

PALAU PAN FUND

PALAU PROTECTED AREAS NETWORK FUND (PAN FUND)



ANNUAL REPORT

FISCAL YEAR 2017



SUPPORTING PAN

Welcome



The PAN Fund celebrated its 5th year of supporting the Palau Protected Areas Network (PAN) in FY2017. This Annual Report presents our current status, cumulative impact,

and areas to improve. As the steward for National funds for the PAN, it is our responsibility to ensure that stakeholders have the resources they need to make the Network a success. We are thankful to have a strong group of local partners, like our State and National Leaders, PAN Office and all PAN Employees, and local NGOs who, with the support of global players such as The Nature Conservancy and the Global Environment Facility, continually strive towards improving PAN. We thank our communities for entrusting us with PAN monies, and for your belief that together, we can conserve Palau's natural heritage for the long-term. I look forward to another productive and meaningful year for the PAN and PAN Fund in FY2018.

- *Ngiratmetuchel R. Belechl*,
Chairman of the PAN Fund Board of Directors

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CONSERVATION JOBS

Melekeok



Hatohobei



Ngarchelong



Kayangel



Peleliu



Aimeliik



Ngardmau



Airai



Ngeremlengui



Ngaraard



Ngchesar



Ngiwal



Ngatpang



PAN Office



PAN Fund



Fiscal Year 2017:
94 jobs supported
with PAN Funds:

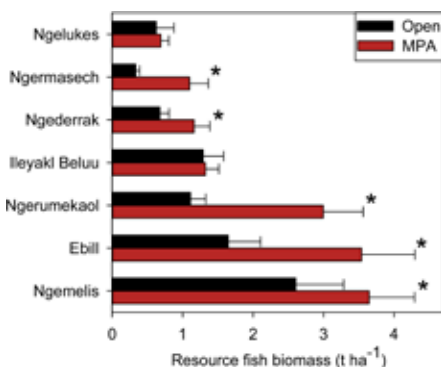
90% State Positions
5% National Gov.
5% Nonprofit

58% Rangers/Officers
24% Support Staff
18% Management

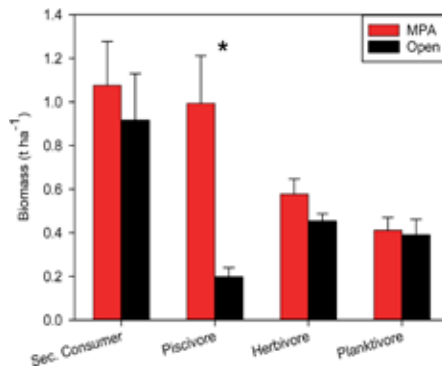
Impact of the Fund

HIGHER FISH BIOMASS

A 2017 study¹ found that resource fish biomass was two times (2x) higher in PAN MPAs than in adjacent non-protected sites; and top predator biomass was five times (5x) higher. Said co-author Dr. Yimnang Golbuu:² “The state governments and local communities that manage these protected areas, the [PAN] Office and PAN Fund and other partners that support these protected areas should be congratulated for their success. By working together, we have demonstrated the value of protected areas to the world and the scientific community.”



Comparison of resource fish biomass outside (black) and inside (red) MPAs.¹



Biomass by fish trophic groups and management (MPAs red and open to fishing black).²

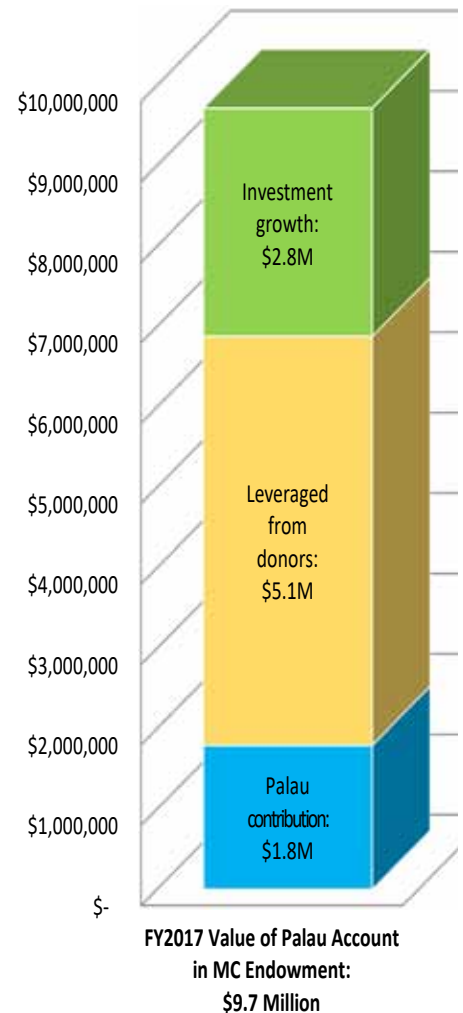
¹Friedlander AM, Golbuu Y, Ballesteros E, Caselle JE, Gouezo M, Olsudong D, et al. (2017) Size, age, and habitat determine effectiveness of Palau's Marine Protected Areas. PLoS ONE 12(3): e0174787. <https://doi.org/10.1371/journal.pone.0174787>.

²PICRC 2017 Gratitude Report. on palaupanfund.org/pdf/PICRC-2017-GratitudeReport.pdf

35 PAN SITES*
465 SQUARE MILES PROTECTED IN PAN
41% OF TOTAL NEAR-SHORE MARINE AREA
10% OF PALAU'S TOTAL TERRESTRIAL AREA

*Melekeok's Ngermedelim will join PAN in 2018.

INCREASING SUSTAINABILITY



GROWING CAPACITY

In FY2017 **\$526,000**

conservation-enabling durable assets held by States

44 individuals trained in Accountability & Financial Tracking

GROWING SUPPORT

92% Aware of PAN

Participation **69%** Rate

78% Sites w/ good Stakeholder Engagement



YEARS
ANNIVERSARY

Palau PAN Fund

The PAN Fund Board and Staff began operations in March 2012. Since then, the PAN Fund has disbursed over \$10.8 million dollars, financed the growth in operations from 9 Member States to 15 Member States, and trained State Personnel in financial accountability and transparency.

This PAN Fund Annual Report is prepared pursuant to the requirements set forth in RPPL 7-42, to include: performance of all investments, financial statements for all receipts and expenditures, report on grants or donations and allocation of monies received from such grants or donations, list of projects financed by PAN Fund and the result of these projects, evaluation of the effectiveness of operations and management, identification and analysis of additional funding, legislation, or other resources required to carry out the objectives of the PAN, the PAN Fund, and the sustainable financing of the PAN, and Audit Report.

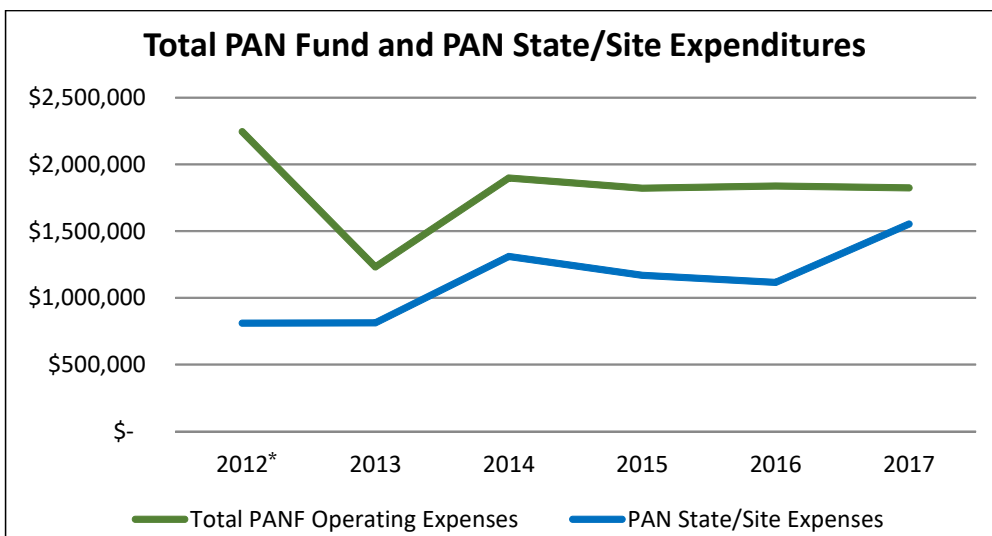


BACKGROUND AND PURPOSE OF THE PAN FUND

Palau’s Protected Areas Network (PAN) is a countrywide system of connected protected areas that represent the country’s terrestrial and marine habitats, endemic and endangered species, and natural resources. Each of Palau’s 16 states may become a Member of the PAN once a state nominates an area within its boundaries to become a PAN Site.

The PAN Fund (PANF) is a registered, independent, nonprofit corporation that serves as financial trustee for all monies obtained to support the PAN and its implementation (*Figure 1*). These include funds raised from the “Green Fee” and designated portions of the Environmental Impact Fee (charged at entry or exit from the country), investment earnings from the Micronesia Challenge Endowment Fund, and donations or grants specific to PAN. The PAN Fund ensures that funds are used for the purposes established and required by legislation and/or donors. The PAN Fund is also tasked with seeking additional outside sources of funding to further support States’ conservation and sustainable development efforts.

