurement. Figure 4 contains the dollar-weighted annual rate of return.

⁷ As of 1/1/14, the Total Trust Benchmark is comprised of 25.5% Russell 3000, 25.5% MSCI ACWIxU.S. Net Dividend, 19.0% fixed income benchmark, 10% NCREIF NFI ODCE, 9.5% S&P 500+3%, and 10.5% T-Bills+3%.

Table 6: Periodic and Since Inception Performance Compared to Benchmarks

| | Market Value 9/30/16 | % | FY16 | 3 Years | 5 Years | Since Inception | Date of Inception |
|---|-------------------------|----------------|---------------|--------------|--------------|-----------------|-------------------|
| Total Fund | \$466,201,477 | 100.00% | 9.53% | 5.10% | 8.97% | 4.96% | Sep. 2004 |
| Total Trust Benchmark | | | 10.72% | 5.85% | 9.46% | 5.40% | |
| Total Managed Assets | \$382,779,029 | 82.11% | 10.30% | 4.01% | 9.66% | 6.81% | Oct. 2010 |
| U.S. Domestic Equity | \$127,502,557 | 27.35% | 14.40% | 9.56% | 15.67% | 7.61% | Jul. 2006 |
| Russell 3000 Index | | | 14.96% | 10.44% | 16.36% | 7.73% | |
| US Large Cap Equity | \$90,557,682 | 19.42% | 15.45% | 11.16% | 16.37% | 13.16% | Oct. 2010 |
| S&P 500 | | | 15.43% | 11.16% | 16.37% | 13.17% | |
| US Small/Mid Cap Equity | \$36,944,875 | 7.92% | NA | NA | NA | 5.52% | Jun-16 |
| Russell 2500 | | | 14.43% | 7.77% | 16.30% | 6.56% | |
| Non-U.S. Equity | \$120,336,262 | 25.81% | 9.47% | 1.79% | 7.77% | 3.73% | Jul. 2006 |
| Total Non-U.S. Equity Benchmark | | | 9.26% | 0.18% | 5.81% | 1.34% | |
| Mercer Non-US Core Equity | \$94,140,754 | 20.19% | 8.23% | 2.46% | 9.08% | 5.15% | Oct. 2010 |
| MSCI EAFE | | | 6.52% | 0.48% | 7.39% | 3.84% | |
| Mercer Emerging Markets Equity | \$26,195,508 | 5.62% | 14.17% | -0.99% | NA | 0.09% | May. 2012 |
| MSCI Emerging Markets | | | 16.78% | -0.56% | 3.03% | -0.31% | |
| Fixed Income | \$89,037,969 | 19.10% | 10.89% | -0.25% | 1.42 | 1.69% | Oct. 2010 |
| Fixed Income Benchmark | | | 13.78% | 2.10% | 1.93% | 2.46% | |
| Fixed Income - Core | \$11,493,839 | 2.47% | 5.87% | 4.07% | 4.02% | 3.89% | Oct. 2010 |
| Barclays Aggregate | | | 5.19% | 4.03% | 3.08% | 3.43% | |
| Fixed Income - Opportunistic | \$77,544,131 | 16.63% | 11.62% | -1.03% | NA | -0.04% | Aug. 2013 |
| Custom Opportunistic Fixed Income Benchmark | | | 15.08% | 0.92% | NA | 1.90% | |
| Hedge Fund (managed) | \$23,451,929 | 5.03% | 0.74% | 3.09% | NA | 5.35% | Oct. 2012 |
| T-Bills +3% | | | 3.23% | 3.09% | 3.08% | 3.08% | |
| HFRI Fund of Funds Composite Index | | | 0.38% | 2.12% | 3.14% | 3.33% | |
| Private Equity (managed) | \$22,450,312 | 4.82% | 12.56% | 4.94% | NA | 0.54% | Apr. 2013 |

