



# 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 Republic of the Marshall Islands (the Fund) is presented per Article 20 of the Trust Fund Agreement (Agreement) between the governments of the United States and the Republic of the Marshall Islands:<sup>1</sup>

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

- (a) an annual report on the activities and management of the Fund, including the Accounts described in Article 16 (Investment and Distribution) 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@rmicfatf.com](mailto:ExecutiveAdministrator@rmicfatf.com).

The Trust Fund Committee (the Committee) approved the Annual Report on 31 March 2017.

Summary highlights for FY16 are:

- The Fund’s restricted fiduciary net position value increased 19.2% to \$294,545,533 for FY16 from \$247,142,058 for FY15. The increase was primarily due to interest, dividend, and unrealized gains from investments of \$28,071,341, and contributions from the United States government of \$15,323,100, Taiwan of \$2,400,000, and the Republic of the Marshall Islands of \$2,200,000. Together with contributions, investment income and deductions for investment expenses, there were total additions of \$47,569,641.
- The Trust Fund had a weighted annual rate of return of 10.4%, following a loss for fiscal year 2015 of 4.1% and gains in the three previous fiscal years: 8.0% for 2014, 13.9% for

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<sup>1</sup>The full text of the Agreement Between the Government of the United States of America and the Government of the Republic of the Marshall Islands Implementing Section 216 and 217 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/RMITrustFunds](http://www.doi.gov/oia/press/trustfund/RMITrustFunds).

2013, and 18.5% for 2012. On a performance basis, net of fees, the Trust Fund gained 10.4% compared to a benchmark of 11.7%.<sup>2</sup>

- A transfer was made to the C account for fiscal year 2016 in the amount \$11,575,313 because annual income earned was over the 6% threshold. The C account amounts to \$59,780,826 as of the end of FY16. The current amount in the C account is 2.32 times the amount of estimated Annual Grant Assistance estimated for fiscal year 2023 per the Amended Compact.<sup>3</sup>
- Investment expenses increased to \$1,884,208 for FY16 from \$1,688,430 for FY15. As a percent of restricted fiduciary net position, investment expenses were reduced to 0.64% for FY16 compared to 0.68% for FY15, in line with the agreed fee schedule.
- Administrative expenses decreased to \$166,168 for FY16 from \$193,644 for FY15. As a percent of restricted fiduciary net position, administrative expenses decreased to 0.06% for FY16 compared to 0.08% 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 averages an 8% return annually from FY16 to FY23, and assuming a 6% payout from the Fund, the distribution from the estimated assets for FY24 would probably provide revenue equivalent to about 163.3% of the Amended Compact's estimated FY23 Annual Grant Assistance with the partial inflation adjustment for FY23. 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. Since inception, the Fund has an annual average growth rate of 6.7%, net of fees.

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<sup>2</sup> The Total Trust Benchmark is comprised of 25% Russell 3000, 30% MCSI ACWI ex USA, 20% Fixed Income Benchmark, 5% Dow Jones U.S. Select REIT, 15% T-Bills+3 and 5% S&P 500 +3.

<sup>3</sup> 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 Republic of the Marshall Islands for the purposes set forth in subsections (a), (d), and (e) of 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 216, 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 Republic of the Marshall Islands government (RMI government). Sections 216 through 218 of the Amended Compact set forth the funding to be contributed by both governments to fiscal year 2023.

The Fund was incorporated as a non-profit corporation under the laws of the District of Columbia in April 2004. The Trust Fund Agreement is supported by a set of by-laws initially approved by the Committee on 19 August 2005. 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 amended in April 2014 with an effective date of 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 Republic of the Marshall Islands by providing an annual source of revenue, after Fiscal Year 2023, for assistance in education, health care, the environment, public sector capacity building, private sector development, and public infrastructure described in Section 211 of the Compact, as amended, or other sectors as mutually agreed by the Original Parties, with priorities in education and health care.”*

Article 16.7 regarding Investment and Distribution to the Government of the Republic of the Marshall Islands provides:

*The Trust Fund Committee may disburse to the Government of the Republic of the Marshall Islands, 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 in Fiscal Year 2023, plus Full Inflation; and*
- (b) beginning in Fiscal Year 2025, and thereafter, an amount of funds no more than the amount equal to Annual Grant Assistance in Fiscal Year 2023 plus Cumulative Full Inflation thereon, plus any additional amounts for Special Needs approved under paragraph 5(c) above.*

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 7 members. According to the Trust Fund Agreement, the U.S. government maintains a majority of voting members, including the Chairman. The RMI government appoints two voting members. Other voting or non-voting members may be appointed from Subsequent Contributors. Currently, the U.S. government has 4 members including the Chairman, the RMI government has 2 members including the Vice Chairman, and Taiwan, as a Subsequent Contributor, has one member. All members are voting members.

The FY16 Committee members were:

1. Nikolao Pula, Chairman (Department of the Interior), U.S.
2. Bobby Muller, Vice Chairman (Private Sector Representative), RMI
3. Nicholas Dean (Department of State), U.S.
4. Phil Maestri (Department of Education), U.S.
5. Joseph McDermott (Department of the Interior), U.S.
6. David Paul (Senator, Nitijela), RMI
7. Winston Chen (Ministry of Foreign Affairs), Taiwan

The RMI government appointed Bobby Muller as Vice Chairman and Senator David Paul as member in July 2016, replacing Justina Langidrik and Maybelline Bing, respectively. Nicholas Dean replaced Stephen Schwartz during August 2016. Winston Chen replaced Elliott Y.L. Chang during September 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. 18 November 2015 (Washington, DC-based teleconference)
2. 23 March 2016 (Washington, DC-based teleconference)
3. 26 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.

*RMI Resolution 2016-1      FY16 Budget Approval*

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

*RMI 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.

*RMI Resolution 2016-3      RMI 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.

*RMI Resolution 2016-4      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.

*RMI Resolution 2016-5      Publication and Issuance of a Request for Proposals for Investment Adviser*

The resolution authorized the issuance and publication of a request for proposals for Investment Adviser services to the Trust Fund.

### C. Contributions to the Fund

Per Table 1, total contributions for FY16 were \$19,923,100. Scheduled contributions included a U.S. government contribution of \$15,323,100 on 1 October 2015 and a Taiwan government contribution of \$2,400,000 on 24 March April 2016. The RMI government made an additional voluntary contribution totaling \$2,200,000 in FY16 in several tranches during 12-22 February 2016.