Figure 1. Total PAN Fund expenditures, Fiscal Years 2012-2017



PAN Fund Mission

Efficiently and equitably provide funding to the Protected Areas Network (PAN), and its associated activities, through strategic actions and medium- to long-term financial support that will advance effective management and conservation of Palau’s natural and cultural resources.

* In 2012, per legislative agreement, the PAN Fund contributed \$1.4 million into the Palau account of the Micronesia Challenge Endowment Fund.

Highlights



Mobilizing the Ngatpang PAN

In January 2017 the PAN Fund disbursed \$50,000 as mobilization funds to establish a Ngatpang State PAN Office, hire a coordinator, and finalize its 5-year Management Plan. Ngatpang became a member of the PAN in 2014 with three marine PAN Sites. Criteria for receiving regular funding from the PAN Fund include having an approved Management Plan and adequate State support for its implementation. Similar to the other 14 Member States, in FY2018 the PAN Fund will support regular implementation of Ngatpang's Management Plan.

(Left top and bottom: January 2017 PAN Fund disbursement to Ngatpang; November 2017 (early FY2018) disbursement.)



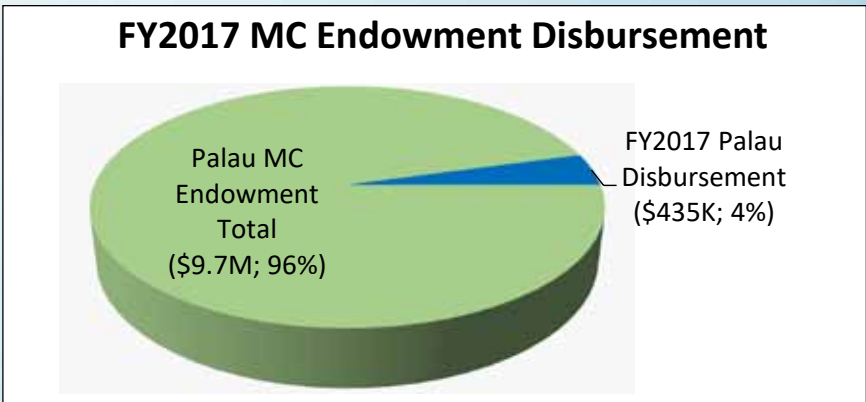
Building Capacity for Accountability

In August 2017 the PAN Fund partnered with MNRET to conduct a training for PAN Coordinators and State Accountants or Treasurers on uniform standard practices for reporting. Topics included Budget Accountability and use of the PAN Financial Tracking Tool.

(Bottom left and right (next page): August 2017 Training Cohort; PAN Fund General Manager presents on accountability.)



Figure 2. MC Endowment disbursement in relation to the total value of the Palau MC Endowment Account



Investment Returns from the Micronesia Challenge Endowment

In November 2016, the PAN Fund Board of Directors decided to initiate Palau's first-ever drawdown from the Micronesia Challenge (MC) Endowment Fund earnings. In January 2017, the Micronesia Conservation Trust (MCT), which manages the MC Endowment Fund, disbursed \$435,362 to Palau (*Figure 2*). Palau has been contributing to the MC Endowment Fund since 2008 using a combination of Green Fees, grants, and donations. To withdraw money from the MC Endowment, member countries must have national policies, legislation, and mechanisms in place to ensure that funds support PAN.

(Top right: Figure 2. Percentage of the disbursement in relation to Palau's total Micronesia Challenge Endowment Value.)

Investing in Oceans

In April 2017 the PAN Fund allocated money to a Special Project to support the Ministry of Justice to enhance enforcement and surveillance efforts in the Northern Reefs. The PAN Fund also signed on to participate in the Oceans 5 Grant, which will improve effective management of the Palau National Marine Sanctuary and its Domestic Fishing Zone.

(Middle and Bottom Right: Schooling Barracuda in Palau's Oceans © Rich Carey/Shutterstock.; A view from Hatohobei.)



Except where noted, all photos © PAN Fund.





FINANCIALS



PERFORMANCE OF INVESTMENTS

Micronesia Challenge (MC) Endowment Fund

The overall MC Endowment Fund value (combined across FSM and RMI) was \$21 million by the end of FY2017, with Palau owning approximately 47% of it. Palau's initial capital and contributions from multiple entities made up \$7 million (*Table 1; Figure 3*). Including investment earnings of \$3 million, the total fund value was \$10 million (*Figure 4*) by the end FY2017.

Since 2014, Palau has invested 5% (capped at \$100,000) per year in the Palau Account of the Micronesia Challenge Endowment Fund. In 2014 the PAN Fund adopted its first Country Program Strategy, which outlined how the Republic will manage and distribute investment earnings from its portion of the MC Endowment Fund. Consistent with the Strategy, in FY2017 the PAN Fund allocated 5% of Green Fees to the Endowment, or \$97,750.

In January 2017 Palau made its first withdrawal of investment earnings from the MC Endowment, of \$435,362. The withdrawal will be reflected in the Fiscal Year 2018 PAN Operating Budget.

Other Investments

In FY2017 the PAN Fund decided to move Reserve Funds from a bank savings to an investment account (*See Projects*). The transfer will be made in early FY2018.

Figure 3. Source of contributions to the Palau MC Endowment Account

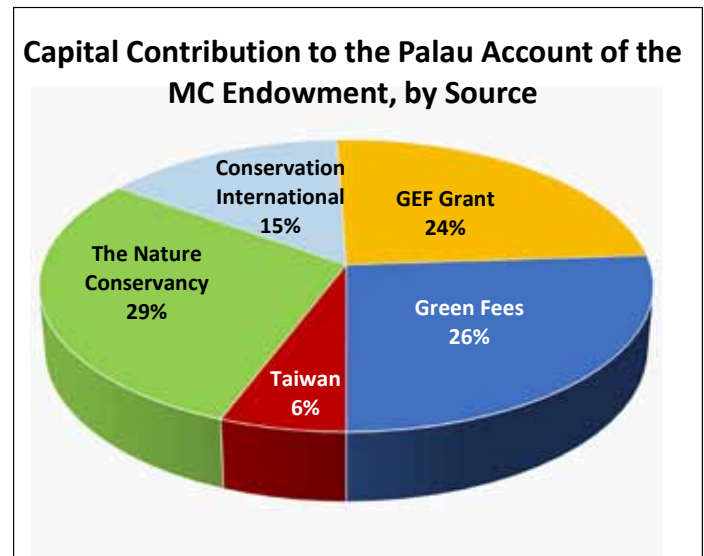
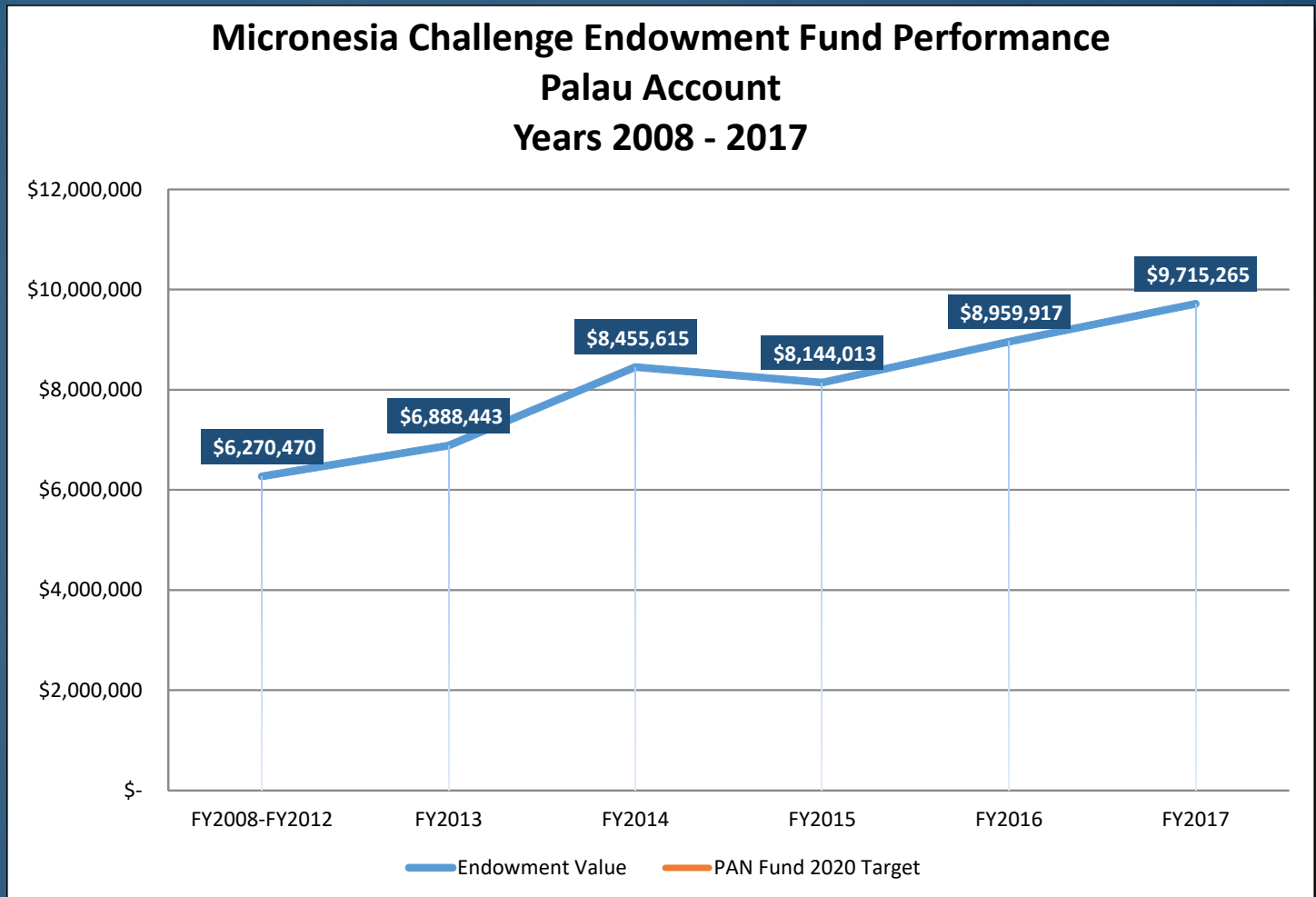


