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

Fiscal Year 2011 Annual Report

March 23, 2012

I. Introduction

The Annual Report for the Trust Fund for the People of the Republic of the Marshall Islands (the Fund) is presented to provide the status of the Fund as of 30 September 2011, the performance during the fiscal year ending 30 September 2011, and a review of the Fund since its inception in April 2004. The Annual Report should be considered together with the audited financial statements for Fiscal Year 2011 (FY11).

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, Mercer Investment Consulting, Inc. The analysis and presentation reflects the views of the Trust Fund Committee (the Committee).

The Annual Report was prepared by the Executive Administrator and approved by the Trust Fund Committee in March 2012. Any questions or comments pertaining to the report should be directed to the Executive Administrator, Anthony Costanzo, at apcostanzo@bgsi.net or at 703-683-3793.

FY11 Highlights

- The total Net Asset Value of the Trust Fund increased 11% to $125.2 million in FY11 from $112.8 million in FY10. The increase was due mainly to increased contributions. The Trust Fund experienced an investment loss of $1.4 million primarily due to declining equity markets.

- The Trust Fund's overall performance, after discounting for contributions, was -1.1% net of fees. This compares to a -0.5% loss for the Total Trust Benchmark.[1]

- Contributions totaled $14.3 million for FY11 and were received from the United States government ($11.8 million), Taiwan ($2.4 million) and the Republic of the Marshall Islands ($119,197). FY11 was the first time the Republic of the Marshall Islands government (RMI government) contributed to the Trust Fund since October 2005. FY10 contributions amounted to $13.5 million.

- No transfer was made to the C account for FY11 since there was an investment loss. The C account remains at $11.5 million from FY10.

- Investment expenses were substantially reduced by 50.6% to $321,523 in FY11 from $651,141 in FY10. The reduction is attributed to new fee structures with the newly contracted custodian and investment adviser in September 2010.

- Administrative expenses slightly increased by 3.6% to $124,700 in FY11 from $120,381 in FY10. The increase can be attributed to the transition costs for the Executive

[1] The Total Trust Benchmark is comprised of 43% Russell 3000, 26% MCSI EAFE (net dividend), 26% Barclays Capital Aggregate and 5% Dow Jones Wilshire REIT.

Administrator position. Amounts for accounting, audit, legal services and miscellaneous administrative fees were similar to those incurred during FY10.

- Since inception, the Fund has gained about 2.3% per annum net of fees.[2]

- The Trust Fund Committee has taken steps to attract additional subsequent contributors to the Fund and has taken note of the potential for the Fund to receive an additional $20 million resulting from the United States government findings of tax and trade issues from the original Compact of Free Association between the U.S. and RMI governments.

[2] If the Fund was to average 5% growth annually to FY23, the distribution from estimated assets for FY24 should provide revenue equivalent to that of the nominal FY23 Compact of Free Association, as Amended, Section 211 grant assistance. If the Fund averages 8% growth annually, the Fund should provide FY24 revenue equivalent to the inflation adjusted FY23 Amended Compact grant level and provide a partial build-up of the C account.

II. Trust Fund Purpose, Organization and Commitments

A. Purpose

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 according to the Trust Fund Agreement negotiated between the Original Parties: the United States government (U.S. government) and the Republic of the Marshall Islands government (RMI government). The Compact’s Section 216 and 217 set forth the funding to be contributed by both governments to 2023. The Trust Fund Agreement provides the organizational structures, policies and procedures for most aspects of the Fund’s start-up and ongoing operations.

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 Fund’s main investment guidance is provided by the Investment Policy Statement, last updated and approved by the Committee in September 2010.

As stated in the Trust Fund Agreement, the purpose of the Fund is to:

> *“contribute to the economic development 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 broad investment objective, as set forth in the Investment Policy Statement, is to:

> *“maximize 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. Organization

The Fund’s Committee has functions indicated by the Trust Fund Agreement to oversee the:

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

2. Investment and distribution of resources of the Fund; and
3. Conclusion of agreements and arrangements with subsequent contributors and other organizations.

For FY11, the Committee consisted of 7 members. According to the Trust Fund Agreement, the U.S. government maintains a majority of voting members to include the Chairman. The RMI government appoints two voting members. A subsequent contributor may or may not be a voting member. 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.

The FY11 Committee members were:

1. Nikolao Pula, Chairman, U.S.
2. Jack Ading, Vice Chairman, RMI
3. Chris Marut, Member, U.S.
4. Jeanette Lim, Member, U.S.
5. Joseph McDermott, Member, U.S.
6. Robert Muller, Member, RMI
7. James C.K. Tien, Member, Taiwan

An Executive Administrator supports the Committee. In April 2011, after a search, Anthony Costanzo was appointed as Executive Administrator for a one-year term, which is renewable.

During FY11, the Committee met quarterly to review investment performance and conduct Fund business on the following dates:

1. 9 November 2010 (Washington D.C.-based teleconference)
2. 23 March 2011 (San Francisco)
3. 16 May 2011 (Washington D.C.-based teleconference)
4. 29 August 2011 (Honolulu)

Minutes have been recorded, approved and signed for each meeting.

A custodian and investment adviser support the Fund. State Street Bank has performed as custodian since September 2010. Mercer Investment Consulting, Inc., has performed as the investment adviser also since September 2010.

C. Commitments

Contributions to the Fund by the U.S. government and RMI government are governed by the schedule in the Amended Compact. The U.S. government is committed to contribute $7 million annually from FY04 to FY23 plus a cumulative $0.5 million addition annually plus a partial inflation adjustment as indicated in the Amended Compact.[3] The RMI government was to

[3] As stated in the Amended Compact, "the US 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

provide $30 million in specific tranches by 1 October 2005. Taiwan has made various contributions annually since FY05 and since FY09 contributes $2.4 million annually to FY23.