Contributions to the Fund by the U.S. and RMI governments are governed by the schedule in Section 217 of the Amended Compact. The U.S. government is obligated to contribute \$7 million annually from FY04 to FY23 plus a cumulative amount that increases by \$0.5 million annually beginning in FY05. This additional amount corresponds to the amount by which the direct Annual Grant Assistance provided under the Amended Compact is reduced in that fiscal year. A partial inflation adjustment is also added to the U.S. contribution amount as indicated in

the Amended Compact.<sup>4</sup> The RMI government was to contribute at least \$30 million in specific tranches by 1 October 2005. Taiwan is committed to providing a total contribution of \$40 million to FY23.

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

Year	United States	RMI	Taiwan	Total
<b>FY04</b>	7.00	25.00		32.00
Date Contributed	6/3/04	6/1/04		
<b>FY05</b>	7.59	2.50	1.75	11.84
Date Contributed	10/5/04	2/17/2005 & 5/19/05	5/19/05	
<b>FY06</b>	8.22	2.50	0.75	11.47
Date Contributed	10/18/05	10/6/05	5/15/06	
<b>FY07</b>	8.95		0.75	9.70
Date Contributed	10/6/06		5/3/07	
<b>FY08</b>	9.71		0.75	10.46
Date Contributed	10/9/07		5/5/08	
<b>FY09</b>	10.78		2.40	13.18
Date Contributed	10/6/08		6/5/09	
<b>FY10</b>	11.13		2.40	13.53
Date Contributed	10/2/09		4/8/10	
<b>FY11</b>	11.80	0.119	2.40	14.32
Date Contributed	10/14/10	9/20/11	5/9/11	
<b>FY12</b>	12.47		2.40	14.87
Date Contributed	10/14/11		5/24/12	
<b>FY13</b>	13.31		2.40	15.71
Date Contributed	10/4/12		7/3/13	
<b>FY14</b>	13.98		2.40	16.38
Date Contributed	10/21/13		6/26/14	
<b>FY15</b>	14.53	0.65	2.40	17.58
Date Contributed	10/6/14	7/15/15 & 9/11/15	4/17/15	
<b>FY16</b>	15.32	2.2	2.40	19.92
Date Contributed	10/1/15	2/12-22/16	3/24/16	
<b>Contributions to Date</b>	<b>\$144.79</b>	<b>\$32.97</b>	<b>\$23.20</b>	<b>\$200.96</b>

Source: Trust Fund for the People of the Republic of the Marshall Islands Financial Statements, September 30, 2016

<sup>4</sup> As stated in Section 218 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.”



## 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 RMI 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 all Committee 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, with the exception of the record keeping function. In addition, they also 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.<sup>5</sup>


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

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

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<sup>5</sup> Plan accounting is a breakdown of the Fund by contributor (U.S., RMI, and Taiwan 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.





Mercer Investment Management, Inc. (Mercer) serves as Fund Investment Adviser and as a Money Manager and provides 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 Investment Adviser since September 2010. Mercer is currently engaged under a contract between Mercer and the Committee signed in September 2010. Mercer's gross fee is 59 basis points annually (including sub-adviser fees) and assessed daily. One part of the fee is 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 March 2014, per RMI Resolution 2014-1 Fixed Income Asset Category Adjustment. The fee change came into effect in April 2014. The fee schedule is provided as Attachment 1.

### **Bookkeeper**

Bookminders has prepared the Fund's financial records since inception in 2004. Bookminders produces quarterly 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 RMI Resolution RMI 2016-4.

### **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. RMI 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 January 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 April 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
<b>Domestic Equity</b>	30% 25%-35%	30% 25%-35%	29.5%	28.7%	-0.9%
U.S. Large Cap Equity	24%	24%	24.1%	23.2%	-0.9%
U.S. Small/Mid Cap Equity	6%	6%	5.4%	5.5%	0.1%
<b>Non-U.S. Equity</b>	30% 25%-35%	30% 25%-35%	27.4%	27.4%	0.0%
<b>Fixed Income</b>	20% 15%-25%	20% 15%-25%	18.0%	18.9%	0.9%
Core Fixed Income	2.5	2.5%	2.5%	2.1%	-0.4%
Opportunistic Fixed Income	17.5	17.5	15.5%	16.7%	1.2%
<b>Real Estate</b>	5% 0%-10%	5% 0%-10%	5.5%	5.4%	-0.1%
<b>Hedge Fund</b>	15% 10%-20%	15% 10%-20%	15.0%	12.7%	-2.4%
<b>Private Equity</b>	0% (Target 11%) 0%-16%	0% (Target 11%) 0%-16%	4.6%	7.0%	2.4%

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
Cash	0% 0%-3%	0% 0%-3%	0.0%	0.0%	0.0%

Source: Investment Policy Statement, April 2014 amendment; Trust Fund for the People of the Republic of the Marshall Islands Investment Performance, September 30, 2015 and September 30, 2016, Mercer Investment Management. 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
<b>Domestic Equity</b>		
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*
<b>Non-U.S. Equity</b>	Mercer Non-U.S. Equity Fund Mercer Emerging Markets Equity Fund	Mercer Non-U.S. Equity Fund Mercer Emerging Markets Equity Fund
<b>Fixed Income</b>	Mercer Core Fixed Income Fund Mercer Opportunistic Fixed Income	Mercer Core Fixed Income Fund Mercer Opportunistic Fixed Income
<b>Real Estate</b>	AEW Real Estate Securities Value Fund	AEW Real Estate Securities Value Fund
<b>Hedge Fund</b>	Mercer Hedge Fund Investors	Mercer Hedge Fund Investors
<b>Private Equity</b>	Mercer Private Investment Partners III	Mercer Private Investment Partners III Mercer Private Investment Partners IV

Source: Trust Fund for the People of the Republic of the Marshall Islands Investment Performance, September 30, 2015 and September 30, 2016, Mercer Investment Management

\*In June 2016 Mercer realigned the Mercer Small/Mid Cap Growth Equity Fund and the Mercer Small/Mid Cap Value Equity Fund into one fund.

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 \$294,545,533. The amount is a 19.2% gain from FY15 as shown in Table 4. The gain is mainly attributable to investment income of \$28,071,341 and contributions from the U.S., Taiwan, and RMI governments of \$19,923,100. The investment gain for FY16 reversed the investment loss in FY15, which had followed three consecutive growth years.