Table 1. Capital Contribution to Palau MC Endowment Fund (US\$)

Source	2008	2011	2012	2013	2014	2015	2016	2017	Total
ROP-Taiwan	400,000	-	-	-	-	-	-	-	400,000
TNC	2,000,000	-	-	-	-	-	-	-	2,000,000
ROP-GEF	-	1,684,848	-	-	-	-	-	-	1,684,848
ROP-Green Fee	-	1,400,000	-	-	96,750	98,177	100,000	97,750	1,792,677
CI	-	-	1,000,000	-	-	-	-	-	1,000,000
Total	2,400,000	3,084,848	1,000,000	-	96,750	98,177	100,000	97,750	6,877,525

Figure 4. Total value of the Palau Account of the MC Endowment



*F*or Palau, I can say this is a really good performance. The Country Program Strategy states:

The PAN Fund Board's near-term priority for Palau's MC Endowment Fund is to build the Endowment up to the target level of \$10 million by 2020, if not sooner, by reinvesting the investment earnings, and if necessary, contributing additional funds from Green Fees or fundraising. Palau's MC Endowment Fund is expected to generate average investment earnings of more than 5% per year. (At the Endowment's target level, the Fund should generate an average of \$500,000 per year in earnings). The PAN Fund Board plans to use investment earnings (but not the principal) to address funding gaps that cannot be met from the Green Fee. Because Green Fees are collected from departing passengers, the PAN Fund's primary source of funding is dependent on the number of tourists that visit Palau each year. Investment earnings from Palau's MC Endowment Fund can be used as a hedge against lower-than-expected Green Fee collections due to a drop in tourist visits. In such cases, investment returns from Palau's MC Endowment Fund could be used to maintain PANF budgets and funding at levels comparable to previous years.

*T*he PAN Fund approved the initial Capital Contribution to the Endowment Fund (via MCT), plus subsequent contributions from the Green Fee, in support of Palau's commitment to the Micronesia Challenge. Micronesia Conservation Trust (MCT) is responsible for investing the funds prudently and according to its approved Investment Policy and Principles of Sound Financial Management and Diversification in order to maximize income and gains while at the same time protecting the principal portion of the Endowment from loss in value."

- Regis Emesiochel
PAN Fund General Manager, April 2018

RECEIPTS AND EXPENDITURES

Revenue and Total Operating Budget

Total revenue realized in FY2017 was approximately \$2,538,505, an increase of over \$527,000 from FY2016. The Green Fee, capped at \$2,000,000 per year, formed the majority of revenue. Carryover funds totaled \$381,320 and new grants to the PAN Fund were \$157,185 (Table 2 and Figure 5). Diversifying revenue is one of the PAN Fund's short-term objectives; in FY2017 the PAN Fund began participating in two grant-funded projects that provided direct revenue to PAN Fund: Palau's GEF-5 National Project and the Oceans 5 grant (see Projects section).

Funding of State PAN States/Sites represented 53% of the total budget (and 67% of revenue received from the Green Fee). The Budget also supports the PAN Fund Office (PANF), the PAN Office (PANO, under MNRET), Palau's annual contribution to the MC Endowment (via MCT), Reserve and Emergency Funds, and Special Projects (in line with PAN legislation and grants) (Figure 6).

Table 2. FY2017 PAN Operating Budget, by Source

Budget Item	Revenue Source	Carryover Funds	Grants	Green Fee	Total
PAN States/Sites		\$146,661		\$1,200,000	\$1,346,661
PAN Fund		\$3,709	\$157,185	\$200,000	\$360,894
Special Projects		\$230,950		\$120,000	\$350,950
PAN Office		\$-		\$200,000	\$200,000
MC Endowment (MCT)		\$-		\$100,000	\$100,000
Reserve Fund		\$-		\$100,000	\$100,000
Emergency Fund		\$-		\$80,000	\$80,000
Total		\$381,320	\$157,185	\$2,000,000	\$2,538,505

Figure 5. FY2017 PAN Operating Budget, by Source

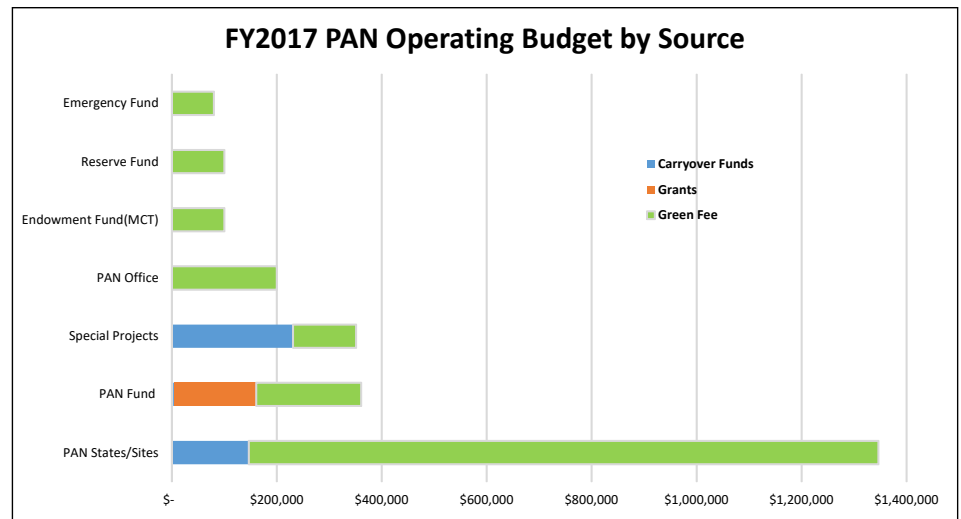
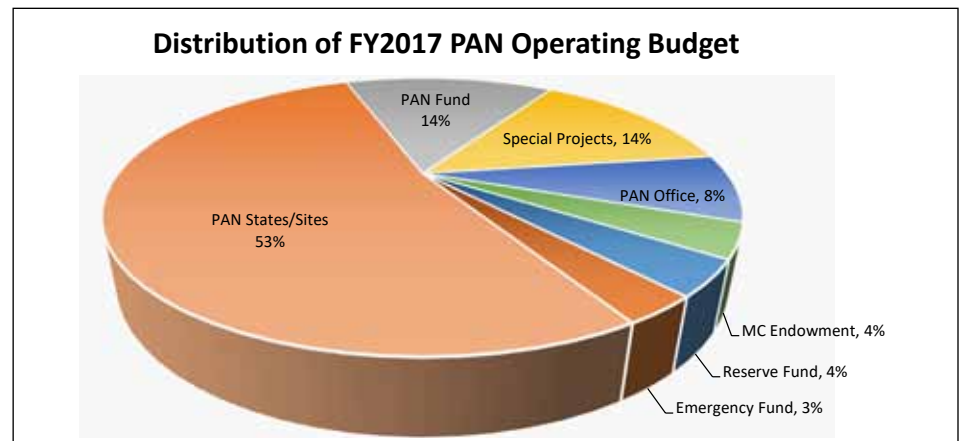


Figure 6. FY2017 Budget Lines



PAN Operating Expenses

Total expenditures in FY2017 were \$1,824,231 (Table 3). Of this, 65% was disbursed to PAN States/Sites (Figure 7). Actual expenses for PAN States/Sites were lower than budgeted due to delays in receiving reports from States, which then delayed disbursement. At the end of FY2017, the PAN Fund still had the 4th quarter disbursements for 50% of PAN States. There was also a significantly large carryover of funds for Special Projects (especially setasides for Management Plan Reviews) and a delay in receiving grant

monies for the PAN Fund office. Although Reserve funds were budgeted, there were no emergency situations or negative fluctuations.

PAN Fund (PANF) Expenses

PAN Fund Office expenses were \$214,260 (Table 4). With four staff (General Manager, and Fiscal, Administrative, and Grants Program Officers), salary was the largest portion of expenses, at 45% (Figure 8). In FY2017 the PAN Fund invested more in professional development for staff and training and outreach for stakeholders (such as the Accountability Training). Rent for the PAN Fund Office increased between FY2016 and FY2017.