| | Market Value 9/30/16 | % | FY16 | 3 Years | 5 Years | Since Inception | Date of Inception |
|---------------------------------------|-------------------------|---------------|--------------|--------------|--------------|-----------------|-------------------|
| S&P 500 +3% | | | 18.85% | 14.47% | 19.82% | 15.03% | |
| Burgiss Global Private Equity Index | | | 7.35% | 13.04% | 11.32% | 12.23% | |
| Total Non Discretionary Assets | \$83,422,449 | 17.89% | 5.87% | 9.92% | 9.13% | 6.00% | Oct. 2004 |
| Real Estate | \$52,932,306 | 11.35% | 8.48% | 11.78% | 11.53% | 3.19% | Mar. 2008 |
| NCREIF NFI ODCE | | | 10.07% | 12.44% | 12.39% | 4.61% | |
| Hedge Fund | \$17,321,136 | 3.72% | 2.01% | 4.44% | 5.78% | 5.06% | Dec. 2009 |
| T-Bills +3% | | | 3.23% | 3.09% | 3.08% | 3.08% | |
| Private Markets (Private Equity) | \$12,112,263 | 2.60% | 2.82% | 12.07% | 10.69% | 6.80% | Sep. 2006 |
| S&P 500 +3% | | | 18.85% | 14.47% | 19.82% | 10.44% | |
| Burgiss Global Private Equity Index | | | 7.35% | 13.04% | 11.32% | 10.82% | |
| Cash | \$1,056,744 | 0.23% | | | | | |

Source: Mercer Quarterly Report, Period Ending September 30, 2016 and updates provided by Mercer
Notes: NA= Not Available; percentages based on performance, net of fees. Percentages are rounded.

The Fund's asset class performance is described below, net of fees.

Total managed assets (82.1% of Fund value as of September 30, 2016) had a performance gain of 10.3% based on the positive performance of the U.S. and non-U.S. public equity strategies and the fixed income strategy.

The U.S. domestic equity strategy (27.3% of the portfolio) increased 14.4% compared to a benchmark return of 15.0%. The large cap fund increased 15.5% slightly outperforming its benchmark. The small/mid cap equity strategy was not recorded for the full year given the merger of the two-small/mid cap funds within that strategy but that strategy was positive throughout the year.

The non-U.S. equity strategy (25.8% of the portfolio) increased by 9.5% and outperformed the benchmark of 9.3%. The non-U.S. core equity asset had a return of 8.2%, outperforming its benchmark of 6.5%. The emerging market equity asset had a more significant increase of 14.2% but underperformed the benchmark that had a 16.8% return.

The fixed income strategy (19.1% of the portfolio) increased by 10.9% but underperformed the benchmark return of 13.8%. The core income asset returned 5.9%, outperforming the benchmark return of 5.2%. The opportunistic fixed income asset had a more significant return of 11.6% but underperformed its benchmark of 15.1%.

The managed hedge fund strategy (5.0% of the portfolio) gained 0.7%, underperforming its benchmark that returned 3.2%.

The managed private equity fund strategy slightly grew as a component of the portfolio in FY16 (4.8% of the portfolio for FY16 compared to 3.2% for FY15) and has become a positive contributor to returns as of the end of FY16, returning 12.6% but underperforming the aspirational benchmark return of 18.9% (S&P 500 +3%) and above the Burgiss Global Private Equity Index (7.4% gain). Given the nature of private equity funds, the funds 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 managed private equity funds should also be considered with the more mature private equity investments, described below. Of the amounts committed to the two managed private equity funds, a total of \$10 million was or will be invested in sustainable opportunities.

The non-discretionary assets comprised 17.9% of the portfolio. This component of the portfolio returned 5.9%.

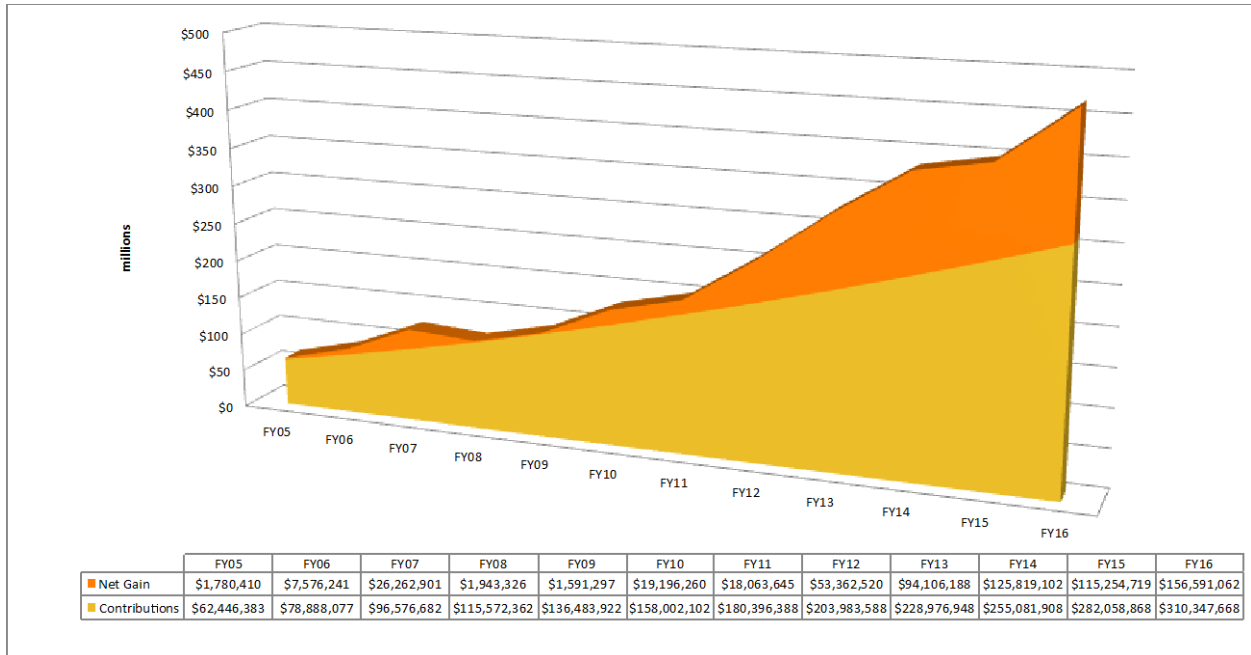
The real estate strategy (11.4% of the portfolio) had another significant annual gain with an 8.5% return, yet underperformed its benchmark that had a return of 10.1%.