The U.S. contribution increased to \$15,323,100 based on the FY16 scheduled amount per the Amended Compact, including the partial inflation adjustment. The Taiwan contribution remained at \$2,400,000--the same contribution made in FY15. The RMI made an additional voluntary contribution of \$2,200,000. No other contributions were provided to the Fund. 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
<b>Additions</b>			
Contributions			
U.S. Government	14,534,573	15,323,100	5.4%
Government of Taiwan	2,400,000	2,400,000	0.0%
Government of the RMI	<u>650,000</u>	<u>2,200,000</u>	238.5%
	<u>17,584,573</u>	<u>19,923,100</u>	13.3%
Investment Income			
Interest and dividends	11,102,119	4,371,539	-60.6%
Net increase in the fair value of investments	<u>(21,073,094)</u>	<u>23,699,802</u>	212.5%
Gross investment income	<u>(9,970,975)</u>	28,071,341	381.5%
Less: Investment expenses	<u>399,083</u>	<u>424,798</u>	6.4%
Net investment income	<u>(10,370,058)</u>	<u>27,646,543</u>	366.6%
Total additions	<u>7,214,515</u>	<u>47,569,643</u>	559.4%
<b>Deductions</b>			
Administrative expenses	<u>193,644</u>	<u>166,168</u>	-14.2%
Change in net position	7,020,871	47,403,475	575.2%
<b>Restricted Net Position, Beginning</b>	<u>240,121,187</u>	<u>247,142,058</u>	2.9%
<b>Restricted Net Position, Ending</b>	<b>247,142,058</b>	<b>294,545,533</b>	<b>19.2%</b>

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.

Source: Trust Fund for the People of the Republic of the Marshall Islands Financial Statements, September 30, 2016 and 2015

Total Fund expenses increased by 8.9% to \$2,050,376 for FY16 compared to \$1,882,074 for FY15, per Table 5. However, expenses decreased as a portion of the total percent of the Fund's net position to 0.70% compared to 0.76% for FY15. Annual expense history since inception is provided as Attachment 3, Table B.

**Table 5: Investment and Administrative Expenses, FY15 and FY16**

	FY15	FY16	% Change
<b>Investment Expenses</b>	<b>\$1,688,430</b>	<b>\$1,884,208</b>	<b>11.6%</b>
Custodian	60,684	65,666	8.2%
Investment Adviser	338,400	359,132	6.1%
Money Manager*	1,289,346	1,459,410	13.2%
<i>% of Net Position</i>	<i>0.68%</i>	<i>0.64%</i>	<i>-6.4%</i>
<b>Administrative Expenses</b>	<b>\$193,644</b>	<b>\$166,168</b>	<b>-14.2%</b>
Executive Administrator	101,990	104,574	2.5%
Audit Fees	30,300	32,863	8.5%
Accounting Fees	1,928	2,976	54.4%
Legal Fees	859	7,602	784.9%
Public Communication Fees	-	12,500	0.0%
Miscellaneous	58,567	5,654	-90.3%
<i>% of Net Position</i>	<i>0.08%</i>	<i>0.06%</i>	<i>-28.0%</i>
<b>Total Dollar Expenses</b>	<b>\$1,882,074</b>	<b>\$2,050,376</b>	<b>8.9%</b>
<b>Total % of Net Position</b>	<b>0.76%</b>	<b>0.70%</b>	<b>-8.6%</b>

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

Note: Amounts rounded to nearest dollar.

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

Investment expenses increased 11.6% to \$1,884,208 for FY16 compared to \$1,688,430 for FY15. As a percent of net position, investment expenses decreased to 0.64% for FY16 from 0.68% for FY15. The increased dollar value of investment expenses is a result of the increased value of assets under management due to investment gains and contributions. Fees were reduced with the merging of the Mercer Small/Mid Cap Equity Funds but increased because of the addition of the Mercer PIP IV private equity fund. The reduction in the percent of net position is a result of the increased asset value of the fund.

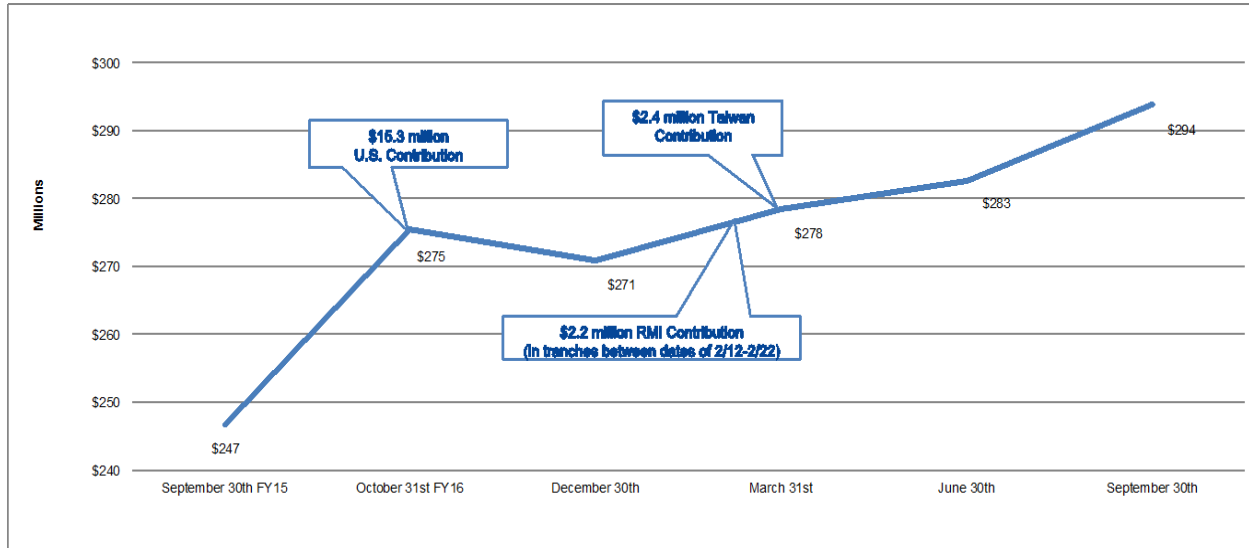
Custodian expenses increased 8.2% due to the Fund's increased value.

Administrative expenses decreased by 14.2% for FY16 totaling \$166,168 compared to \$193,644 for FY15. The decrease is attributable to the one-time expense of contracting of a firm to conduct an independent 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 and audit fees slightly increased in dollar value. Accounting fees also slightly increased in dollar value but more substantially as a percent given increased services for accounting and auditing support. Legal fees significantly increased in 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. As a percent of net position, administrative fees decreased to 0.06% for FY16 compared to 0.08% for F15- such a low percentage was last experienced in FY13 and FY14 and, prior to that period, from FY04-07, the inception period of the Fund.