For FY11, a total of $14,317,347 was contributed consisting of a scheduled $11,798,150 from the U.S. government, a $119,197 unscheduled contribution from the RMI government, and a scheduled $2,400,000 contribution from Taiwan. The RMI government contribution was its first contribution after meeting its Amended Compact required contribution total in 2005.

The following table indicates total contributions to date and estimated future contributions based on the Trust Fund Agreement and other agreements.

Figure 1: Contributions to FY11 and Committed Future Contributions
($s millions)

Date	United States	RMI	Taiwan	Total
FY04	7.00	25.00		32.00
FY05	7.59	2.50	1.75	11.84
FY06	8.22	2.50	0.75	11.47
FY07	8.95		0.75	9.70
FY08	9.71		0.75	9.71
FY09	10.78		2.40	13.93
FY10	11.13		2.40	13.53
FY11	11.80	0.119	2.40	14.32
Actual Invested to Date	*$75.18*	*$30.12*	*$11.20*	*$116.50*
FY12*	11.00		2.40	13.40
FY13	11.50		2.40	13.90
FY14	12.00		2.40	14.40
FY15	12.50		2.40	14.90
FY16	13.00		2.40	15.40
FY17	13.50		2.40	15.90
FY18	14.00		2.40	16.40
FY19	14.50		2.40	16.90
FY20	15.00		2.40	17.40
FY21	15.50		2.40	17.90
FY22	16.00		2.40	18.40
FY23	16.50		2.40	18.90
Total	*$240.18*	*$30.12*	*$40.00*	*$310.30*

* US numbers as of FY12 do not include the inflation adjustment. The adjustment will be calculated and added each fiscal year.

Domestic Product Implicit price deflator, or 5 percent, whichever is less in any one year, using the beginning of Fiscal Year 2004 as the base.”

The Committee passed a resolution in FY11 (Resolution RMI 2011-9) to help attract subsequent contributors to the Fund so as to build up the Fund's corpus. The Committee also 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 a RMI contribution as stipulated in the Amended Compact.

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III. Administration and Approved Resolutions

A. Executive Administrator

The Fund contracts an Executive Administrator, who serves in support of the governance, administration and operations of the Committee.

The current Executive Administrator began providing services in April 2011 after the Committee conducted an advertised search for candidates. The former Executive Administrator served in the position from 2005. There was an interim period between April and May 2011 to help the Fund transition to the new Executive Administrator.

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

Key accomplishments include the following:

- Updated bill payment process to make Fund payments.
- Negotiated and gained Committee approval of new service agreements with the auditor and accountant. Conducted a search for legal counsel and Registered Agent.
- Organized and conducted and provided follow-up for the four quarterly review meetings.
- Prepared or coordinated the preparation and approval of 9 Committee resolutions.
- Actively liaised with the custodian, investment adviser, accountant and auditor to conduct Fund business and worked with the entities on improvements, as needed.
- Provided the Committee with issue research on such topics as: active versus passive investment management, issues regarding the delineation between the Fund's A and C accounts, the formula to calculate the C account possible transfer annually, public information sharing, and improving electronic decision making.
- Prepared research on potential subsequent contributor candidates and possible ways forward to attract subsequent contributors to the Fund.

B. Service Providers

The Fund maintains contracts with a set of service providers to help conduct Fund business. The following are the key service providers.

Custodian
State Street Bank serves as Fund custodian per a 3-year renewable contract between State Street Bank and the Committee dated 3 September 2010. State Street, as the custodian, provides all the services of the Trust Fund Agreement's Article 13 with the exception of the record keeping and reporting functions. Key services include:

- To 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;
- To disburse income or corpus only pursuant to the conditions set forth in the Trust Fund Agreement;
- Make all payment of liabilities and administrative expenses; and
- Effect all distributions pursuant to the instruction of the Committee.

State Street's fee is 3 basis points of Fund value assessed quarterly.

State Street maintains a web site portal for Committee members and key staff access for recordkeeping and reporting. State Street also provides planned accounting that helps to track each contributor's balance and the C account.

Investment Adviser and Money Manager

Mercer Investment Consulting, Inc. (Mercer) serves as Fund investment adviser and money manager per a 3-year renewable contract between Mercer and the Committee. Mercer performs the duties of investment adviser and money manager as specified in Article 14 of the Trust Fund Agreement. Key duties 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.

Mercer's fee is 22 basis points of Fund assets, assessed quarterly.

Mercer has provided the Committee with monthly flash reports. The reports provide a snapshot of Fund performance by asset class and by individual asset, inclusive of values and comparisons to agreed upon benchmarks. Mercer also provides detailed quarterly performance reports prior to Committee quarterly meetings. The reports provide information on global, U.S. and comparative fund investment performance and Fund status for the quarter, fiscal year and since inception. It also provides a forecast of potential future performance based on high, medium and low growth scenarios. Mercer representatives present the report at the quarterly meeting and respond to Committee member and staff questions. Mercer also reviewed the September 2010 Investment Policy Statement during the 29 August 2011 meeting and again in the first quarter of FY12 to recommend to the Committee any needed changes.

Accounting
The Committee has engaged Bookminders since 2008. Bookminders has prepared the Fund's financial records dating back to inception in 2004. A new 1-year service agreement was signed in June 2011. Bookminders reporting was adjusted to provide quarterly financial statements rather than the previously provided monthly statements. Bookminders also prepares the annual financial statements that are reviewed by the auditor.

Auditor
ParenteBeard serves as the Fund's auditor and has conducted the annual audits dating back to FY04. The Committee engaged ParenteBeard in June 2011 to prepare the FY11 audit as well as the FY12 audit. ParenteBeard conducts the audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Legal Counsel
DLA Piper LLP serves as the Fund's legal counsel. The firm has provided legal advice since the Fund's inception as needed.