The non-discretionary hedge fund (3.7% of the portfolio) gained 2.0%, underperforming the benchmark return of 3.2%, as did the managed asset hedge fund described above.

The non-discretionary private equity strategy (2.6% of the portfolio) gained 2.8%, well below the aspirational benchmark return of 18.9% (S&P 500 +3%) and below the Burgiss Global Private Equity Index (7.4% gain). For the more mature non-discretionary private equity strategy, distributions from the investments are being realized. As of the end of FY16, for both the managed and non-discretionary private equity strategy, the Fund had paid in capital of \$44,259,653 of a total \$89,811,000 commitment. Since the inception of these investments, \$23,723,243 in distributions was received resulting in a 7.6% net internal rate of return that compares to a 7.9% net internal rate of return for FY15. The decrease in the rate of return is mostly attributable to the addition of the new private equity fund in FY16 (Mercer PIP IV) that is just beginning to receive capital.

Figure 2 shows the growth of the Fund with a steady incline of contributions and the periodic investment income gains and losses. As of FY16 a total of \$310,347,668 has been contributed to the Fund. The U.S. government provided 90.3% of total contributions and the FSM government provided 9.7%. As of the end of FY16, the Fund has gained a total of \$156,591,061 from those contributions - 50.5% of the value of the contributions. No contributor's capital investment has been diminished since Fund inception.

Figure 2: Total Cumulative Contribution and Net Position Annual Gain, FY05-FY16



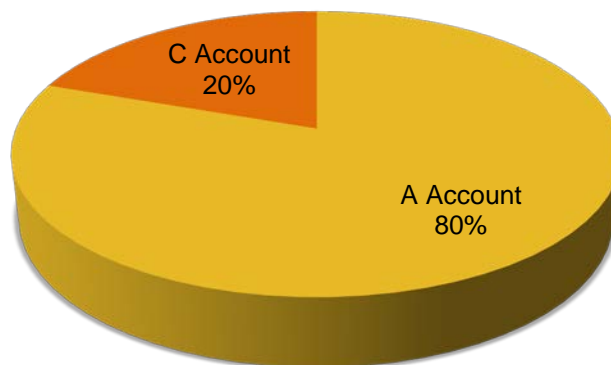
Source: Audited Financial Statements FY05-FY16

C. The C Account

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

The C account is maintained as a sub account for accounting purposes. It is not invested separately but as part of the overall corpus. The end-of-year financial statements provide a calculation to determine if the Fund achieved the 6% annual

Figure 3: FY16 A and C Account Breakdown
Source: FY16 Audited Financial Statements



income threshold and, if so, the amount to be transferred to the C account. Also, the breakdown of the A and C accounts is reported annually by contributor as shown in Table 7. Historical account balances are provided as Attachment 3, Table C.

Given the positive annual performance and investment gains in FY16, the 6% threshold was surpassed for FY16. A total of \$15,800,198 was transferred to the C account.⁸ The C account value increased in FY16 to \$93,950,969.