Figure 7. Total PAN Fund expenses

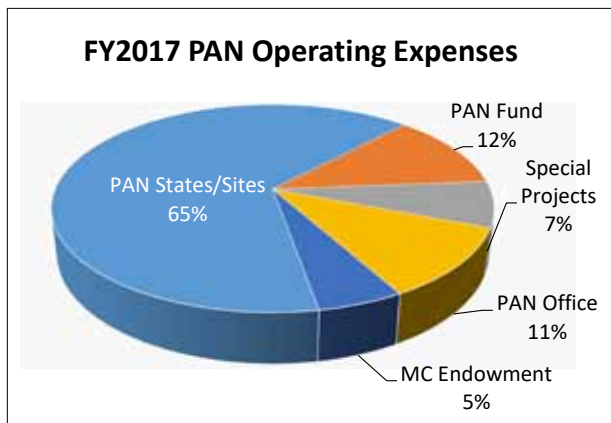


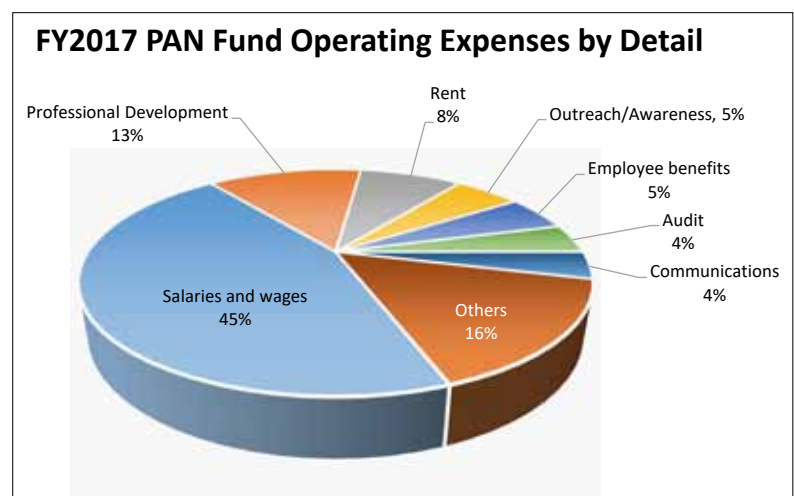
Table 3. FY2017 PAN Budget versus Expenditure

Budget Item	Budgeted Total	Actual Expenses	Difference from Budgeted
PAN States/Sites	\$1,346,661	\$1,182,068	12%
PAN Fund	\$360,894	\$214,260	41%
Special Projects	\$350,950	\$130,153	63%
PAN Office	\$200,000	\$200,000	0%
MC Endowment (MCT)	\$100,000	\$97,750	2%
Reserve Fund	\$100,000	0	100%
Emergency Fund	\$80,000	0	100%
Total	\$2,538,505	\$1,824,231	28%

Table 4. FY2017 PAN Fund Expenses

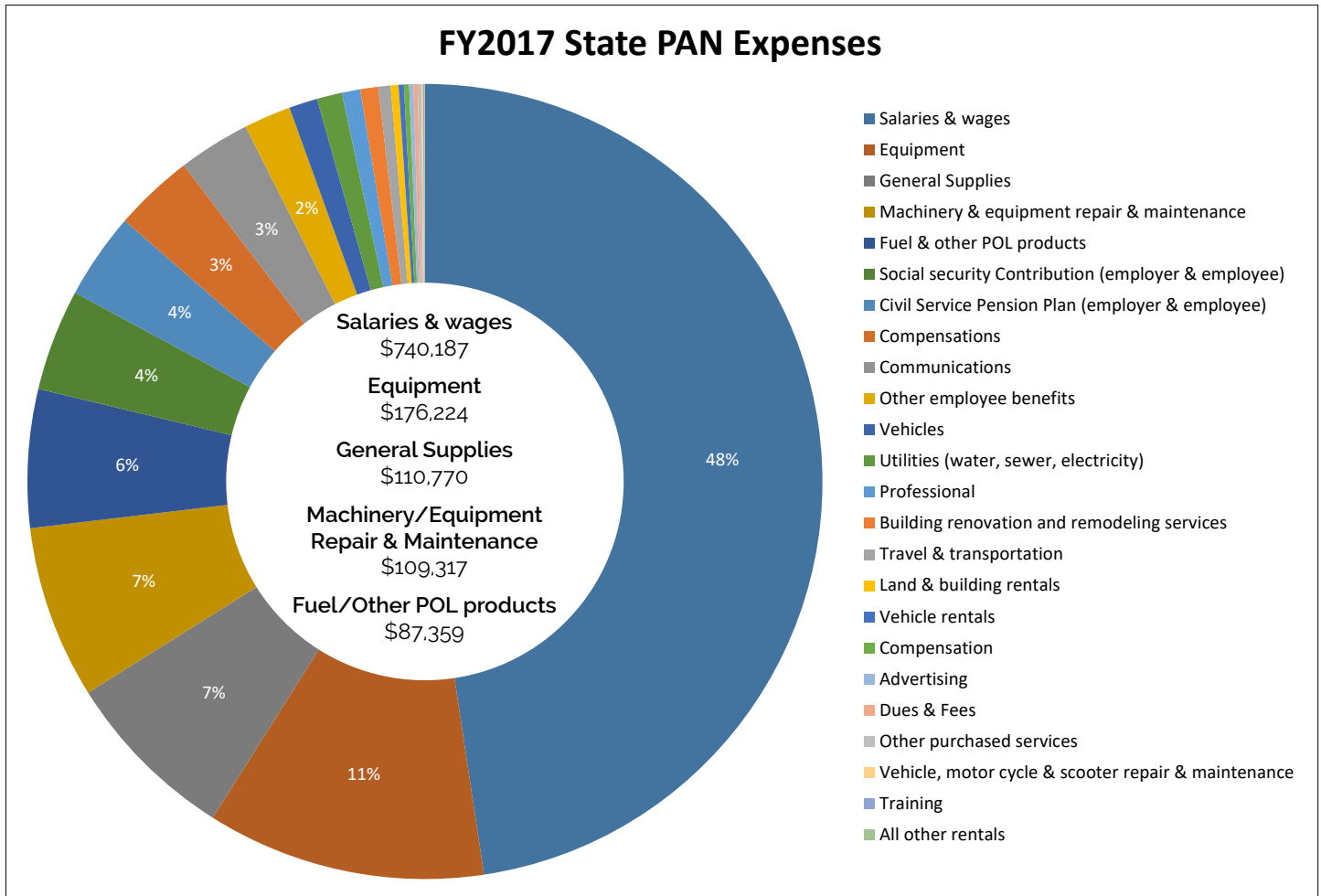
Budget Item	Amount
Salaries and wages	\$96,615
Professional Development	\$26,838
Rent	\$17,800
Outreach/Awareness	\$11,355
Employee benefits	\$10,954
Audit	\$9,000
Communications	\$8,391
Others	\$33,307
Utilities	\$3,639
Depreciation	\$3,509
Advertisements	\$3,302
Professional fees	\$2,676
Repairs and maintenance	\$1,018
Grants	\$239
Others	\$18,924
Total	\$214,260

Figure 8. PAN Fund office/operating expenses



ALLOCATION OF MONIES FROM GRANTS AND DONATIONS

Figure 9. Member State PAN Expenses



State PAN Operating Expenses

The bulk of monies received by the PAN Fund come from Green Fees, which are allocated to States for use in implementing their PAN Site Management Plans (Figure 9). Total reported Expenses by States were \$1,554,256.

The budget allocation process currently implemented by the PAN Fund is such that all revenue (with exceptions for donations, external grants, etc.) derived from the Green Fee for the current year is allocated to the subsequent fiscal year’s operational budget of the PAN.

Other Allocations

Expenses as described in Tables 2 and 3 show how additional funds were allocated. Funds were allocated to the PAN Fund, the PAN Office (PANO), the MC Endowment Fund, and Special Projects. In FY2017 the PAN Fund Board of Directors allocated \$117,300 of Special Projects funds for use on a project with the Ministry of Justice (see Projects section).



PROJECTS & OPERATIONS

FINANCED PROJECTS, RESULTS, AND VIABILITY OF PAN

PAN States and Sites

In FY2017, 15 States were members of the Protected Areas Network, with a total of 34 PAN Sites (and 1 new site proposed in Melekeok).

In FY2017, PAN Funds directly supported 84 State Employee Positions and 10 National Government (5 PANO) or Nonprofit (5 PANF) Employees. Of the 84 State Employees, 54 were Rangers/Conservation Officers, 16 were Support Staff (including Nursery Assistants), and 14 were in Management, Coordination, or Planning. In FY2017, the total value of all Assets held by the 15 Member States was \$526,120. These durable assets, including items such as computers, boats, chainsaws, and cameras (*Figure 10*), complement each State's PAN implementation efforts.

The total budget allocation to PAN Member States to finance annual work plans for FY2017 was approximately \$1,346,661. Of this amount \$1,117,004 was disbursed by the PAN Fund. The difference between the allocated and disbursed monies is the level of carryover funds (\$229,657) on September 30, 2017.