C. Approved Resolutions

The Committee approved 9 Resolutions. The following is the title and brief description of each resolution.

RMI Resolution 2011-1 *RMI Annual Report, Fiscal Year 2010*
Approval of the FY10 Annual Report

RMI Resolution 2011-2 *Contract Extension of Richard W. Miller on an Intermittent Basis*
Contract extension of the Executive Administrator's contract

RMI Resolution 2011-3 *Engagement Agreement with ParenteBeard LLC*
Engagement of ParenteBeard to conduct the FY11 and FY12 audits

RMI Resolution 2011-4 *Engagement Agreement with Bookminders for Accounting* Support Services
Engagement of Bookminders to provide accounting services on a quarterly basis for 1-year

RMI Resolution 2011-5 *Release of Information*
Per Resolution 2009-6, the release of certain information to the public requires Committee approval. Resolution 2011-5 provided the public release of certain asset allocation information and the timing of the decisions for changes in asset allocations. The release was based on a request from a public entity.

RMI Resolution 2011-6 *Release of Information*
Per Resolution 2009-6, the release of certain information to the public requires Committee approval. Resolution 2011-6 provided the public release of certain asset category values as of 30 June 2011. The release was based on a request from a public entity.

RMI Resolution 2011-7 *Trust Fund A and C Account Income, Expenses and End-of-Year Calculations*

The resolution clarified and set forth certain A and C account issues and indicated the end-of-year calculation to determine if and how much of a distribution should be made to the C account.

RMI Resolution 2011-8 *Improving Electronic Decision Making*

Allows Committee members to vote on decisions electronically via e-mail in a standard manner and format.

RMI Resolution 2011-9 *Additional Subsequent Contributors*

Identifies the role of the original parties (the U.S. and RMI governments) to seek contributions to the Fund from other sources as indicated in the Trust Fund Agreement and allows the Executive Administrator to assist the original parties to seek such contributions.

The Committee also issued the previously described Statement of the Trust Fund Committee regarding the Tax and Trade Compensatory Adjustments request by the RMI government.

IV. FY11 Account Balances and Performance and Trends Since Inception

A. Trust Fund Asset Classes and Allocations

For FY11, the Fund has adhered to the asset allocations set forth in the September 2010 Investment Policy Statement. The main asset classes are U.S. equity (small, medium and large cap), non-U.S. equity, fixed income, real estate and cash. The asset classes are according to the following breakdown.

Figure 2: Asset Classes Per Investment Policy Statement and for FY10 and FY11
Source: Investment Policy Statement, 9/10; Mercer Quarterly Reports- 9/30/10 and 9/30/11

Asset Class	Strategic Target Allocation	Permitted Range	Allocation as of 9/30/10	Allocation as of 9/30/11
Domestic Equity	43%	38%-48%	41.4%	42.8%
U.S. Large Cap Equity	36%		36.1%	36.0%
U.S. Small/Med Cap Equity	7%		5.3%	6.6%
Non-U.S. Equity	26%	21%-31%	31.4%	24.0%
Fixed Income	26%	21%-31%	21.8%	28.0%
Real Estate	5%	0%-10%	4.7%	5.0%
Cash	0%	0%-3%	.8%	.1%
Total	100%		100%	100%

The asset classes have remained the same since FY10. The investment adviser has adjusted the asset classes within the permitted ranges indicated in the Investment Policy Statement based on market changes. For instance, during the first 3 quarters of the year the equity portion of portfolio was performing positively given overall market performance. During the last quarter, adjustments were made so that there was a movement from the equities, mainly from the non-U.S. equity class, to the fixed income and real estate classes, again based on market conditions.

The Committee has attempted to keep the cash account at minimal levels to meet monthly expenditure so that all funds are fully invested.

From a historic perspective, the asset allocation has changed minimally since inception. A change was made from the original asset allocation in August 2008. The current asset mix was put in effect in December 2009. The change was to reduce non-U.S. equity asset class by 4% and increase the domestic equity class by 3% and the fixed income class by 1%.

The individual assets have changed as the investment adviser has adjusted the assets per the investment adviser's review of the portfolio in September 2010 to the early part of FY11. The previous investment adviser, Goldman Sachs, had the funds primarily passively invested in iShares. Mercer, as the current investment adviser, invested the assets in funds managed by State Street Global Assets (a corporation distinct from State Street Bank). The Fund remains passively invested.

The individual asset change is illustrated in Figure 3.

Figure 3: Asset Change FY10 to FY11

Asset Class	Assets Held as of 9/30/10	Assets Held as of 9/30/11
Domestic Equity		
U.S. Large Cap Equity	iShares Russell 1000 Growth Index iShares Russell 1000 Value Index	SSgA Russell 1000 Index Fund
U.S. Small/Med Cap Equity	iShares Russell 2000 Index Fund	SSgA Russell 2000 Index Fund
Non-U.S. Equity	iShares MSCI EAFE Index Fund iShares MSCI Emerging Markets Index Fund iShares MSCI Taiwan Index Fund iShares MSCI Japan Index Fund	SSgA MSCI EAFE Fund
Fixed Income	iShares Barclays Aggregate Bond Fund iShares High Yield Corporate Fund	SSgA U.S. Aggregate Fund
Real Estate	iShares Cohen & Steers Realty Fund SPDR DJ Wilshire International Real Estate Fund	SSgA U.S. REIT Non-Erisa Fund

Fund performance measurement is conducted according to a set of performance standards established in the Investment Policy Statement. Individual benchmarks are identified in the Statement, and the investment adviser also measures performance according to its Total Trust Benchmark and Foundation and other medians. Fund performance is measured preliminarily in the monthly Flash Reports and in more detail in the quarterly performance reports.

The following are the key benchmarks.