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 is 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. The standards include 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. The audit found no deficiency in internal control over finance 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 experienced growth throughout the fiscal year except for the first quarter of FY16. The Fund generally followed the progress of U.S. public equity, fixed income, and real estate markets as well as gains in non-U.S. equities. An increase in fund assets also occurred when the U.S., RMI, and Taiwan contributions were deposited during the fiscal year in addition to when positive investment performance was experienced.

**Figure 1: FY16 Monthly Trust Fund Net Position**  
(in millions)



Source: Mercer Quarterly Reports and October Monthly Flash Report; contribution amounts from State Street Statements

For the fiscal year, in terms of performance measurement, the Fund increased 10.4% net of fees.<sup>6</sup> The return rate compares to a Total Trust Benchmark of 11.7%. Since inception, the Fund has gained 6.7%, beating its benchmark of 6.4%.

Table 6 provides Fund performance measures for the fund as whole and per asset strategy, net of fees, compared to Committee-agreed benchmarks.

**Table 6: Periodic Performance Compared to Benchmarks Since Inception**

	Market Value 9/30/16	% of Fund	FY16	3 Years	5 Years	Since Inception	Date of Inception
<b>Total Fund</b>	\$294,125,586	100.00%	10.40%	4.81%	9.22%	6.67%	Oct. 2005
Total Trust Benchmark			11.73%	4.84%	8.92%	6.35%	
<b>US Public Equity</b>	\$84,265,154	28.65%	14.89%	10.08%	16.00%	7.61%	Jan. 2006
Russell 3000 Index			14.96%	10.44%	16.36%	7.61%	

<sup>6</sup> The performance rates in this section are from the Mercer September 30, 2016 Quarterly Report and other updates since that time. 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 weighted annual rate of return.

	Market Value 9/30/16	% of Fund	FY16	3 Years	5 Years	Since Inception	Date of Inception
<b>US Large Cap Equity</b>	\$68,117,083	23.16%	15.45%	11.15%	NA	13.13%	Sept. 2012
S&P 500			15.43%	11.16%	16.37%	13.15%	
<b>US Small/Mid Cap Equity</b>	\$16,148,071	5.49%	NA	NA	NA	5.52%	Jun-16
Russell 2500			14.43%	7.77%	16.30%	6.56%	
<b>Non-US Equity</b>	\$80,596,761	27.41%	9.62%	1.74%	7.66%	3.70%	Jan. 2006
Non-US Equity Benchmark			9.26%	0.18%	5.90%	2.32%	
<b>Mercer Non-US Equity</b>	\$61,756,588	21.00%	8.23%	2.46%	NA	7.86%	Oct. 2012
MSCI EAFE			6.52%	0.48%	7.39%	5.76%	
<b>Mercer Emerging Markets Equity</b>	\$18,840,173	6.41%	14.17%	-0.99%	NA	-0.10%	Sept. 2012
MSCI Emerging Markets			16.78%	-0.56%	3.03%	-0.18%	
<b>Fixed Income</b>	\$55,468,600	18.86%	10.98%	-0.95%	0.30%	3.50%	Jan. 2006
Fixed Income Benchmark			13.85%	1.31%	1.46%	3.97%	
<b>Fixed Income - Core</b>	\$6,255,818	2.13%	5.87%	4.07%	NA	2.88%	Sept. 2012
Barclays Aggregate			5.19%	4.03%	3.08%	2.57%	
<b>Fixed Income – Opportunistic</b>	\$49,212,781	16.73%	11.62%	-1.02	NA	-0.04%	Aug. 2013
Custom Opportunistic Fixed Income Benchmark			15.08%	0.92	NA	1.90%	
<b>Real Estate</b>	\$15,979,782	5.43%	18.05%	14.21%	15.61%	5.32%	Sept. 2007
Dow Jones US Select REIT			17.70%	14.29%	15.60%	6.41%	
<b>Hedge Fund</b>	\$37,215,956	12.65%	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%	
<b>Private Equity</b>	\$20,589,257	7.00%	11.97%	4.10%	NA	-0.98%	Apr. 2013
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%	
<b>Cash</b>	\$10,076	0.003%					

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; figures are rounded.



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

The U.S. equity investment asset strategy (28.7% of the portfolio as of September 30, 2016) had a gain of 14.9%, nearly equaling its benchmark of 15.0%. The large cap fund had a significant gain of 15.5%, slightly over performing its benchmark of 15.4% and the small/medium cap funds also had significant gains but a performance rate is not quoted since the new Mercer Small/Mid Cap Equity fund only started in June 2016.

The non-U.S. equity investment asset strategy (27.4% of the portfolio) also had substantial performance with a performance return of 9.6%, outperforming its benchmark of 9.3%. The Mercer Non-U.S. Equity fund had a gain of 8.2%, outperforming its benchmark of 6.5%. The Mercer Emerging Market Equity Fund had a gain of 14.2% but underperformed its benchmark of 16.8%.

The fixed income asset strategy (18.9% of the portfolio) also posted a significant positive return totaling 11.0%, though underperforming its benchmark of 13.9%. The Mercer Core Fixed Income fund had a 5.9% gain beating its benchmark of 5.2%. The asset strategy benefited from the Mercer Opportunistic Fixed Income fund with an 11.6% gain though below its benchmark of 15.1%.

The real estate investment asset strategy (5.4% of the portfolio) had the most significant gains within the portfolio with an 18.0% increase and also beating its benchmark of 17.7%.

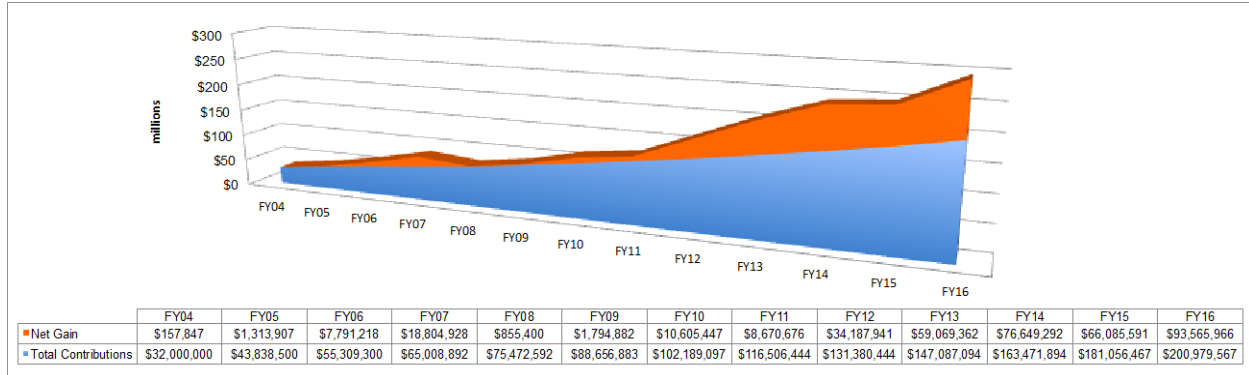
The hedge fund asset strategy (12.7% of the portfolio) had slightly positive performance with a 0.70% gain and underperformed its benchmark of 3.2%.