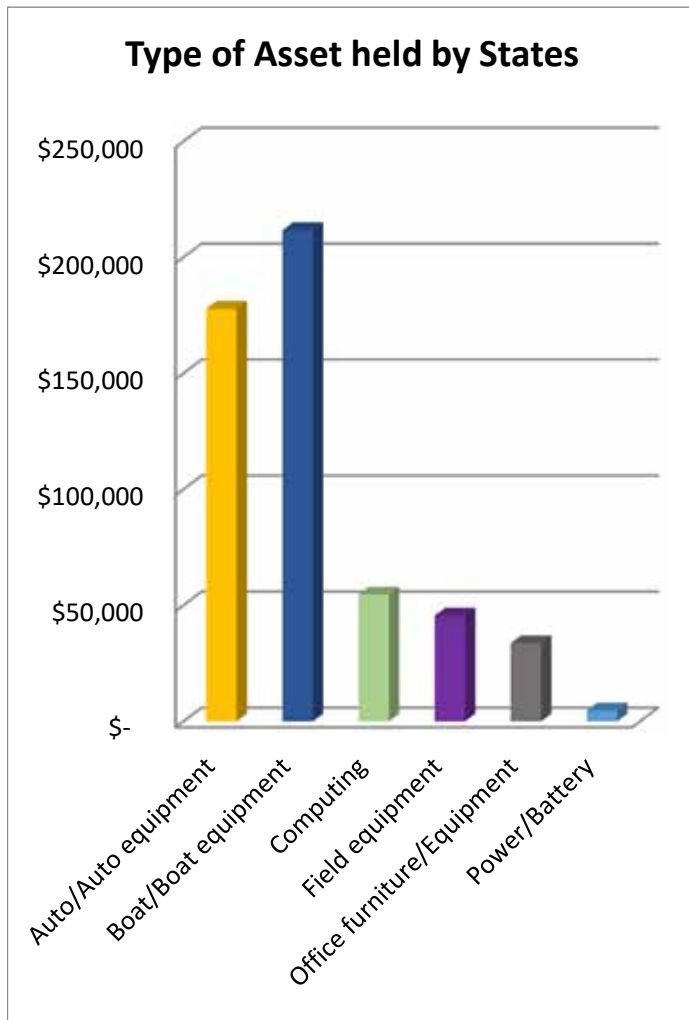
The PAN Fund is able to fund approximately 50% of each Member State's request every year. The average cost of each State's Management Plan (combined across PAN Sites in the State) is around \$170,000 per year. The average funding to States is around \$90,000 per year.

Even at the 50% or \$90,000 funding level, many Member States still have carryover funds at the end of the Fiscal Year. Reasons for this include: 1) States do not have the capacity to implement their desired programs on the desired schedules, 2) internal issues and conflicts within States restrict timely expenditure and implementation, and 3) some budget requests are inflated. Many States have difficulty meeting the Reporting and Disbursement deadlines, thus leading to carryover. In addition, an assessment by the PAN Fund of quarterly reports showed that 43% of reports show "inconsistent reporting" and 35% of reports have "missing documents." Through a Special Project that included Strategic Planning for its Board of Directors, the PAN Fund decided to streamline disbursements and thus reduce carryover by setting an allowable threshold for findings of 10% (*See below on Special Projects*).



PAN Fund and PAN Office with Aimeliik State during a State Forum © PAN Fund.

Figure 10. Durable assets purchased by Member States with PAN Funds



Results of PAN State/Site Investment: To address the issues of undercapacity to implement and report on activities and funds, the PAN Fund implemented a training program on Accountability and use of the PAN Financial Tracking Tool. The PAN Fund’s involvement in the Palau GEF-5 National Project (*see below*) will also yield a revised PAN Sustainable Financing Plan, and thus determine if Member State/Site costs are inflated or if capacity is the greater issue.

Investment in PAN States and Sites remains the priority of the PAN Fund, in order to achieve the mission of “Effective Management and Conservation of Palau’s Natural and Cultural Resources.” Figure 1 (*see Background and Purpose*) shows that the portion of PAN Funds allocated to States has been rising steadily, even as total PAN Fund Oper-

ating Expenses have been declining. This suggests that the PAN is achieving more impact at the State level with greater efficiency.

The PAN Fund provides funds to the PAN Office, under MNRET, which implements the PAN Strategic Plan and measures the effectiveness of the Network. A major result arising from investment of PAN Funds in FY2017 was the mobilization of Ngatpang’s PAN Office. With an Office in place and its Management Plan completed, the State is now better able to protect and effectively manage marine resources in its three PAN Sites. In early FY2018, the PAN Fund then disbursed the first tranche of funds to Ngatpang to implement its Management Plan. This is important because the 2015 PAN Status Report found that “States with higher cumulative allocations from the PAN Fund... have higher PAME [Protected Areas Management Effectiveness] scores in categories measuring natural resources” and “States with more staff have higher biophysical PAME scores.” Higher PAME scores indicate that a site is being conserved more effectively, and indicate where management should be improved. Now that Ngatpang is receiving its PAN allocation, it can establish a baseline PAME score and then work on improving management where needed.

Palau’s 2017 State of the Environment Report (a comprehensive national assessment of environmental conditions and natural resource management published by the Palau National Environmental Protection Council) included many analyses by the Palau International Coral Reef Center (PICRC) showing that Marine Protected Areas (MPAs) are in better condition than unprotected areas. MPAs have higher standing Fish Biomass on reefs and in seagrass and higher Ecological Scores. Two channels protected in PAN (Ebiil and Ngerumekaol) had increasing or stable populations of spawning and aggregating fish (e.g. better conditions at SPAGS), and were in better condition than unprotected channels.

This provides evidence that the investment by the PAN Fund to Member States and Sites is benefiting Palau’s natural resources and suggests that continuing this investment is viable.

PAN Office

Based on a 2013 agreement, the PAN Fund must allocate funds each fiscal year for the operation of the PAN Office (PANO, in MNRET). In fiscal year 2017, the PAN Fund allocated \$200,000 to PANO. The PAN Office works directly with Member States/Sites to accomplish the goals of the PAN, including facilitating implementation of Management Plans and subsequent reporting. The PAN Office budget also includes grants among its funding sources.

Results of PANO Investment: Data suggest that continuing to invest in the PAN Office will yield additional benefits. The 2017 State of the Environment Report cited a 2016 report from PICRC that showed that 92% of survey respondents were aware of the PAN and 69% had participated in protected areas outreach. The 2015 PAN Status Report found that 78% of PAN Sites have adequate to good Stakeholder Engagement. This indicates that the PAN Office is achieving its Community Engagement and Communication Goal of having a valued and supported PAN. The PAN has also attained institutional achievements (*see box*).

This provides evidence that the investment by the PAN Fund in the PAN Office is yielding national and local benefits. Considering that the PANO receives only 10% of the total Operating Budget, this is a relatively efficient investment and will remain viable in the long-term.

Special Projects

The PAN Fund began allocating funds to Special Projects in FY2016. Funds are based on recommendations from MNRET and approval by the PAN Fund Board; the Special Project must contribute in some way to multiple locations in the Protected Areas Network and the sustainable development of its communities. Projects are identified by the PAN Office (PANO) as having significant potential benefits to multiple or all PAN States or Sites.

In FY2016 the PAN Fund approved a multi-year Special Project with the Northern Reefs Fisheries Management Project. An early phase supported

**84 STATE
JOBS**

54 Enforcement

14 Management

16 Support Staff

The PAN Office is guided by a 2016-2020 Systemwide Strategic Plan (which was endorsed by the PAN Fund Board of Directors in December 2016), based on these institutional achievements:

- Increased awareness and education on conservation and biodiversity.
- New or improved management capacity for states and communities to manage their resources, including through improved enforcement
- Establishment of common venues for collaboration, cooperation, and learning across all levels.
- Improved national economic position and created jobs, based on sustainable, non-extractive resources.
- Institutional support for management efforts by states and communities.
- New and expanded partnerships at all levels.
- Reinforced and revived community based/traditional management practices and input.
- Increased national government support to States
- Legal framework for management of biodiversity at the national level.
- Advanced Palau's international commitments and gained Palau international recognition.

the connection of a high definition camera at the highest point in Ngarchelong to enhance surveillance efforts. In FY2017 the PAN Fund allocated \$117,300 for the next phase, a pilot project with the Ministry of Justice (MOJ) to develop a partnership between Ngarchelong State, Kayangel State, and the Division of Fish and Wildlife. The end goal is to develop a mechanism whereby citations issued by State Rangers are effectively processed all the way through to prosecution (if needed). The 2-year project has a total cost of \$230,307.

Results of Special Projects: Special Projects funded in FY2016 have yielded benefits to the entire PAN:

- The Bureau of Arts and Culture has successfully developed guidelines for nominating Cultural and Historical Sites into the PAN.
- A Special Project with the Bureau of Land and Survey (BLS) is ongoing. In the first phase, BLS demarcated the Mesekelat Conservation Area in Ngchesar. Demarcation of three other PAN Sites will be completed in FY2018.
- The PAN Fund (Board and Staff) held a Retreat and completed its Strategic Planning. A key deliverable of the Retreat was the development of a Checklist to facilitate PAN State quarterly reporting. The output streamlines reporting requirements in order to speed quarterly disbursements to PAN States/Sites. In addition, the PAN Fund Board set a threshold of 10% for findings from each quarterly report: as long as financial findings (e.g. problems) are below 10% of the value of the quarter's disbursement, then the PAN Fund will not hold the subsequent quarter's disbursement. This further streamlines the

disbursement process, and allows States to continue PAN work in the next quarter while simultaneously working with the PAN Fund or PANO to resolve financial findings.