Table 7: A and C Account Net Position Balances, FY15-FY16

| | FY15 | FY16 | FY16 % of Account |
|---------------------|----------------------|----------------------|-------------------|
| Total Assets | \$397,313,588 | \$466,938,730 | |
| A Account | \$319,162,816 | \$372,987,760 | 100.00% |
| US | 282,447,788 | 333,506,139 | 89.41% |
| FSM | 36,715,028 | 39,481,621 | 10.59% |
| C Account | \$78,150,772 | \$93,950,970 | 100.00% |
| US | 69,160,665 | 84,006,041 | 89.41% |
| FSM | 8,990,107 | 9,944,929 | 10.59% |

Note: Amounts rounded to the nearest dollar.

Source: Audited Annual Financial Statements FY15 and FY16

The C account has gained income in FY06, FY07, FY10, FY12, FY13, FY14, and FY16. Per the Trust Fund Agreement, the C account is allowed to contain up to three times the estimated equivalent of the Amended Compact's FY23 Annual Grant Assistance plus an inflation adjustment. The current amount in the C account is 118.4% of estimated annual Amended Compact Annual Grant Assistance for FY23.

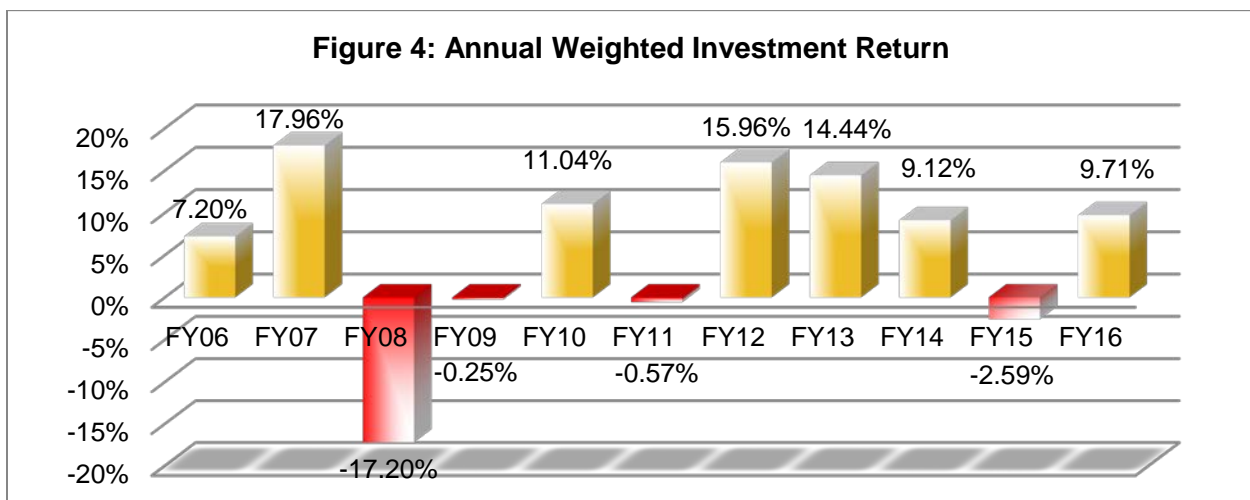
⁸ The C account contains annual income on the Fund over 6%. The C account shall contain no more than three times the estimated equivalent of the fiscal year 2023 annual grant assistance, including the estimated inflation adjustment provided in the Amended Compact of Free Association (Section 217). After 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 year 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, 2014 and 2016, the years with over 6% annual income. The A and C accounts are managed collectively and are only separated for accounting purposes.

IV. Trust Fund Effectiveness

A. Effectiveness to Achieve Purpose

Article 3 of the Trust Fund Agreement between the U.S. and FSM governments states that, “*The purpose of the Fund is to contribute to the economic advancement and long-term budgetary self-reliance of the Federated States of Micronesia by providing an annual source of revenue, after Fiscal Year 2023, for assistance in the sectors described in Section 211 of the Compact, as amended, or other sectors as mutually agreed by the Original Parties, with priorities in education and health care.*”

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



Source: Annual calculation using data from the audited annual financial statements