The private equity fund asset strategy moderately grew as a portfolio component of the portfolio during FY16 (7.0% of the portfolio for FY16 compared to 4.5% for FY15). The asset strategy is a positive contributor to the portfolio with a 12.0% gain. The performance was below the aspirational benchmark (S&P 500 Index + 3%) of 18.9% and above the Burgiss Global Private Equity Index (+7.4%). As mentioned previously a new private equity fund was added to the asset class in FY16- the Mercer PIP IV fund. The asset strategy is still in a build-up stage and is expected to grow in terms of capital allocation to the asset strategy and returns as the underlying Money Managers invest in private equity deals that may or may not come to fruition for several years. Of the amounts committed to the two private equity funds, a total of \$9 million was or will be invested in sustainable opportunities.

As of the end of FY16, the Fund's average annual return rate since inception was 6.7%, net of fees, outperforming the Total Trust Benchmark (6.4%). The positive overall performance for the year increased this average annual return rate since inception from 4.9% for FY15.

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 \$200,979,567 was contributed to the Fund. The U.S. government has contributed 72.1%, the RMI government 16.4%, and Taiwan 11.5%. As of the end of FY16 the Fund has gained a total of \$93,565,966 from those contributions - 46.6% of the cumulative contribution. No contributor's capital investment has diminished since Fund inception.

**Figure 2: Total Cumulative Contribution and Net Position Annual Gain, FY04-FY16**



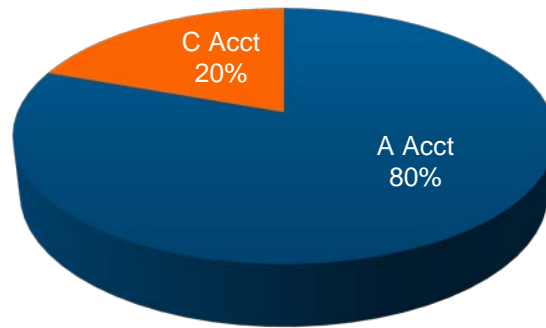
Source: Audited Annual Financial Statements FY04-FY16

### 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 into 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.

**Figure 3 : FY16 A and C Account Breakdown**

Source: FY16 Audited Financial Statement



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

Given the positive annual performance and investment gains in FY16, the 6% threshold was surpassed. A total of \$11,575,313 was transferred to the C account.<sup>7</sup> The C account amounts to \$59,780,826 as of the end of FY16.

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

	FY15	FY16	FY16 % of Account
<b>Total Assets</b>	<b>\$247,142,058</b>	<b>\$294,545,533</b>	
<i>A Account</i>	<i>\$198,936,545</i>	<i>\$234,764,707</i>	<i>100.00%</i>
United States	143,231,566	170,083,552	72.45%
Marshall Islands	34,045,761	38,908,095	16.57%
Taiwan	21,659,219	25,773,060	10.98%
<i>C Account</i>	<i>\$48,205,513</i>	<i>\$59,780,826</i>	<i>100.00%</i>
United States	34,707,304	43,310,323	72.45%
Marshall Islands	8,249,833	9,907,614	16.57%
Taiwan	5,248,376	6,562,889	10.98%

Note: Amounts rounded to nearest dollar.

Source: Audited Financial Statements

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 with the partial inflation adjustment. The current amount in the C account is 2.32 times the amount of estimated annual Amended Compact Annual Grant Assistance estimated for FY23.

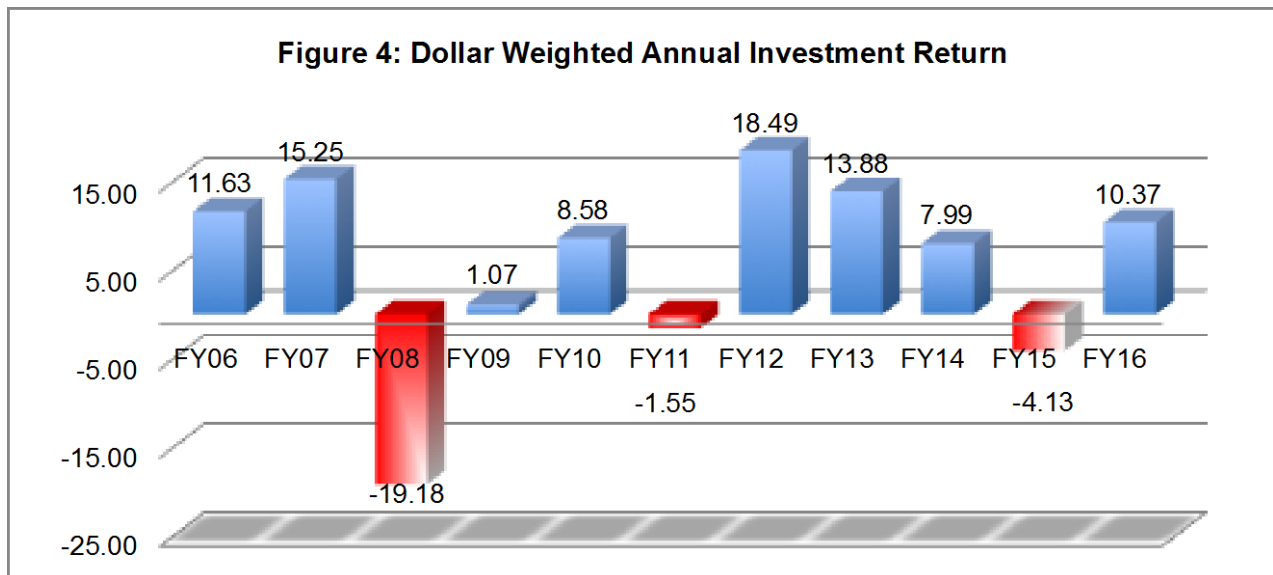
<sup>7</sup> The C account contains annual income on the Fund over 6%. The C account shall contain no more than three times the estimated equivalent of the fiscal year 2023 annual grant assistance, including the estimated inflation adjustment provided in the Amended Compact of Free Association (Section 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, 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 and Recommendations Moving Forward

### A. Effectiveness to Achieve Purpose

Article 3 of the Trust Fund Agreement between the U.S. and RMI governments states that, *“The Purpose of the Fund is to contribute to the economic advancement and long-term budgetary self-reliance of the Republic of the Marshall Islands by providing an annual source of revenue, after Fiscal Year 2023, for assistance in education, health care, the environment, public sector capacity building, private sector development, and public infrastructure described in Section 211 of the Compact, as amended, or other sectors as mutually agreed by the Original Parties, with priorities in education and health care.”*

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.<sup>8</sup>

The weighted annual rate of return on investment for FY16, after discounting for contributions, fees, and expenses, was 10.37% for the year compared to a loss of 4.13% for FY15 and three previous consecutive years of high returns: 7.99% for FY14, 13.88% for FY13, and 18.49% for FY12.