In FY2016 the PAN Fund set aside funds, as a Special Project, to support Management Plan reviews for any Member State needing assistance with revisions. A big portion of these funds have been committed, but not yet disbursed, thus contributing to the high carryover under Special Projects.

MC Endowment Fund

Results of Endowment Fund Investment: As indicated in the section on *Performance of Investments*, continued investment in the Micronesia Challenge Endowment Fund will yield continued and efficient financial benefits for Palau. At the end of FY2017, total investment into the Palau account was almost \$6.9 million (*see Table 1*), of which Palau had only directly contributed \$1.8 million. Yet the total value of the Palau Account was \$9.7 million.

It is the opinion of the PAN Fund that failure to invest into the MC Endowment is equal to lost opportunity to maximize returns. This is in part due to the mandated \$2 million cap on Green Fees that can be allocated to the PAN Fund:

“For instance, in one fiscal year visitor numbers and Green Fees were such that had the PAN Fund received its full percentage of Green Fees, it would have received around \$2,400,000. If we had continued to fund States at the \$90,000 level and had increased the allocation to the Endowment by the \$400,000, then our investment might now be worth \$500,000.



PAN Fund and PAN Office staff met with the Ministry of Justice and Bureau of Lands and Surveys to learn more about the progress of the Special Project in the Northern Reefs © PAN Fund.



A Pacific Golden Plover (Derariik) in Ngermeskang © Ngermeskang Bird Sanctuary Staff.

Due to the cap we lost the opportunity to maximize the \$400,000 via investments,” according to PAN Fund Manager Regis Emesiochel.

Reserves

PAN Fund Reserves consist of a Reserve Fund and Emergency Fund. As mandated in the PAN Act §3422 (c) (1), the PAN Fund administers a Reserve Fund that sets aside 5% of the Total (or capped) Green Fees allocated to the PAN Fund by the Government of Palau each fiscal year. This Reserve Fund is to be used by the PAN Fund to compensate for negative fluctuations in the Green Fees collected during any given year.

The Emergency Fund component of the Reserves is to provide extraordinary funding (additional to those included in the Member State/Site work plans) to assist PAN Sites with emergency costs arising from a natural disaster or accidents. The Emergency Fund was last used in FY2014 to restore PAN Site Operations after Typhoon Haiyan.

Although the FY2017 budget had \$100,000 allocated to the Reserve Fund and \$80,000 to the Emergency Fund, in the absence of emergencies or negative fluctuations during the year, the PAN Fund Board decided that continuing to accumulate Reserves was not in the best interest of the PAN.

As of September 30, 2017 the total balance of the two Reserve Funds was \$819,613. Reserves were originally maintained in an interest-bearing bank savings account until October 2017, when the PAN Fund Board of Directors made a decision to invest the Reserves while maintaining the ability to quickly drawdown in the event of emergencies.

GEF-5 R2R National Project

The PAN Fund is a partner in the Project entitled “Advancing sustainable resource management to improve livelihoods and protect biodiversity in Palau.” The Project is funded by the Global Environment Facility’s 5th Replenishment (GEF-5) as part



Sunlight pours down into a dark underwater grotto on the barrier reef in Palau © Ethan Daniels/Shutterstock.

of a Regional Ridge-to-Reef Initiative (R2R). The GEF-5 R2R Project is administered by MNRET. PAN Fund signed a Memorandum of Agreement with MNRET in January 2017.

The purpose of this project is to: (a) improve the Protected Areas Network; (b) effectively implement Palau's Sustainable Land Management (SLM) Policy; and (c) ensure integrated coordination, mainstreaming, and project management.

PAN Fund will commission a formal review and update of the PAN Sustainable Financing Plan, assess conditions of the PAN Fund (Green Fee and grants), and develop a monitoring and reporting program, as part of efforts to increase and diversify revenue generation from local and non-local sources. The PAN Fund's budget for this activity is \$115,000. Monitoring and reporting tools will be created to better understand sustainable financing at the State level (rather than at broader, National levels) and better track the financial support that Member States provide to their PAN programs and projects in relation to other financing. The Sustainable Financing Plan will also include methods to formalize Site-level sustainable

financing plans, including through State or Site-level investments.

The work was to be completed by October 2018. However, the PAN Fund encountered delays in implementing the Project, in part due to difficulties in finding an appropriate contractor. PAN Fund has partnered with The Nature Conservancy (TNC) to assist the PAN Fund with updating the Sustainable Financing Plan. The review and update should be completed by early 2019.

Oceans 5 Grant

In FY2017 the PAN Fund agreed to participate in a Project funded by Oceans 5, a nonprofit that works to protect the world's five oceans. The grant from Oceans 5 supports the implementation of the Palau National Marine Sanctuary. By participating in the Project, the PAN Fund hopes to achieve a more holistic approach to protecting and preserving Palau's resources. PAN Fund recognizes that effective management of the Palau National Marine Sanctuary and the Domestic Fishing Zone directly affects the operation and success of the PAN. The total amount for this project is \$216,000.

OPERATIONS & MANAGEMENT

Effectiveness and Efficiency of Operations and Management

Budgeted overhead (the budget for the PAN Fund's operations) was 8% (*see Figure 6*), which is lower than other nonprofits in Palau. The proportion of the budget allocated to the PAN Fund has decreased, going from 11% of the budget in FY2013-2015 to 9% in FY2016 to the current 8%. This indicates that the PAN Fund is becoming more efficient in its operations.

In FY2017 the PAN Fund implemented steps to improve its operations and diversify funding:

1. Migrating to online banking, to allow for more efficient procurement and payroll processing, and to enable online donations.
2. Updating the PAN Fund website and building capacity to fundraise online
3. Participating in grant-funded projects
4. Professional development for PAN Fund staff, on topics of in-house processes, grants management, and fiduciary essentials for monitoring and oversight of public funds.

Independent audit reports have consistently found that the PAN Fund manages funds in accordance with accepted Accounting Principles. The PAN Fund has procedures in place to mitigate financial risks, including investment in the MC Endowment Fund, Reserve Funds, and a practice of adopting the subsequent year's budget based on realized revenue in the current year. The PAN Fund implements adaptive management in sync with the evolving PAN (e.g. implementing Budget Accountability Training based on needs).

Equitable Funding

The PAN Fund is tasked with ensuring equitable distribution of funds. Funds received by Member States vary widely, and depend on the activities and costs presented in Management Plans. The PAN Fund allocates State PAN Funds based on recommendations from PANO. The process utilized by the PAN Office considers top priority activities. Both the PAN Fund and PANO also consider each State's spending rate, carryover, and capacity to implement and meet reporting requirements.



The PAN Fund and PANO partner closely. Here intern River Thomas presents the results of her work to the PAN Office and the PAN Fund © PAN Fund.

Funding, Legislation, or Resources required to Carry out PAN objectives

The PAN Fund feels that the \$2 million cap on Green Fees going to the PAN Fund is limiting the ability of the PAN to achieve all of its objectives. The PAN Fund is calling for review of the \$2M cap:

1. The \$2 million cap is limiting the PAN Fund's ability to maximize investment returns. This equates to significant missed opportunity.
2. The cap, combined with the multiple other requirements for the Green Fees (e.g. PANF, PANO, Reserves, Endowment) mean that the PAN Fund cannot invest more in States and thus achieve the immediate goal of the PAN, to protect Palau's natural resources.
 - This has limited the ability to fund activities in Koror.
 - The PAN Fund has never been able to fund any state at 100% of its annual request.
3. High visitor years have high impacts, as seen by the visitor increase in 2015, with subsequent environmental degradation. The cap limits the ability of the PAN Fund, PANO, and Member States to increase activity to address increased impact.
 - Reserve Funds and the MC Endowment do not address this, as they are designed to buffer the PAN in low revenue years.

Looking Forward

The PAN Fund is preparing for several changes in FY2018, including the switch from the Green Fee to the Environmental Impact Fee. The PAN Fund does not anticipate any impact from the switch other than short-term delays until the system is up and running. The draw-down from the MC Endowment Fund will alleviate any delays. The PAN Fund, PANO, and PAN States/Sites will implement the following in 2018:

- Standardization projects (*see below*)
- Update of the Sustainable Financing Plan
- Site-based Sustainable Financing planning
- Development and implementation of PAN and PAN Fund Communications Plans, to increase understanding of PAN processes and to implement Standardization.

Standardization Projects will increase the efficiency of the overall use of PAN Funds. One goal is to streamline major expenditures. For instance, if multiple States need fixed assets, rather than procuring them individually the Standardization Project will develop a mechanism for consolidating purchases and thus enhance the buying power of the PAN. A second Project will strengthen the image and branding of PAN with standardized signage, buoys, and practices.

The PAN Fund also will invest time and funds into searching for grants and grantwriting. However, the PAN Fund recognizes that grants are for specific items, not recurring costs, and are thus not sustainable.