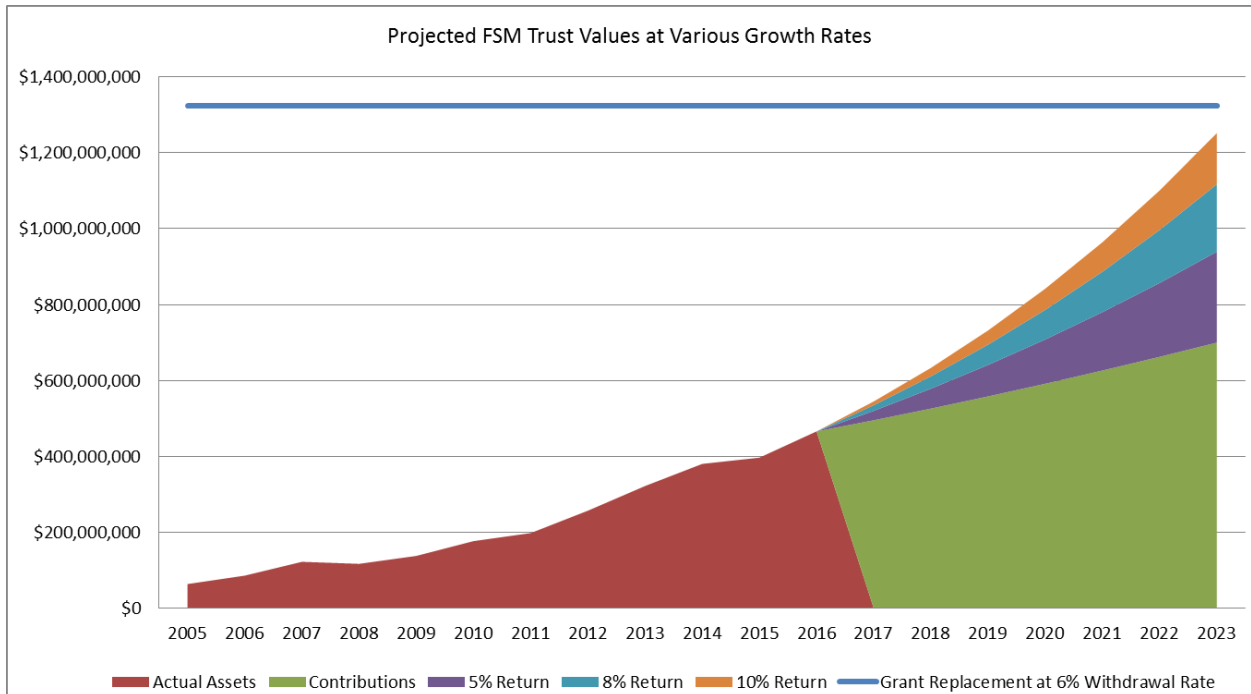
The weighted annual rate of return on investment for FY16, after discounting for contributions, fees, and expenses, was 9.71% for the year compared to a loss of 2.59% for FY15 and three consecutive years of high returns: 9.12% for FY14, 14.44% for FY13, and 15.96% for FY12.

An analysis by the Investment Adviser (Figure 5) estimates that, assuming a 6% payout from the Fund, if the Fund manages an average 5% return annually from FY17 to FY23, the distribution from the estimated assets probably would provide for FY24 an amount equivalent to about 71.0% of the Amended Compact’s Section 211 estimated FY23 Annual 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. As of FY16, the average annual rate of return is 5.0%, net of fees.

If the Fund were to achieve an average 8% return annually, the Fund would probably provide for FY24 an amount equivalent to 84.5% of estimated FY23 Annual Grant Assistance with the

partial inflation adjustment. There would also be a build-up of the C account but not to the maximum level permitted under the Trust Fund Agreement. The Fund has achieved 8% or more return in six fiscal years of its 13 years of existence: FY07, FY10, FY12, FY13, FY14, and FY16.

Figure 5: Projected Growth Trends, FY04-FY23



Source: Mercer Investment Management

If the Fund were to achieve an average 10% return annually, the Fund would probably provide FY24 revenue equivalent to about 94.7% of estimated FY23 Annual Grant Assistance with the partial inflation adjustment. However, it is unlikely that post-2023 distributions would provide for future inflation adjustments beyond the FY23 amount. The C account would achieve the maximum level permitted under the Trust Fund Agreement prior to FY23. However, there is a low probability of achieving such growth annually.

In addition to potential earnings on investment, analysis shows that additional contributions beyond those currently scheduled would improve the Fund's potential to achieve a value to provide sustainable distributions such as the Amended Compact's Section 211 FY23 Annual Grant Assistance with the partial inflation adjustment and at least partially inflation adjusted amounts beyond.

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



B. Recommendations Moving Forward

The Committee received and reviewed analysis and presentations in August 2016 regarding the future growth of the Fund and a possible 'glide path' asset allocation to FY23. The Committee also reviewed and discussed possible distribution scenarios for the post FY23 era when the distributions from the Trust Fund may be disbursed. The Committee notes a probability that at some point during the post-2023 distribution period, there will be years when no revenue will be available for distribution. The Committee will conduct further research and analysis relating to this issue and consult technical experts as necessary to help it arrive at a consensus determination on the best path forward for the Fund.

