

Trust Fund for the People of the Federated States of Micronesia

Annual Report Fiscal Year 2009

This report covers the Fiscal Year from October 1, 2008 to September 30, 2009.

Performance of the Trust Fund's Assets in Fiscal Year (FY) 2009:

The Trust Fund's net assets stood at \$138,250,184 as of September 30, 2009. The United States contribution of \$20,911,560 was made on October 4, 2008. There was a net investment loss of \$165,382 after money manager fees of \$830,711, investment advisory fees of \$135,067 and custodian fees of \$16,280. Other administrative expenses were \$133,960.

The return on assets net of manager fees, as calculated by Mercer Investment Advisers, was a negative 1.2 percent. This compared to a positive 1.2 percent for the total fund benchmark, which is comprised of seven benchmarks representing the Trust Fund's major asset classes. For the past three years, the asset value declined by 0.8 percent, while the benchmark was down 1.6 percent. Detailed performance information is found in Mercer's performance report for Sept. 30, 2009.

Audits:

Audited financial statements for the Trust Fund have been completed for all years through Fiscal Year 2008 and have been transmitted to the Governments. The audited financial statement for Fiscal Year 2009 will be transmitted as soon as it is completed.

History of the Trust Fund:

The Trust Fund was incorporated in the District of Columbia on August 17, 2004 pursuant to an **Agreement Between the Government of the United States of America and the Government of the Federated States of Micronesia Implementing Section 215 and Section 216 of the Compact, as Amended Regarding a Trust Fund.**

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

Organization:

The Trust Fund Agreement provided for the Trust Fund Committee (TFC) to be composed of three members who represent the United States and two members who represent the FSM. Members of the Trust Fund Committee as of September 30, 2009, were the following:

Representing the United States:

Nikolao Pula, Chairman, Director, Office of Insular Affairs, Office of the Secretary, U. S. Department of the Interior

James Kulikowski, Deputy Director for Policy, Office of Global Health Affairs, Office of the Secretary, U.S. Department of Health and Human Services

Alcy Frelick, Director, Office for Australia, New Zealand and Pacific Island Affairs, U.S. Department of State

Representing the Federated States of Micronesia:

Fabian Nimea, Director, Office of Statistics, Budget and Economic Management, Overseas Development Assistance, and Compact Management, FSM

Aren Palik, President and CEO, Pacific Islands Development Bank

Major Actions of the Trust Fund Committee:

In October 2008, an investment of \$5 million was made in the Pyramis International Small Capitalization Fund as approved by the Committee in the previous fiscal year. In January 2009, an investment of \$8 million was made in the small and mid-size securities fund administered by Atlanta Capital Management as approved by the Committee in the previous fiscal year.

In September 2009, the Committee selected Shenkman Capital Management as manager of the convertible bond portfolio and approved an allocation of approximately 5 percent of the portfolio. These investments were in accordance with the long-term investment allocation recommended by Mercer Investment Consulting.

In September 2009, after a review of the contracts with the current investment adviser and trustee, the Committee authorized the Executive Administrator to obtain information from potential investment advisers and trustee banks regarding services to be provided to the Trust Fund. Pursuant to this authorization, the Executive Administrator prepared Requests for Proposals which were sent after the close of the fiscal year to a select group of trustee banks and investment advisers.

Resolutions Approved by the Committee during FY 2009.

FSM 2009-1, November 12, 2008: Authorized Officers and Signators.

-clarifies the authority of the Chairman to sign general correspondence and contracts if authorized by the Committee, and the authority of two members to sign Written Directions.

FSM 2009-2, March 30, 2009: Approving Annual Report, FY 2008.

FSM 2009-3, June 9, 2009: Selection of Convertible Bond Manager.

-authorizes a search by Mercer for Convertible Bond Manager.

FSM 2009-4, June 9, 2009: Payment of Invoices for Telecommunications Services.

FSM 2009-5, June 9, 2009: Authority of the Executive Administrator.

-authorizes the Executive Administrator to sign routine administrative documents.

FSM 2009-6, June 9, 2009: Policy on Release of Information.

-approves release of annual reports, audited financial statements and identity of contractors.

FSM 2009-7, June 15, 2009: Asset Allocation, Convertible Bonds.

-approves increase in convertible bond allocation from 2.5% to 5% of portfolio.

FSM 2009-8, Sept. 2, 2009: Convertible Bond Manager


-approves Shenkman as manager.

FSM 2009-9, Sept, 2, 2009: Extension of Contract of the Executive Administrator.


-extends contract to June 30, 2010.

FSM 2010-10, Sept. 2, 2009: Trustee and Investment Advisory Services.

-authorizes Executive Administrator to obtain information on services offered by potential Trustees and Investment Advisers.



Nikolao Pula, Chairman Date
5/25/10



Fabian Nimea, Member, FSM Date