Nesting Black Noddy (Bedaoch) in Hatohobei © PAN Fund

FY2018 will be an interesting year for the PAN Fund, as several new factors apply:

1. For the first time, the PAN Fund included MC Endowment Funds in its budget.
2. By moving accumulated Reserves to an investment fund, the PAN Fund will continue to analyze investment strategies that contribute to sustainable financing of the PAN.
3. The PAN Fund recognizes that adoption of the Palau Sustainable Tourism Policy Framework and reduction of charter flights may contribute to a downturn in visitors and thus decreased income from Environmental Impact Fees.

Management and Governance

The PAN Fund is governed by a nine-member Board of Directors appointed by the initial four-member incorporators: The Nature Conservancy (TNC), Conservation International (CI), the Ministry of Natural Resources, Environment and Tourism (MNRET), and the Ministry of Finance (MOF). *See Officers and Members of the Board of Directors below.*

The Board is supported by the PAN Fund staff, including a General Manager, and Fiscal, Administrative, and Grants Program Officers. The PAN Fund follows the 2016-2020 Systemwide Stra-

tegic Plan and PAN Sustainable Financing Plan. The PAN Fund Board of Directors endorsed the PAN Strategic Plan in December 2016. The Sustainable Financing Plan will be revised through the GEF-5 Project.

The Board is scheduled to meet once every quarter but usually meets more often in Special Meetings to address critical issues that require Board action. The PAN Fund’s management structure is serving the PAN well: “The current Management Structure works greats and allows for checks and balances,” according to General Manager Regis Emesiochel.



Kevin Chin, Vice Chairman



Ngiratmetuchel R. Belechl, Chairman



Brengyei Katosang



Tutii Chilton, Treasurer



Mingrang Kloulechad, Secretary



Minister F. Umlich Sengebaw (MNRET),
Ex-Officio



Minister Elbuchel Sadang (MOF),
Ex-Officio



Sue Taei (CI)



Steven Victor (TNC)



Ngermasech Conservation Area © Richard Brooks

Appendices A1 Investment Report

Micronesia Conservation Trust

Comparative Performance Analysis Report

Presented by: **Asia Pacific Group of Raymond James**

4th Quarter 2017

RAYMOND JAMES®

THE REPORT IS BASED ON TRANSACTION RECORDS AND PORTFOLIO VALUATIONS SUPPLIED BY THE CLIENT. THE REPORT IS COMPLETE AND ACCURATE TO THE BEST OF OUR KNOWLEDGE.

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GLOBAL MARKET OBSERVATIONS

Quarterly Economic & Market Commentary
Q4 2017

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RAYMOND JAMES



U.S. unemployment has been trending downward and monthly job growth remains healthy as the economy continues to subsume the slack remaining in the labor market. However, the pace and sustainability of this growth will be contingent upon future population constraints.

How Low Can it Go?
Page 4



While parliamentary developments in Europe have stolen much of the spotlight, they have not eclipsed the new dawn in the 'land of the rising sun.' The Japanese economy has grown for seven straight quarters, and has (in nominal terms) surpassed its pre-2007 level of production.

A New Dawn in the Land of the Rising Sun
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At the quinquennial National Congress in October, Xi Jinping became the first living leader to be written into the Constitution of the Chinese Communist Party since Mao Zedong. This development has profound ramifications for the future of China.

The Pinnacle of Party Power
Page 6



Despite improving economic conditions, a tightening labor market, and rate hikes by the Federal Reserve, the U.S. Treasury yield curve remains remarkably flat. Low inflation expectations and high foreign demand for U.S. Treasury securities continue to put pressure on the long end of the yield curve.

Under Pressure
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As the world economy becomes increasingly globalized, countries are racing to join the international stage. Recent developments in Saudi Arabia and China serve as a reminder that embracing freer economics does not necessarily connote embracing freer government.

Autocracy Inc.
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ASSET CLASS RETURNS OVER Q4 2017 (%)

GLOBAL MARKET OBSERVATIONS – Q4 2017

Returns for Key Indices – Trailing 12 Months and the Fourth Quarter of 2017 – Ranked in Order of Performance (Best to Worst)

Broad Asset Class Total Returns		Domestic Equity Total Returns		S&P 500 Equity Sector Total Returns		International Equity Total Returns		Fixed Income Total Returns	
T12	Q3	T12	Q3	T12	Q3	T12	Q3	T12	Q3
Non-U.S. Equity 27.19	U.S. Equity 6.34	Large Growth 30.21	Large Growth 7.86	Info Tech 38.83	Cons Disc 9.87	EM Asia 42.83	Japan 8.39	Long-Term Bond 10.71	Long-Term Bond 2.84
U.S. Equity 21.13	Non-U.S. Equity 5.00	Mid Growth 25.27	Mid Growth 6.81	Materials 23.84	Info Tech 9.01	Emerging Markets 37.28	EM Asia 8.36	Global Bond ex-U.S. 10.51	Global Bond ex-U.S. 1.63
Global Real Estate 13.99	Commodities 4.71	Small Growth 22.17	Large Blend 6.59	Cons Disc 22.98	Financials 8.63	Europe ex-UK 26.82	Emerging Markets 7.44	Emerging Mkt Bond 8.29	U.S. Tips 1.26
Blended Portfolio 13.77	Global Real Estate 3.56	Large Blend 21.69	Mid Blend 6.07	Financials 22.18	Materials 6.93	Pacific ex-Japan 25.88	Pacific ex-Japan 7.01	High Yield 7.50	Credit 1.05
U.S. Fixed Income 3.54	Blended Portfolio 3.44	Mid Blend 18.52	Mid Value 5.50	Health Care 22.08	S&P 500 6.64	Developed Markets 25.03	U.S. Large Cap 6.64	Credit 6.18	Municipal 0.75
Commodities 1.70	U.S. Fixed Income 0.39	Small Blend 14.65	Large Value 5.33	S&P 500 21.83	Cons Staples 6.49	Japan 23.99	United Kingdom 5.72	Municipal 5.45	High Yield 0.47
Cash & Cash Alternatives 0.84	Cash & Cash Alternatives 0.28	Large Value 13.66	Small Growth 4.59	Industrials 21.03	Industrials 6.05	EM Latin America 23.74	EM Eastern Europe 4.94	Aggregate Bond 3.54	Aggregate Bond 0.39
		Mid Value 13.34	Small Blend 3.34	Cons Staples 13.49	Energy 6.02	United Kingdom 22.30	Developed Markets 4.23	U.S. Tips 3.01	T-Bill 0.28
		Small Value 7.84	Small Value 2.05	Utilities 12.11	Telecom 3.61	U.S. Large Cap 21.83	Europe ex-UK 0.90	MBS 2.47	MBS 0.15
				Real Estate 10.85	Real Estate 3.22	EM Eastern Europe 17.21	EM Latin America -2.34	Treasury 2.31	Treasury 0.05
				Energy -1.01	Health Care 1.47			Agency 2.06	Agency -0.02
				Telecom -1.25	Utilities 0.21			Short-Term Bond 0.84	Short-Term Bond -0.21
								T-Bill 0.84	Emerging Mkt Bond -0.32

BEST
↑
↓
WORST

Assume all asset classes are U.S. unless otherwise noted | Data as of 12/31/2017 | Ranked in order of performances (best to worst)

All investing involves risk and you may incur a profit or a loss. Past performance is not a guarantee of future results. This material is for informational purposes only and should not be used or construed as a recommendation regarding any security. Indices are unmanaged and cannot accommodate direct investments. An individual who purchases an investment product which attempts to mimic the performance of an index will incur expenses such as management fees and transaction costs which reduce returns. Returns are cumulative total return for stated period, including reinvestment of dividends. Dividends are not guaranteed and a company's future ability to pay dividends may be limited. Source: Morningstar Direct

HOW LOW CAN IT GO?

U.S. unemployment has been trending downward and monthly job growth remains healthy as the economy continues to subsume the slack remaining in the labor market. However, the pace and sustainability of this growth will be contingent upon future population constraints.

For the first time since 2014, U.S. gross domestic product has grown at an annualized rate of over 3% for two straight quarters (see chart). Boosted by recent tax legislation, relatively loose financial conditions, as well as the highest levels of consumer and business confidence in a decade, the overall outlook for the U.S. economy remains relatively sanguine. The labor market is similarly robust. Over the past quarter, total nonfarm payroll employment has risen by an average of 204,000 per month. Over the past five years, it has risen by an average of 205,000 per month. This trend has succeeded in halving unemployment over the past five years. In December 2012, unemployment hovered at 8%; it has fallen to 4.1% today. Policymakers and politicians alike have toasted the achievement. However, it certainly begs the question: how low can it go?