<sup>8</sup> Initial contributions from the Republic of the Marshall Islands and the United States were made in June, 2004. Contributions were initially invested in money market accounts and, as shown in Attachment A, Table 3, the dollar weighted annual investment return for FY04 and FY05 was 1.48% and 2.78%, respectively. The Fund was not invested with a Trustee and Investment Adviser until November 2005.

An analysis by the Investment Adviser (Figure 5) estimates that if the Fund averages a 5% return annually from FY17 to FY23, and assuming a 6% payout from the Fund, the distribution from the estimated assets for FY24 would probably provide revenue equivalent to about 137.3% of the Amended Compact's Section 211(a) estimated FY23 Annual Grant Assistance with the partial inflation adjustment for FY23 but may not provide any inflation adjustment for fiscal years beyond 2023.<sup>9</sup> 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.<sup>10</sup> As previously mentioned, the Fund has an annual average growth rate of 6.7%, net of fees, since inception.

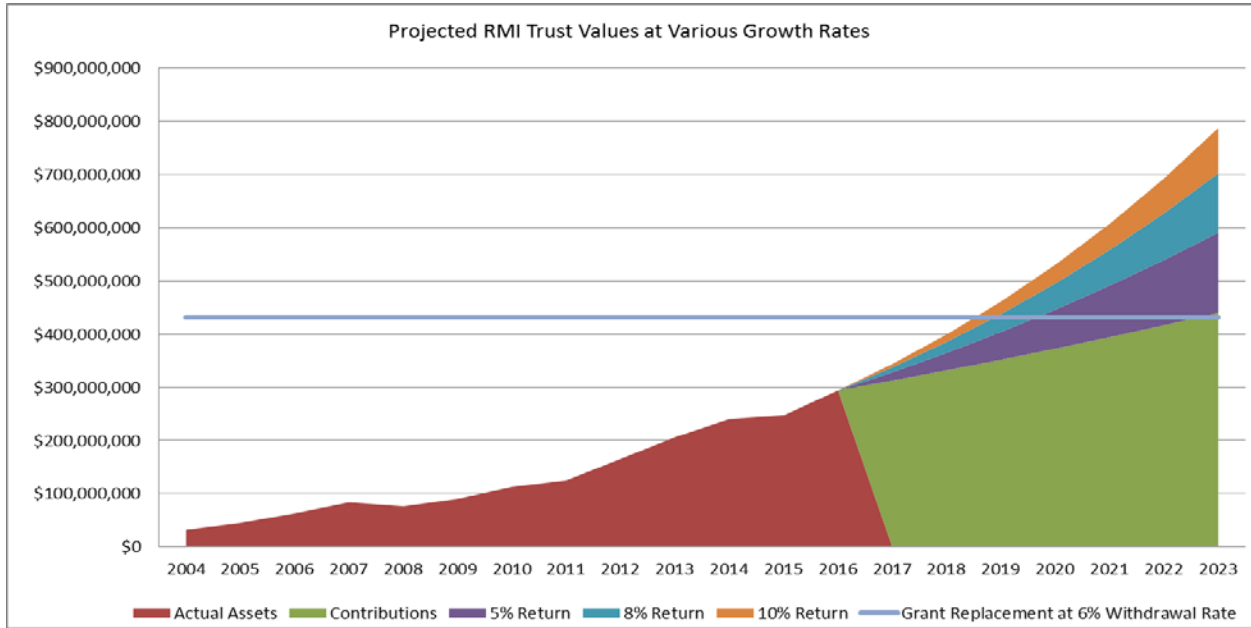
If the Fund were to achieve an average 8% return annually, the Fund would probably provide FY24 revenue equivalent to about 163.3% of the estimated FY23 Annual Grant Assistance with the partial inflation adjustment, and possibly allow for 2% annual inflation adjustments for each fiscal year beyond FY23. 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 Fund has achieved 8% or more return in 6 of its 13 years of existence: fiscal years 2006, 2007, 2010, 2012, 2013, and FY16.

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<sup>9</sup> The Amended Compact's Section 211(a) estimated FY23 Annual Grant Assistance level includes those funds provided by Section 211(a) plus the associated Amended Compact's partial inflation adjustment, previously described. The amount 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 so long as that agreement is in force. The 6% payout estimate is based on an estimated average annual rate of return over the medium term and is used here for calculation purposes.

<sup>10</sup> Consistent with the Trust Fund Agreement's Articles 16.7 and 16.8, for FY24 only the amount equal to the FY23 Annual 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. For FY25 and thereafter, the maximum to be disbursed will be the FY23 Annual 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.

**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 183.0% of estimated FY23 Annual Grant Assistance with the partial inflation adjustment, allow for 2% annual inflation adjustment for each fiscal year beyond FY23, and fund the C account fully. 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 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 RMI government.

**B. Recommendations Moving Forward**

The Trust Fund Committee approved the issuance of a request for proposals for Investment Adviser services to the Trust Fund (Resolution RMI 2016-5) on 26 August 2016. The Committee will select an Investment Adviser based on the proposals received during FY17. Based on the selection, the Investment Policy Statement and new asset allocation will be reviewed.

The Committee conducted analysis and received a presentation in August 2016, and previously, 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 the probability that at some point during the post-2023 distribution period, there will be years when no revenue will be available for distribution, undermining the purpose of the Fund and potentially impacting the fiscal stability of the Government of the Republic of the Marshall Islands. The Committee intends to conduct further research and analysis in the future to help determine the best path forward for the Fund and to inform the Original Parties of any findings.

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.