Figure 4: Performance Standard Benchmarks

Asset Class	Benchmarks
Overall	Total Trust Benchmark[4] Foundations Median
Domestic Equity	Russell 3000 Index Mercer Institutional U.S. Equity Combined Median
U.S. Large Cap Equity	Russell 1000 Index Mercer Institutional U.S. Equity Large Cap Core Median
U.S. Small/Med Cap Equity	Russell 2000 Index Mercer Institutional U.S. Equity Small Cap Core Median

[4] The Total Trust Benchmark is comprised of 43% Russell 3000 Index, 26% MSCI EAFE (net dividend), 26% Barclays Capital Aggregate and 5% Dow Jones Wilshire REIT.

Asset Class	Benchmarks
Non-U.S. Equity	MSCI EAFE Index Mercer Institutional World ex U.S. EAFE Equity Median
Fixed Income	Barclays Capital Aggregate Mercer Institutional U.S. Fixed Core Median
Real Estate	Dow Jones Wilshire U.S. Select REIT Mercer Institutional U.S. Real Estate Public REITS Median

During FY11, the portfolio was reviewed each quarter during Committee meetings. A more complete review was provided by the investment adviser at the end of the third quarter (29 August 2011 Committee meeting) and at the end of the fourth quarter (13 December 2011 Committee meeting).

B. Summary of FY11 Performance and Trends Since Inception

The Fund ended FY11 with a net asset value of $125,177,121. The amount is an 11% gain from FY10 as shown n Figure 5. The gain is solely attributable to contributions from the U.S. government, Taiwan and the RMI government. The U.S. contribution increased from the FY10 amount as scheduled with an additional $500,000 plus the cumulative inflation adjustment. The Taiwan amount remained the same as in FY10. The RMI government made its own contribution- the first RMI contribution since meeting its Compact contribution commitments in FY06.

Figure 5: Trust Fund Assets FY10 and FY11, Percent Change
Source: Audited Financial Statements September 30, 2010 and 2009 and September 30, 2011 and 2010

	FY10	FY11	% Difference
Net Assets (Beginning of FY)	**$90,451,765**	**$112,794,544**	24.7%
Contributions			
U.S.	11,132,214	11,798,150	6.0%
Taiwan	2,400,000	2,400,000	0
RMI	0	119,197	100%
Total Contribution Income	13,532,214	14,317,347	5.8%
Investment Earnings and Unrealized Gains	9,582,112	-1,488,547	-115.5%
Less Investment Fees	651,166	321,522	-50.6%
Net Investment Income	8,930,946	-1,810,069	-120.3%
Total Income	22,463,160	12,507,278	-44.3%
Less Administrative Expenses	120,381	124,701	3.6%

	FY10	FY11	% Difference
Change in Net Assets	22,342,779	12,382,577	-44.6%
Net Assets (End of Fiscal Year)	**$112,794,544**	**$125,177,121**	11.0%

The Fund experienced an investment loss in FY11 of $1.5 million. While dividends and realized gains on investments increased, significant unrealized losses occurred. The losses occurred given the poor performance of U.S. and international equity markets, especially the downturn experience in the last quarter of the fiscal year.

Figure 6: Investment Income FY10 and FY11

Source: Audited Financial Statements September 30, 2010 and 2009 and September 30, 2011 and 2010

Category	FY10	FY11
Dividends	2,629,638	3,572,443
Capital Gains	107	0
Realized Gain (loss) on Investments	-176,344	2,118,935
Unrealized Gain (loss) on Investments	7,128,711	-7,179,925
Total	**$9,582,112**	**$-1,488,547**

Overall, the Fund had a rate of return of -1.5% compared to a gain of 8.2% in FY10. The FY11 loss prevented any transfer to the C account, further described in Section C, below.

From a historical perspective, since inception, the Fund continues to increase, overall, given the annual contribution amounts plus positive market performance in most years. The Fund, while established in FY04, was not fully invested until FY06. Income for FY04 consisted of interest earnings. For FY05, income consisted of interest earnings and some dividend income. FY06 was the first year the Fund had realized and unrealized investment gains.

The only years investment losses occurred were in FY08 and FY11. The losses during these years were attributable to U.S. and international equity market performance and economic conditions to which the Fund's investment mix is inherently tied given the emphasis on U.S. and international equities.

Figure 7: Total Contributions, Income, Expenses and Net Assets Since Inception
Source: Annual Audited Financial Statements since FY04
$s millions

	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Net Assets (Beginning of FY)		**$32.16**	**$45.15**	**$63.10**	**$83.81**	**$76.32**	**$90.45**	**$112.79**
Contributions								
U.S.	7.00	7.59	$8.22	$8.95	$9.71	$10.78	$11.13	$11.80
Taiwan	-	1.75	$0.75	$0.75	$0.75	$2.40	$2.40	$2.40
RMI	25.00	2.50	$2.50	$0.00	$0.00	$0.00	$0.00	$0.12
Total	32.00	11.84	$11.47	$9.70	$10.46	$13.18	$13.53	$14.32
Net Investment Income								
Earnings	0.16	1.21	$6.62	$11.25	-$17.54	$1.59	$9.58	-$1.49
Fees and Expenses	-	0.05	$0.14	$0.23	$0.41	$0.65	$0.77	$0.45
Total	0.16	1.15	$6.48	$11.01	-$17.95	$0.94	$8.81	-$1.93
Net Assets (End of FY)	**$32.16**	**45.15**	**$63.10**	**$83.81**	**$76.32**	**$90.45**	**$112.79**	**$125.17**

Total Fund expenses were considerably reduced in FY11 compared to FY10, as illustrated in Figure 8. Overall investment and administrative expenses were reduced by 42.2%. Expenses were only 0.36% of net assets, a significant decline from recent years and the lowest since FY07.