As noted above, additional contributions beyond those currently scheduled would improve the Fund's potential to achieve a value to provide sustainable distributions. Consistent with article 11.3 of the Agreement, the Original Parties "shall seek contributions to the Fund from other sources", including through working in cooperation or separately, to initiate discussions or negotiations connected with efforts to seek contributions to the Fund from other sources.

Attachment 1: Manager Roster and Investment Manager Fee Schedule as of September 30, 2016

| Account | Fee Schedule | Estimated Annual Fee (%) |
|--|---|--------------------------|
| Trust Fund Managed Assets | 0.63% in aggregate of assets | 0.63% |
| Private Equity- Mercer PIP III & IV | 0.50% of Committee Capital for each fund | 0.50% |
| Non-Discretionary Assets | | |
| Real Estate | | |
| Prudential Real Estate Investors* | Effective Base Mgmt Fee+CF Distribution+Cash Mgmt Profit Distribution | 0.95% |
| Hedge Fund | | |
| Blackstone Alternative Asset Management* | 1.25% of Assets | 1.25% |
| Private Equity* | | |
| HarbourVest Partners VIII Venture Fund | 1.00% of Committed Capital | 1.00% |
| HarbourVest Partners VIII Buyout Fund | 1.00% of Committed Capital | 1.00% |
| HarbourVest Partners VIII Mezzanine and Distressed Debt Fund | 1.00% of Committed Capital | 1.00% |
| HarbourVest International Private Equity V | 1.00% of Committed Capital | 1.00% |
| Portfolio Advisors Private Equity Fund I | 0.70 of Committed Capital | 0.70% |
| Total Non Discretionary Overlay Fee | 0.09% of Assets | 0.09% |
| Total Investment Management Fee | | 0.77% |

Source: Trust Fund for the People of the Federated States of Micronesia Investment Performance, September 30, 2016, Mercer Investment Management, p. 89.

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

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

Attachment 2: Performance Standard Benchmarks

| Asset Class | Benchmarks |
|---------------------------------------|--|
| Overall | Total Trust Benchmark ⁹ InvestorForce All Foundation Gross Median |
| Total Managed Assets Benchmark | Custom Benchmark (as of 1/1/14): Russell 3000 (32.7%), MSCI ACWIxU.S. (33.8%), Fixed Income Benchmark (25.2%), T-Bills+3% (7.3%), and S&P 500+3% (1%) |
| Domestic Equity | Russell 3000 Index |
| U.S. Large Cap Equity | S&P 500 Index (total return) Mercer Institutional U.S. Equity Large Cap Core Median |
| U.S. Small/Med Cap Equity | Russell 2500 Growth Index Mercer Institutional U.S. Equity SMID Median |
| Non-U.S. Equity | Total Non-U.S. Equity Benchmark (MSCI ACWI ex U.S. Net Div.) MSCI EAFE Mercer Institutional World ex U.S. EAFE Equity Median MSCI Emerging Markets Mercer Institutional Emerging Markets Equity Median |
| Fixed Income | Fixed Income Benchmark (13.2% Barclays U.S. Aggregate Bond Index and 86.8% Custom Opportunistic Fixed Income Benchmark consisting of: 50% BofA Merrill Lynch Global High Yield Constrained Index and 50% JP Morgan WGBI EM Global Diversified) Barclays Aggregate Bond Index (for Mercer Core Fixed Income Fund) Mercer Institutional U.S. Fixed Core Median Custom Opportunistic Fixed Income Benchmark (for Mercer Opportunistic Fixed Income) Mercer Institutional U.S. Fixed Core Opportunistic Median |
| Hedge Fund (managed) | T-Bills+3% HFRI Fund of Funds Composite Index Mercer Institutional Funds of Hedge Funds (Net) Median |
| Private Equity (managed) | S&P 500+3% Burgiss Global Private Equity Index |
| Private Equity | S&P 500+3% Burgiss Global Private Equity Index |

⁹ As of 1/1/14, the Total Trust Benchmark is comprised of 25.5% Russell 3000, 25.5% MSCI ACWIxU.S. Net Dividend, 19.0% fixed income benchmark, 10% NCREIF NFI ODCE, 9.5% S&P 500+3%, and 10.5% T-Bills+3%.



| Asset Class | Benchmarks |
|----------------------------|--|
| Private Real Estate | NCREIF NFI ODCE Mercer Institutional U.S. Real Estate Open End Median |
| Hedge Funds | T-Bills +3% Mercer Institutional Funds of Hedge Funds (Net) Median |

Source: Trust Fund for the People of the Federated States of Micronesia Investment Performance, September 30, 2016, Mercer Investment Management.