Also, the Committee continues to take note, consistent with the FY11 and FY12 Trust Fund Annual Reports, of the U.S. government's findings regarding the tax and trade compensation issue identified in the Amended Compact. If the U.S. Congress were to provide funds as a result of this finding it would result in the Fund receiving an additional \$20 million contribution.<sup>11</sup>

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<sup>11</sup> On 8/29/11, the Committee passed a Statement of the Trust Fund Committee that takes note of the results of the U.S. government's interagency review of the Amended Compact Act's provision, carried over from the original Compact of Free Association Act (PL 99-239), which indicates that the RMI government may request from the U.S. Congress compensatory adjustments for the loss of certain tax and trade provisions of the original Compact of Free Association. The interagency committee 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." Were the U.S. Congress to provide funds as a result of this request, it would be contributed to the Fund as an RMI contribution as stipulated in section 216(b) of the Amended Compact, which provides, "Any funds received by the Republic of the Marshall Islands under Section 111(d) of Public Law 99-239 (January 14, 1986), or successor provisions, would be contributed to the Trust Fund as a Republic of the Marshall Islands contribution."

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

Account	Fee Schedule	Estimated Annual Fee (%)
<b>Total Trust Fund</b>		0.59%
<b>Private Markets</b>		
Mercer PIP III	0.50% on Committed Capital	0.50%
Mercer PIP IV	0.50% on Committed Capital	0.50%
<b>Total Investment Management Fee</b>		0.69%

Source: Trust Fund for the People of the Republic of the Marshall Islands Investment Performance, September 30, 2016, Mercer Investment Management, p. 97.

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, and are not included in this table.



## Attachment 2: Performance Standard Benchmarks

Asset Class	Benchmarks
<b>Overall</b>	Total Trust Benchmark <sup>12</sup> Investor Force All Foundation Gross Median
<b>Domestic Equity</b>	Russell 3000 Index Mercer Institutional U.S. Equity Combined Median
<b>U.S. Large Cap Equity</b>	S&P 500 Index Mercer Institutional U.S. Equity Large Cap Core Median
<b>U.S. Small/Med Cap Equity</b>	Russell 2500 Growth Index Mercer Institutional U.S. Equity SMID Median
<b>Non-U.S. Equity</b>	Non-U.S. Equity Benchmark (100% MSCI ACWI ex USA) Mercer Institutional World ex U.S. EAFE Equity Median MSCI EAFE Index (for Mercer non-U.S. Equity Fund) Mercer Institutional World ex U.S./EAFE Equity Median MSCI Emerging Markets (for Mercer Emerging Markets Equity Fund) Mercer Institutional Emerging Markets Equity Median
<b>Fixed Income</b>	Fixed Income Benchmark (12.5% Barclays U.S. Aggregate Bond Index and 87.5% Custom Opportunistic Fixed Income Benchmark consisting of: 50% BofA Merrill Lynch Global High Yield Constrained Index and 50% JP Morgan WGBI EM Global Diversified) Mercer Institutional U.S. Fixed Combined Median 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
<b>Real Estate</b>	Dow Jones Wilshire U.S. Select REIT Mercer Institutional U.S. Real Estate Public REITS Median
<b>Hedge Fund</b>	T-Bills+3% HFRI Fund of Funds Composite Index Mercer Institutional Funds of Hedge Fund (Net) Median
<b>Private Equity</b>	S&P 500+3% Burgiss Global Private Equity Index

Source: Trust Fund for the People of the Republic of the Marshall Islands Investment Performance, September 30, 2016, Mercer Investment Management in accordance with the 10 April 2014 Investment Policy Statement.

<sup>12</sup> The Total Trust Benchmark is comprised of 25% Russell 3000, 30% MCSI ACWI ex USA, 20% Fixed Income Benchmark, 5% Dow Jones U.S. Select REIT, 15% T-Bills+3 and 5% S&P 500 +3.

### 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
<b>Net Position (Fiscal Year Beginning)</b>	<b>\$32.16</b>	<b>\$45.15</b>	<b>\$63.10</b>	<b>\$83.81</b>	<b>\$76.32</b>	<b>\$90.45</b>	<b>\$112.79</b>	<b>\$125.17</b>	<b>\$125.17</b>	<b>\$165.56</b>	<b>\$206.15</b>	<b>\$240.12</b>	<b>\$247.14</b>
<i>Contributions</i>													
U.S.	\$7.00	\$7.59	\$8.22	\$8.95	\$9.71	\$10.78	\$11.13	\$11.80	\$12.47	\$13.31	\$13.98	\$14.53	\$15.32
Taiwan	\$0.00	\$1.75	\$0.75	\$0.75	\$0.75	\$2.40	\$2.40	\$2.40	\$2.40	\$2.40	\$2.40	\$2.40	\$2.40
RMI	\$25.00	\$2.50	\$2.50	\$0.00	\$0.00	\$0.00	\$0.00	\$0.12	\$0.00	\$0.00	\$0.00	\$0.65	\$2.20
<b>Total</b>	<b>\$32.00</b>	<b>\$11.84</b>	<b>\$11.47</b>	<b>\$9.70</b>	<b>\$10.46</b>	<b>\$13.18</b>	<b>\$13.53</b>	<b>\$14.32</b>	<b>\$14.87</b>	<b>\$15.71</b>	<b>\$16.38</b>	<b>\$17.58</b>	<b>\$19.92</b>
<i>Investment Earnings Less Fees and Expenses</i>													
Investment Earnings	\$0.16	\$1.21	\$6.62	\$11.25	-\$17.54	\$1.59	\$9.58	-\$1.49	\$26.02	\$25.35	\$18.10	-\$9.97	\$28.07
Fees and Expenses	\$0.00	\$0.05	\$0.14	\$0.23	\$0.41	\$0.65	\$0.77	\$0.45	\$0.50	\$0.47	\$0.52	\$0.59	\$0.59
<b>Total</b>	<b>\$0.16</b>	<b>\$1.15</b>	<b>\$6.48</b>	<b>\$11.01</b>	<b>-\$17.95</b>	<b>\$0.94</b>	<b>\$8.81</b>	<b>-\$1.93</b>	<b>\$25.52</b>	<b>\$24.88</b>	<b>\$17.58</b>	<b>-\$10.56</b>	<b>\$27.48</b>
<b>Net Position (Fiscal Year End)</b>	<b>\$32.16</b>	<b>\$45.15</b>	<b>\$63.10</b>	<b>\$83.81</b>	<b>\$76.32</b>	<b>\$90.45</b>	<b>\$112.79</b>	<b>\$125.17</b>	<b>\$125.17</b>	<b>\$165.56</b>	<b>\$206.15</b>	<b>\$240.12</b>	<b>\$247.14</b>

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.