Investment expenses were reduced by 50.6% compared to FY10. Custodian fees were reduced by 83.5% while investment adviser fees were reduced by 37.8%. The substantial reductions are attributable to the reduced fees of the new custodian and investment adviser contracted in September 2010.

Administrative expenses increased by 3.6% compared to FY10. All fee categories were reduced except for the Executive Administrator fee. The slight increase of this cost is due to the contracting of a new Executive Administrator, as previously described, and the transition between the outgoing and incoming Administrators. Accounting fees were reduced mainly because services were switched from monthly financial statement preparation to quarterly preparation. The legal fees incurred were mainly for work conducted in FY10 but paid in FY11.

Historically, fees were non-existent during the Fund's initiation in FY04, but, as the Committee contracted service providers to meet Fund legal, administrative and investment obligations, expenses steadily increased to FY10. As a percent of net assets, expenses increased to a high point of 0.88% of net assets in FY08. Part of the high ratio for that year is due to costs incurred the previous year. The FY11 ratio is the lowest since FY07. The current ratio is expected for the future years given existing service agreements and the diligence of the Committee to keep expenses at reasonable levels.

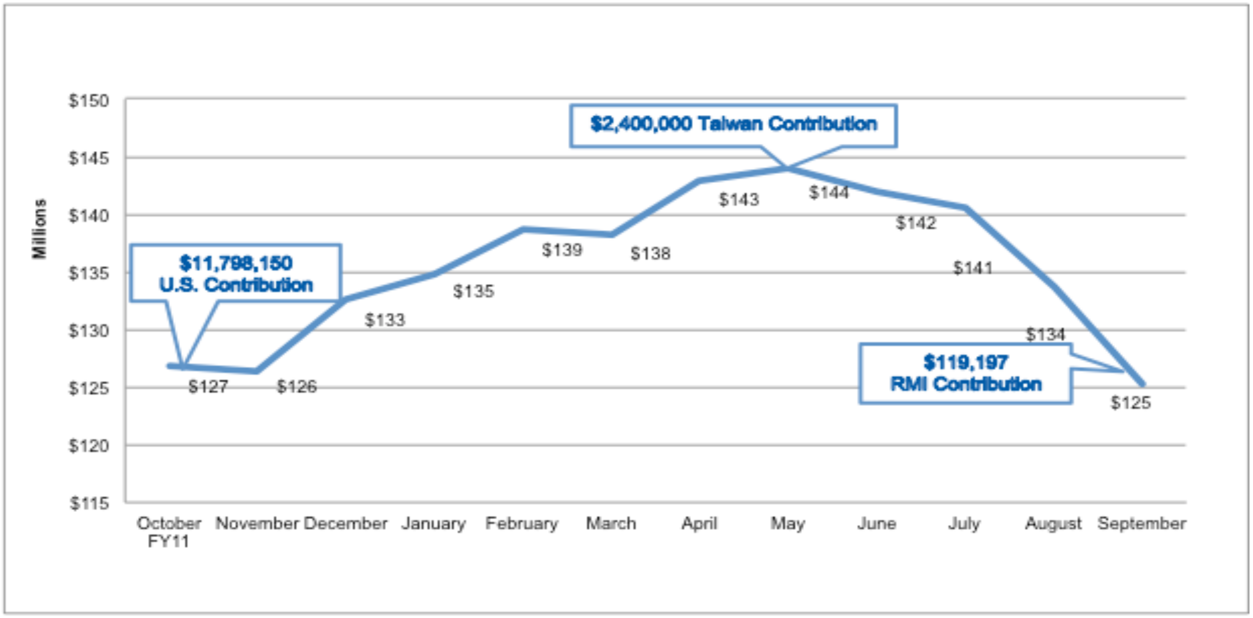
Figure 8: Investment and Administrative Expenses Since Inception and Differences Between FY10 and FY11

Source: Annual Audited Financial Statements since FY04

	FY05	FY06	FY07	FY08	FY09	FY10	FY11	Diff FY10-FY11
Investment Expense	**$38,716**	**$139,073**	**$224,483**	**$599,963**	**$524,070**	**$651,141**	**$321,523**	-50.6%
Custodian	12,859	139,073	169,461	175,761	165,825	182,527	30,130	-83.5%
Investment Adviser	25,857	-	55,022	424,202	358,245	468,614	291,393	-37.8%
% of Net Assets	*0.09%*	*0.22%*	*0.27%*	*0.78%*	*0.58%*	*0.58%*	*0.26%*	
Administrative Expense	**$15,483**	**$1,077**	**$9,814**	**$72,231**	**$127,736**	**$120,381**	**$124,700**	3.6%
Executive Administrator	-	-	-	57,200	67,850	80,450	86,982	8.1%
Audit Fees	-	-	8,062	9,100	52,300	28,500	27,300	-4.2%
Accounting Fees	-	-	-	2,906	4,199	4,867	4,272	-12.2%
Legal Fees	15,483	1,077	1,752	1,837	1,035	2,070	1,962	-5.2%
Miscellaneous Fees	-	-	-	1,188	2,352	4,494	4,184	-6.9%
% of Net Assets	*0.0003*	*0.0000*	*0.0001*	*0.0009*	*0.0014*	*0.0011*	*0.0010*	
Total $ Expenses	**$54,199**	**$140,150**	**$234,297**	**$672,194**	**$651,806**	**$771,522**	**$446,223**	**-42.2%**
Total % of Net Assets	*0.12%*	*0.22%*	*0.28%*	*0.88%*	*0.72%*	*0.68%*	*0.36%*	

Per Figure 9, overall for FY11, weak U.S. domestic and international equity market performance during the June-September period resulted in Fund net assets at about the same point at the end of the fiscal year when compared to the beginning of the fiscal year. The weak performance during the June-September period eroded gains made during most of the fiscal year despite the injections of U.S. and Taiwan contributions in October and May, respectively. The investment adviser did adjust the asset mix slightly through this time to more fixed income investments and less international equity exposure. The move helped to reduce losses at the end of FY11.