Attachment 3: Historical Tables

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

| | FY04 | FY05 | FY06 | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 | FY15* | FY16 |
|---|--------|---------|---------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Net Assets (Beginning of Fiscal Year) | \$0.00 | \$0.00 | \$64.23 | \$86.46 | \$122.84 | \$117.52 | \$138.07 | \$177.20 | \$198.46 | \$257.34 | \$323.08 | \$380.90 | \$397.32 |
| Contributions | | | | | | | | | | | | | |
| US | \$0.00 | \$32.19 | \$16.44 | \$17.69 | \$19.00 | \$20.91 | \$21.52 | \$22.39 | \$23.59 | \$24.99 | \$26.10 | \$26.98 | \$28.29 |
| FSM | \$0.00 | \$30.26 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Total | \$0.00 | \$62.45 | \$16.44 | \$17.69 | \$19.00 | \$20.91 | \$21.52 | \$22.39 | \$23.59 | \$24.99 | \$26.10 | \$26.98 | \$28.29 |
| Investment Earnings Less Fees and Expenses | | | | | | | | | | | | | |
| Investment Earnings | \$0.00 | \$1.79 | \$5.94 | \$19.41 | -\$23.27 | \$0.83 | \$18.70 | -\$0.34 | \$36.19 | \$41.90 | \$32.97 | -\$9.75 | \$42.15 |
| Fees and Expenses | \$0.00 | \$0.01 | \$0.14 | \$0.73 | \$1.05 | \$1.18 | \$1.09 | \$0.79 | \$0.89 | \$1.15 | \$1.26 | \$0.82 | \$0.81 |
| Total | \$0.00 | \$1.78 | \$5.80 | \$18.69 | -\$24.32 | -\$0.35 | \$17.60 | -\$1.13 | \$35.29 | \$40.74 | \$31.71 | -\$10.56 | \$41.34 |
| Net Assets (End of Fiscal Year) | - | \$64.23 | \$86.46 | \$122.84 | \$117.52 | \$138.07 | \$177.20 | \$198.46 | \$257.34 | \$323.08 | \$380.90 | \$397.32 | \$466.94 |

Note: Amounts rounded.

Note: "Fees and Expenses" are not inclusive of all Money Manager fees given that in the Audited Annual Financial Statements some Money Manager fees are deducted directly from the respective asset's value. Table 5 provides all FY15 and FY16 expenses inclusive of Money Manager Fees deducted from the respective asset values. Attachment 3, Table B provides historical expense data.

* Certain 2015 amounts (investment earnings and fees and expenses) have been reclassified to conform to the FY16 financial statement presentation. The reclassified amounts are a result of including certain investment-related expenses as a component of the change in net increase (decrease) in the fair value of investments rather than in investment expense.

Source: Audited Annual Financial Statements since FY05.

Table B: Investment and Administrative Expenses Since Inception and Differences Between FY15 and FY16