**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
<b>Investment Expenses</b>	<b>\$38,716</b>	<b>\$139,073</b>	<b>\$224,483</b>	<b>\$599,963</b>	<b>\$524,070</b>	<b>\$651,141</b>	<b>\$321,523</b>	<b>\$377,892</b>	<b>\$1,168,759</b>	<b>\$1,510,998</b>	<b>\$1,688,430</b>	<b>\$1,884,208</b>	<b>11.6%</b>
Custodian	12,859	139,073	169,461	175,761	165,825	182,527	30,130	35,111	47,112	56,977	60,684	65,666	8.2%
Investment Adviser	25,857	-	55,022	424,202	358,245	468,614	291,393	338,819	289,438	327,972	338,400	359,132	6.1%
Money Manager*	-	-	-	-	-	-	-	3,962	832,208	1,126,049	1,289,346	1,459,410	13.2%
<i>% of Net Position</i>	<i>0.09%</i>	<i>0.22%</i>	<i>0.27%</i>	<i>0.78%</i>	<i>0.58%</i>	<i>0.58%</i>	<i>0.26%</i>	<i>0.23%</i>	<i>0.57%</i>	<i>0.63%</i>	<i>0.68%</i>	<i>0.64%</i>	<i>-6.4%</i>
<b>Administrative Expenses</b>	<b>\$15,483</b>	<b>\$1,077</b>	<b>\$9,814</b>	<b>\$72,231</b>	<b>\$127,736</b>	<b>\$120,381</b>	<b>\$124,700</b>	<b>\$129,443</b>	<b>\$131,129</b>	<b>\$135,751</b>	<b>\$193,644</b>	<b>\$166,168</b>	<b>-14.2%</b>
Executive Administrator	-	-	-	57,200	67,850	80,450	86,982	93,856	93,912	97,160	101,990	104,574	2.5%
Audit Fees	-	-	8,062	9,100	52,300	28,500	27,300	27,300	28,350	31,594	30,300	32,863	8.5%
Accounting Fees	-	-	-	2,906	4,199	4,867	4,272	2,381	2,951	2,820	1,928	2,976	54.4%
Legal Fees	15,483	1,077	1,752	1,837	1,035	2,070	1,962	1,198	2,643	367	859	7,602	784.9%
Public Communication Fees	-	-	-	-	-	-	-	-	-	-	-	12,500	
Miscellaneous Fees**	-	-	-	1,188	2,352	4,494	4,184	4,708	3,272	3,811	58,567	5,654	-90.3%
<i>% of Net Position</i>	<i>0.03%</i>	<i>0.00%</i>	<i>0.01%</i>	<i>0.09%</i>	<i>0.14%</i>	<i>0.11%</i>	<i>0.10%</i>	<i>0.08%</i>	<i>0.06%</i>	<i>0.06%</i>	<i>0.08%</i>	<i>0.06%</i>	<i>-28.0%</i>
<b>Total Expenses</b>	<b>\$54,199</b>	<b>\$140,150</b>	<b>\$234,297</b>	<b>\$672,194</b>	<b>\$651,806</b>	<b>\$771,522</b>	<b>\$446,223</b>	<b>\$507,335</b>	<b>\$1,299,887</b>	<b>\$1,646,749</b>	<b>\$1,882,074</b>	<b>\$2,050,376</b>	<b>8.9%</b>
<i>Total % of Net Position</i>	<i>0.12%</i>	<i>0.22%</i>	<i>0.28%</i>	<i>0.88%</i>	<i>0.72%</i>	<i>0.68%</i>	<i>0.36%</i>	<i>0.31%</i>	<i>0.63%</i>	<i>0.69%</i>	<i>0.76%</i>	<i>0.70%</i>	<i>-8.6%</i>

Source: Audited Annual Financial Statements since FY04

Note: Amounts rounded.

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 with the change to active management of various assets per the Investment Policy Statement and are reflected in the numbers for FY12-FY16.

FY13-15 Money Manager fees assessed on the Mercer PIP III fund were added, revising the amounts for this line item for the FY13-15 period.

Miscellaneous Fees\*\* For FY15, a one-time charge of \$55,000 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
<b>Total Assets</b>	<b>\$63,100,518</b>	<b>\$83,813,819</b>	<b>\$76,327,994</b>	<b>\$90,451,767</b>	<b>\$112,794,544</b>	<b>\$125,177,120</b>	<b>\$165,568,384</b>	<b>206,156,457</b>	<b>240,121,186</b>	<b>247,142,058</b>	<b>294,545,533</b>
<i>A Account</i>	<i>\$59,965,823</i>	<i>\$73,998,088</i>	<i>\$66,512,261</i>	<i>\$80,636,034</i>	<i>\$100,329,457</i>	<i>\$112,712,034</i>	<i>\$135,867,285</i>	<i>162,332,802</i>	<i>191,915,673</i>	<i>198,936,545</i>	<i>234,764,707</i>
United States	23,303,978	32,430,127	35,843,543	48,113,717	61,869,954	74,785,619	92,426,277	113,613,482	136,906,167	143,231,566	170,083,552
Marshall Islands	33,669,073	37,781,461	27,344,493	27,120,536	30,015,612	27,220,235	29,767,725	31,775,218	34,405,467	34,045,761	38,908,095
Taiwan	2,992,772	3,786,500	3,324,225	5,401,781	8,443,891	10,706,180	13,673,283	16,944,102	20,604,039	21,659,219	25,773,060
<i>C Account</i>	<i>\$3,134,695</i>	<i>\$9,815,731</i>	<i>\$9,815,733</i>	<i>\$9,815,733</i>	<i>\$12,465,087</i>	<i>\$12,465,086</i>	<i>\$29,701,099</i>	<i>43,823,655</i>	<i>48,205,513</i>	<i>48,205,513</i>	<i>59,780,826</i>
United States	1,218,208	4,301,806	5,289,711	5,856,828	7,686,819	8,270,716	20,204,731	30,671,300	34,388,187	34,707,304	43,310,323
Marshall Islands	1,760,041	5,011,652	4,035,440	3,301,352	3,729,186	3,010,349	6,507,337	8,578,095	8,641,989	8,249,833	9,907,614
Taiwan	156,446	502,273	490,582	657,553	1,049,082	1,184,021	2,989,031	4,574,260	5,175,337	5,248,376	6,562,889

Source: Audited Annual Financial Statements since FY06

Note: Amounts rounded.



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