Figure 9: FY11 Monthly Net Asset Values
Source: Net Asset Values from Mercer Monthly Flash Reports, $s millions; contributions from State Street records



In terms of performance measurement, overall, the Fund had 1% gross loss with a 1.1% loss net of fees. The loss is more than the Total Trust Benchmark (-0.5%) and the Foundations Median (1.2% gain). Of the individual asset classes U.S. equity investments (small, medium and large cap) had a 0.1% gain compared to a 0.5% gain for the benchmark. International equity performance was the main factor pulling the portfolio into negative territory, following performance in Europe and other international markets, falling 9.6% compared to a loss of 9.4% for the benchmark. Fixed income, to which some funds were moved during the year, performed positively with a 4.5% gain, though this gain was slightly below the benchmark (5.3% gain). Real estate also performed positively with a 2.1% gain slightly beating the benchmark's 1.9% gain.

Overall, the Fund's asset class performances were near benchmarks, either slightly under or over performing their respective benchmarks.

A summary of end-of-year market value, percent of portfolio and performance measures is provided in Figure 10.

Figure 10: FY11 Market Value and Percent Allocation by Asset Category and Annual Performance Compared to Benchmarks Since Inception

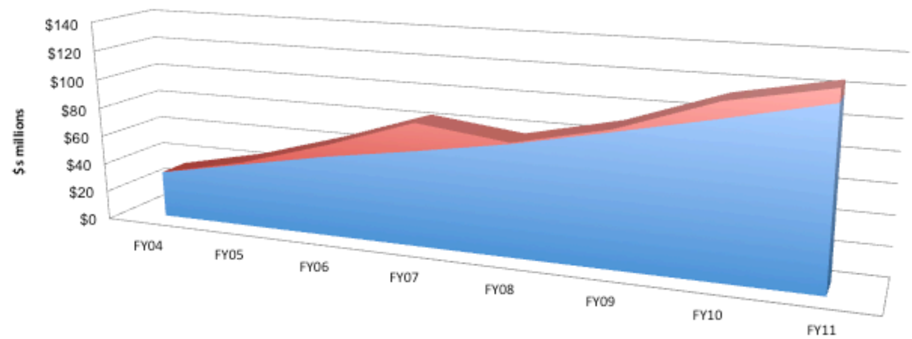
Source: Mercer Quarterly Report *The Trust Fund for the People of the Republic of the Marshall Islands, Investment Performance Period Ending September 30, 2011*

	Market Value 9/30/11	Percent Allocation	FY07	FY08	FY09	FY10	FY11	Since Inception
Total Fund- Gross	$125,258,589	100%	15.8%	-18.5%	0.9%	9.6%	-1.0%	2.4%
Total Fund -Net Fees			15.8%	-18.7%	0.7%	9.4%	-1.1%	2.3%
Total Trust Benchmark			15.0%	-17.4%	0.3%	9.6%	-0.5%	2.5%
Foundations Median			16.3%	-14.6%	-1.1%	10.0%	1.2%	3.5%
U.S. Public Equity	$53,619,765	42.8%	15.1%	-21.4%	-5.7%	10.9%	0.1%	0.8%
Russell 3000 Index			16.5%	-21.5%	-6.4%	11.0%	0.5%	0.5%
Mercer Inst'l U.S. Equity Combined Median				-20.7%	-4.7%	12.2%	-0.3%	1.5%
International Equity	$30,116,020	24%	28.7%	-29.7%	6.1%	4.5%	-9.6%	0.4%
MSCI EAFE Index			24.9%	-30.5%	3.2%	3.3%	-9.4%	-0.7%
Mercer Inst'l World ex U.S. EAFE Equity Median				-29.3%	3.9%	6.8%	-8.9%	0.9%
Fixed Income	$35,115,874	28%	4.8%	3.3%	11.3%	9.8%	4.5%	6.4%
Barclays Capital Aggregate			5.1%	3.7%	10.6%	8.2%	5.3%	6.2%
Mercer Inst'l U.S. Fixed Core Median				1.3%	13.1%	10.0%	5.2%	6.6%
Real Estate	$6,287,734	5%		-25.6%	-20.5%	22.1%	2.1%	-6.0%
Dow Jones Wilshire U.S. Select REIT			3.8%	-12.5%	-29.4%	30.1%	1.9%	-3.8%
Mercer Inst'l U.S. Real Estate REITS Median				-11.5%	-26.0%	31.1%	2.0%	
Cash	$119,197	0.1%						

From a historical perspective, the Fund has had an overall gain since inception of 2.3% per annum net of fees. All asset categories have outperformed their benchmarks except the real estate asset class, 5% of the total assets, which had significant losses in FY08 and FY09. However, this class, as mentioned above, has recovered some of those losses in FY10 and FY11. Given the structure of the portfolio, the asset allocation targets, and the passive investment approach, future performance will continue to rely mostly on U.S. and international equity performance.

Figure 11: Total Cumulative Contribution (Cost Basis) and Net Asset Value Annual Gain, FY04-FY11

Source: Audited Financial Statements FY04-FY11



	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Net Gain	$157,847	$1,313,907	$7,791,218	$18,804,928	$855,400	$1,794,882	$10,605,447	$8,670,676
Cumulative Contribution	$32,000,000	$43,838,500	$55,309,300	$65,008,892	$75,472,592	$88,656,883	$102,189,097	$116,506,444

Per Figure 11, as of FY11 a total of $116,506,444 was contributed to the Fund. The U.S. government contributed 65.8%, the RMI government 25.8%, and Taiwan 9.6%. Figure 11 shows the growth of the Fund with a steady incline of contributions and the periodic gains and losses of the investment income. Overall, given the amount of contributions, as of the end of FY11, the Fund has gained a total of $8,670,676 from those contributions.