| | FY05 | FY06 | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | Diff FY15- FY16 |
|--------------------------------|-----------------|------------------|------------------|--------------------|--------------------|--------------------|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Investment Expenses | \$0 | \$132,039 | \$686,419 | \$955,763 | \$1,049,150 | \$939,224 | \$645,382 | \$2,177,580 | \$2,730,186 | \$3,024,842 | \$3,206,087 | \$3,584,662 | 11.8% |
| Custodian | - | 1,997 | 12,908 | 42,117 | 16,280 | 23,508 | 59,312 | 67,313 | 85,449 | 98,437 | 99,777 | 106,627 | 6.9% |
| Investment Adviser | - | 125,385 | 142,402 | 126,800 | 187,754 | 319,704 | 162,496 | 179,738 | 359,658 | 402,713 | 426,352 | 461,216 | 8.2% |
| Money Manager | - | 4,657 | 531,109 | 786,846 | 845,116 | 596,012 | 423,574 | 490,898 | 671,676 | 779,209 | 767,444 | 1,032,948 | 34.6% |
| Money Manager | | | | | | | | 1,439,631 | 1,613,403 | 1,744,483 | 1,912,514 | 1,983,871 | 3.7% |
| % of Net Position | 0.00% | 0.15% | 0.56% | 0.81% | 0.76% | 0.53% | 0.33% | 0.85% | 0.85% | 0.79% | 0.81% | 0.77% | -4.9% |
| Administrative Expenses | \$13,356 | \$9,458 | \$39,715 | \$93,851 | \$133,959 | \$152,679 | \$147,921 | \$156,960 | \$153,346 | \$154,481 | \$292,732 | \$182,960 | -37.5% |
| Executive Administrator | - | - | - | 70,650 | 85,650 | 91,850 | 96,816 | 102,760 | 98,280 | 99,904 | 105,756 | 105,734 | 0.0% |
| Audit Fees | - | - | 33,906 | 15,260 | 39,740 | 45,062 | 42,446 | 39,900 | 41,088 | 42,395 | 41,994 | 43,248 | 3.0% |
| Accounting Fees | - | - | - | 3,449 | 5,868 | 6,295 | 6,794 | 6,639 | 5,893 | 6,059 | 6,036 | 6,677 | 10.6% |
| Legal Fees | 13,356 | 9,458 | 5,809 | 4,457 | 245 | 4,344 | 1,258 | 780 | 2,889 | 376 | 2,997 | 7,649 | 155.3% |
| Pubic Communications | - | - | - | - | - | - | - | - | - | - | - | 12,500 | - |
| Miscellaneous Fees* | - | - | - | 35 | 2,456 | 5,128 | 607 | 6,881 | 5,197 | 5,747 | 135,949 | 7,152 | -94.7% |
| % of Net Position | 0.02% | 0.01% | 0.03% | 0.08% | 0.10% | 0.09% | 0.07% | 0.06% | 0.05% | 0.04% | 0.07% | 0.04% | -46.8% |
| Total Expenses | \$13,356 | \$141,497 | \$726,134 | \$1,049,614 | \$1,183,109 | \$1,091,903 | \$793,303 | \$2,334,540 | \$2,883,532 | \$3,179,323 | \$3,498,819 | \$3,767,622 | 7.7% |
| Total % of Net Position | 0.02% | 0.16% | 0.59% | 0.89% | 0.86% | 0.62% | 0.40% | 0.91% | 0.89% | 0.83% | 0.88% | 0.81% | -8.4% |

Note: Amounts rounded.

Source: Audited Annual Financial Statements since FY05

Note: Categories are organized and dollar figures reported per the Audited Annual Financial Statements except for the inclusion of Money Manager fees. These Money Manager fees are those fees directly deducted from individual fund asset values. The Money Manager fees were recorded as of FY12 by Trust Fund administration. Such Money Manager fees were incurred prior to FY12 but not fully recorded. FY13-15 Money Manager fees assessed on the Mercer PIP III fund were added, revising the amounts for this line item for FY13-15.

Miscellaneous Fees* For FY15, a one-time charge of \$130,375 was incurred for independent and objective external evaluation.

Table C: A and C Account Net Position Balances, FY06-FY16

| | FY06 | FY07 | FY08 | FY09 | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 |
|---------------------------|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|--------------------|--------------------|
| Total Net Position | \$86,464,318 | \$122,839,583 | \$117,515,688 | \$138,075,219 | \$177,198,363 | \$198,460,033 | \$257,346,108 | \$323,083,135 | \$380,901,010 | 397,313,588 | 466,938,729 |
| A Account | \$85,495,082 | \$109,427,047 | \$104,103,152 | \$124,662,683 | \$155,749,392 | \$177,011,062 | \$213,866,813 | \$255,784,106 | \$302,750,239 | 319,162,816 | 372,987,759 |
| US | 52,504,758 | 74,430,238 | 75,789,468 | 95,790,236 | 123,438,651 | 144,586,830 | 181,836,953 | 221,227,805 | 265,649,090 | 282,447,788 | 333,506,139 |
| FSM | 32,990,324 | 34,996,809 | 28,313,684 | 28,872,447 | 32,310,741 | 32,424,232 | 32,029,860 | 34,556,301 | 37,101,149 | 36,715,028 | 39,481,620 |
| C Account | \$969,236 | \$13,412,536 | \$13,412,536 | \$13,412,536 | \$21,448,971 | \$21,448,971 | \$43,479,295 | \$67,299,029 | \$78,150,771 | 78,150,772 | 93,950,969 |
| US | 595,218 | 9,122,957 | 9,764,632 | 10,306,131 | 16,999,309 | 17,520,028 | 36,967,599 | 58,206,965 | 68,573,625 | 69,160,665 | 84,006,041 |
| FSM | 374,018 | 4,289,579 | 3,647,904 | 3,106,405 | 4,449,662 | 3,928,943 | 6,511,696 | 9,092,064 | 9,577,146 | 8,990,107 | 9,944,928 |

Notes: Amounts rounded.

Source: Total asset value source: Audited Annual Financial Statements. A and C account amounts and contributor proportions prepared by Trust Fund bookkeeper and verified during the audit process.