C. The C Account

Article 16 of the Trust Fund Agreement requires that any annual income of the Fund over 6% shall be transferred to the C account. The C account funds can be used after FY23 to supplement annual distributions from the Fund if so desired 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 previously described planned accounting, performed by State Street and reported in the financial statements, indicates the levels of the A and C accounts and the portion of the funds based on U.S. government, RMI government and Taiwan contributions.

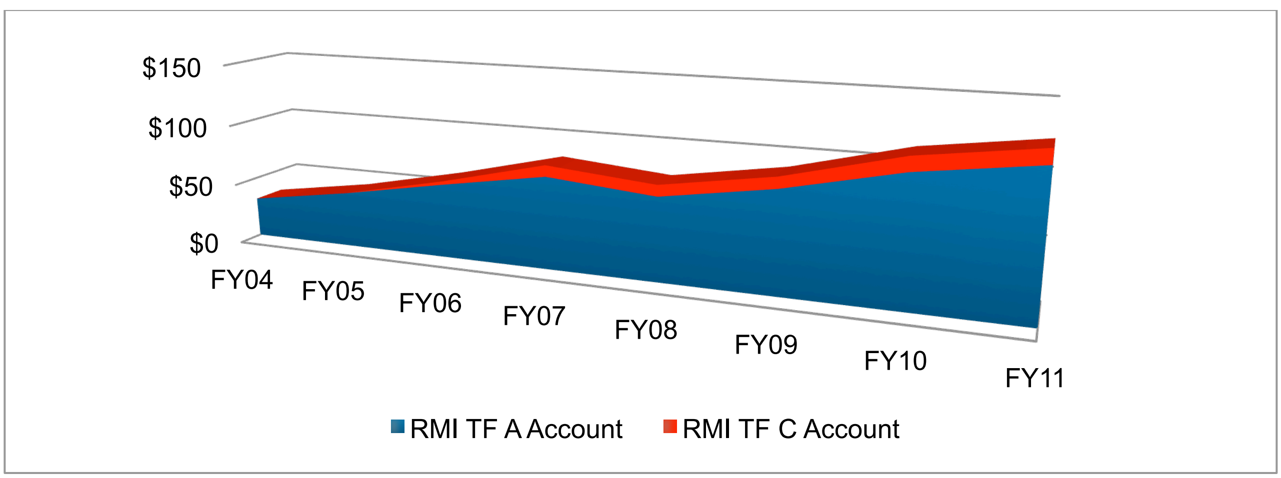
As shown in Figure 12, the amount in the C account remained the same as in FY10 since the fund had a loss for FY11 and did not achieve more than 6% annual income.

Figure 12: A and C Account Net Asset Balances, FY06-FY11
Source: Audited Financial Statements FY04-FY11

	FY06	FY07	FY08	FY09	FY10	FY11
Total Assets	**$63,100,518**	**$83,813,819**	**$76,327,991**	**$90,451,764**	**$112,794,542**	**$125,177,120**
A Account	*$60,370,678*	*$74,733,354*	*$67,247,526*	*$81,371,299*	*$101,329,039*	*$113,711,617*
United States	23,461,313	32,739,970	36,308,976	49,567,055	64,521,177	74,918,437
Marshall Islands	33,896,388	38,169,102	27,572,585	26,372,415	28,064,946	28,114,632
Taiwan	3,012,977	3,824,282	3,365,965	5,431,829	8,742,916	10,678,548
C Account	*$2,729,840*	*$9,080,465*	*$9,080,465*	*$9,080,465*	*$11,465,503*	*$11,465,503*
United States	1,060,873	3,836,372	3,836,372	3,836,372	4,839,376	7,554,000
Marshall Islands	1,532,726	4,783,560	4,783,560	4,783,560	6,044,626	2,834,789
Taiwan	136,241	460,533	460,533	460,533	581,501	1,076,714

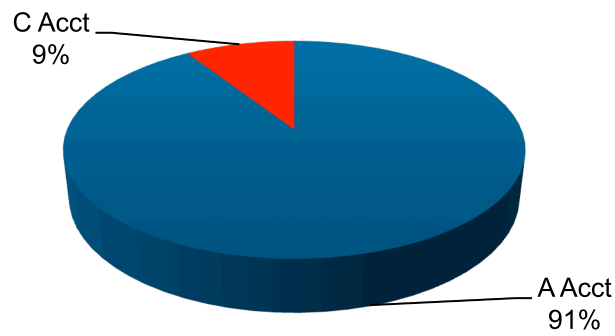
Historically, the C account has gained income in positive growth years including FY06, FY07 and FY10. Per the Trust Fund Agreement, the C account is allowed to contain up to three times the amount of FY23 grant assistance plus an inflation adjustment. The current amount in the C account is about 43% of the amount of Amended Compact sector grant assistance forecast for FY23. And, while the total Fund will continue to increase based on contributions and at least expected moderate income growth, the C account's growth is not assured since only annual income of the Fund in excess of 6% shall be transferred to the C account.

Figure 13: A and C Account Trends, FY04-FY11
Source: Audited Financial Statements FY04-FY11
$s millions



As of FY11, the C account is 9% of the total Fund. This amount is slightly below the FY10 amount of 10%. While the value amount stayed the same for FY10 and FY11, given the increase in the net asset value of the entire Fund, the C account has become a reduced portion of the overall Fund.

Figure 14: FY11 A and C Account Breakdown
Source: FY11 Audited Financial Statements



V. Trust Fund Effectiveness and Recommendations Moving Forward

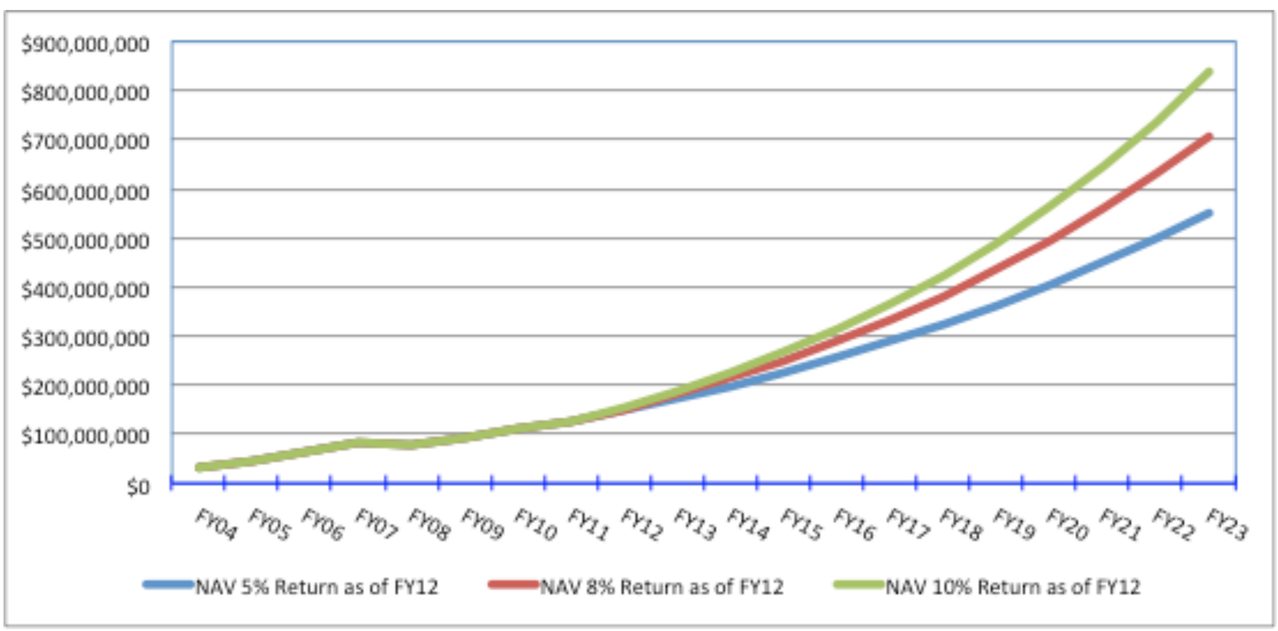
A. Effectiveness to Achieve Purpose

As stated previously, in the Trust Fund Agreement between the U.S. and RMI governments, the purpose of the Fund is to, "*contribute to the economic development and long-term budgetary self-reliance of the RMI by providing an annual source of revenue, after FY23, 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 further states that the Committee should prepare an annual report that includes the "effectiveness of the Fund to accomplish that purpose" as well as provide "recommendations regarding improving the effectiveness of the Fund to accomplish that purpose." The following section is an effort to indicate effectiveness as well as provide recommendations, some summarized from previous sections, to improve effectiveness.

As stated above, since inception, the Fund has grown a total of 2.3% per annum net of fees. The low overall growth rate can largely be attributed to the fact that the funds were not fully invested until FY06 and investment performance has been weak given U.S. and global equity market performance since 2008.

Figure 14: Actual and Estimated Net Value Asset (NAV) Trends, FY04-FY23
Source: For FY04-FY12 numbers, Audited Financial Statements FY04-FY11, For FY12-23 estimates based on estimated contributions and indicated growth rates



An analysis by Mercer, the investment adviser, estimates that if the Fund manages an average 5% return annually from FY12 to FY23, the distribution from the estimated assets for FY24 should provide revenue equivalent to the nominal FY23 grant level without a partial inflation adjustment.

If the Fund were to achieve an average 8% return annually, the Fund would probably provide for FY24 revenue equivalent to inflation adjusted FY23 grant assistance. However, this would not allow for future inflation adjustments beyond the FY23 amount. There would also be a build-up of the C account but probably not at the level to fund that account fully according to the terms of the Trust Fund Agreement. Per Figure 10, the Fund has only achieved 8% or more return in two years-FY07 and FY10.

If the Fund were to achieve an average 10% return annually, the Fund would probably provide for FY24 revenue equivalent to inflation adjusted FY23 grant assistance (without future inflation adjustments) and fund the C account fully. However, achieving such annual average growth is not expected.

B. Recommendations Moving Forward

The Fund has made progress during FY11 in terms of keeping the growth trend on an upward incline while minimizing losses, reducing expenditure, and strengthening overall Fund management and administration. While these gains have been made, overall U.S. and global economic circumstances and equity market performance have buffeted the Fund's performance.

The Committee has taken steps to identify other subsequent contributors to the Fund. The steps taken to date include research to identify potential contributors and more concerted efforts by the U.S. and RMI governments, per RMI Resolution 2009-9 on the subject. The next step is for the U.S. and RMI governments to initiate discussions or negotiations connected with efforts to seek contributions to the Fund from other sources.

Also, the Committee released the abovementioned Statement taking note 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 request, it would result in the Fund receiving $20 million.

The Fund's performance, as previously mentioned, has mainly been based on U.S. and international equity performance. The investment adviser has remained within the investment allocation classes and percent ranges as indicated by the Investment Policy Statement. The Committee should continue to monitor the portfolio's performance to determine, based on the investment adviser's advice, if any such changes to the Statement should take place.

Last, the Committee has significantly reduced investment expenditure in FY11 and kept administrative expenses almost at the same level as FY10. The Committee should remain prudent in ensuring expenses are appropriate relative to the services provided. To maintain the expenditure ratio at the current level while assets will increase will become more challenging in FY12 and future years.