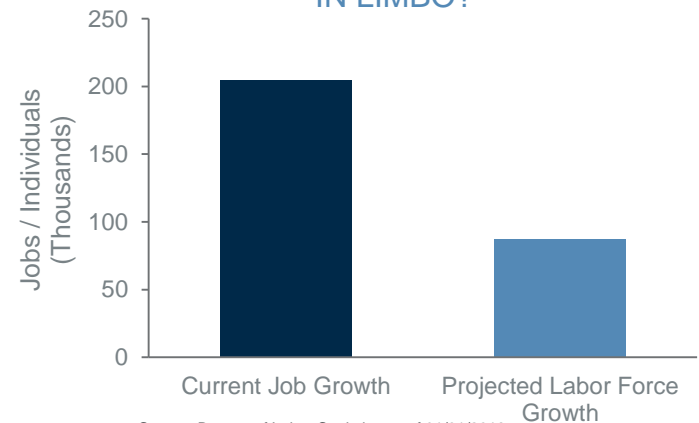
Population projections may offer meaningful insights to the answer. Estimates from the U.S. Bureau of Labor Statistics indicate that a total of 10,462,000 individuals are expected to enter the U.S. labor force by the end of 2026. This equates to roughly 87,000 new jobs per month over the next eight years. If these projections prove to be accurate, the current pace of U.S. job growth may be unsustainable in the long run (see chart). On the other hand, as the rate of unemployment continues to fall, labor force participation may trend higher as favorable job prospects entice more individuals to enter the work force. The future of the labor market remains in limbo.

FEELING HOT?



Source: St. Louis Federal Reserve, Bureau of Labor Statistics as of 01/01/2018

IN LIMBO?



Source: Bureau of Labor Statistics as of 01/01/2018



“We expect to see job growth slowing down, simply because we’re running out of people to hire.”

- Dr. Scott Brown, *Chief Economist, Equity Research*

A NEW DAWN IN THE LAND OF THE RISING SUN

“If a bird doesn’t sing, wait for it to sing.”

- Tokugawa Ieyasu (1543-1616), Founder of the Tokugawa Shogunate

2017 witnessed a slew of political elections across developed markets. To say that the results were a mixed bag would be an understatement. In May, Emmanuel Macron swept the French Assemblée nationale at the head of his newly founded party, En Marche! In June, Theresa May and her Conservative party lost their majority in the British House of Commons after a snap election. In September, Angela Merkel and her Christian Democratic Union suffered a major electoral blow, and were subsequently abandoned by their previous coalition partner, the Social Democratic Party. At the time of this writing, the German Bundestag is still without a workable coalition government. Looking ahead to March 2018, Italians will head to the polls following Matteo Renzi’s unsuccessful constitutional referendum in December 2016.

While the parliamentary pandemonium in Europe has stolen much of the spotlight, it has not eclipsed the new dawn in the oft-overlooked ‘land of the rising sun.’ The Japanese economy has grown for seven straight quarters, and has (in nominal terms) surpassed its pre-2007 level of production (see chart). This revival is made all the more remarkable when considering the infamous ‘lost decade(s)’ of stagnation and deflation that Japan had to overcome following the asset bubble which devastated its economy in 1989. While it has yet to attain the heights it reached at the end of 1989, the Japanese stock market is currently at its highest level since 1991 (see chart). In October, Prime Minister Shinzo Abe and his Liberal Democratic Party maintained their majority following a snap election. While he has previously voiced a commitment to broad economic and structural reforms, Abe now appears content to let the monetary policies of the Bank of Japan continue to fan the ‘reflation,’ turning his attention towards constitutional reforms aimed at bolstering Japan’s military prowess. While it may have taken decades, the Japanese economy is finally showing signs of singing.

DECADES LOST...



Source: Bloomberg LP as of 01/01/2017

... AND FOUND?



Source: Japanese Cabinet Office Data as of 01/01/2018

THE PINNACLE OF PARTY POWER

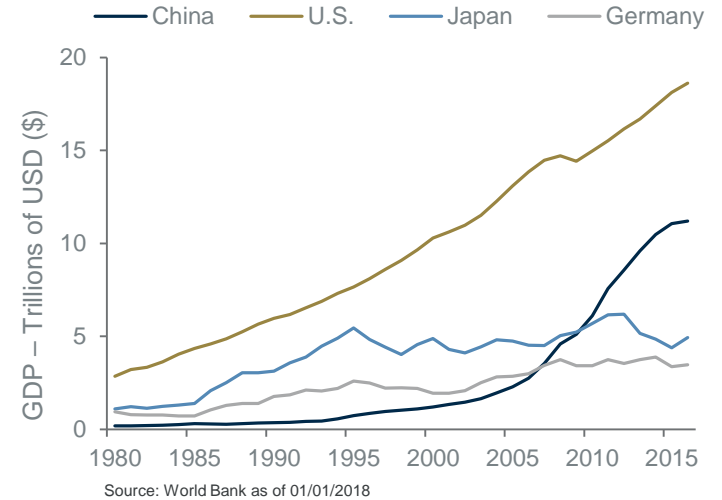
“The Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era is a continuation and development of Marxism-Leninism, Mao Zedong Thought, Deng Xiaoping Theory ... It is the latest achievement in adapting Marxism to the Chinese context, a crystallization of the practical experience and collective wisdom of the Party and the people ... and a guide to action for the entire Party and all the Chinese people to strive for the great rejuvenation of the Chinese nation, and must be upheld long term and constantly developed”

- Resolution on Amendment to the Constitution of the Communist Party of China, 19th National Congress

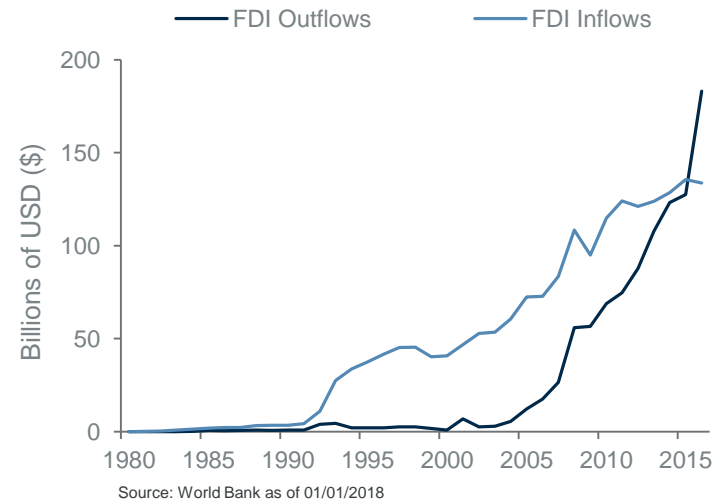
Not since Mao Zedong has a Chinese leader wielded as much power as Xi Jinping. At the quinquennial National Congress in October, Xi became the first living leader to be written into the Constitution of the Communist Party since Mao. In a word, Xi is now a living embodiment of the Party; to oppose him is to oppose Chinese Communism. While this conspicuous distinction represents the capstone of Xi’s formidable facade, its foundation has been many years in the making. Having quelled any opposition to his rule, Xi has stacked much of the Party and the powerful Politburo with members of his own choosing. Without a successor in sight, Xi is poised to rule unopposed for at least the next five years. This development has profound ramifications for the future of China.

From this fortified state, Xi will theoretically be better positioned to push through the broad economic reforms he has promised for his “new era.” This development is a continuation of a decades-long trend. As a result of reforms by Xi’s predecessors and the blistering growth they produced, the Chinese economy is now the second largest in the world and is rapidly closing the gap with the U.S. economy (see chart). Recently, China transitioned from a net importer to a net exporter of foreign direct investment (FDI) (see chart). This marks a significant milestone in the evolution of the Chinese economy and the increasing influence Chinese capital wields on a global scale, which is manifest in its expansive projects like the “Belt and Road” initiative.

COMING FROM BEHIND



MONEY IS A GOOD SOLDIER



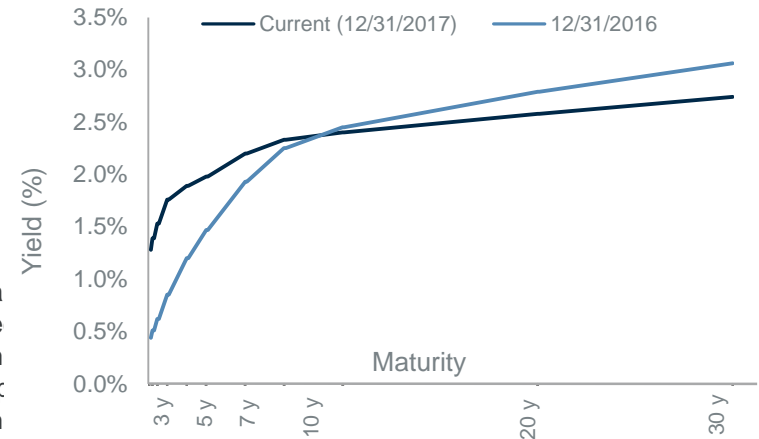
UNDER PRESSURE

Despite improving economic conditions, a tightening labor market, and rate hikes by the Federal Reserve (Fed), the U.S. Treasury yield curve remains remarkably flat. While a wide array of factors impact yields, low inflation expectations and high foreign demand for U.S. Treasury securities continue to put pressure on the long end of the yield curve.

On December 13, the Fed raised the federal funds rate by 25 basis points (bp) was the fifth increase in the federal funds rate since the central bank first began raising rates two years ago. Over that time, the federal funds rate has increased from 0% - 0.25% to 1.25 - 1.50% (or a total increase of 125bp). Yet, over that same time period, the yield on the 10-year Treasury note has increased by a mere 14bp while the yield on the 30-year Treasury bond has actually declined by 25bp. The overall effect has been a ‘flattening’ of the yield curve (see chart). While increases in the federal funds rate have boosted the ‘short’ end of the curve, the ‘long’ end of the curve has remained obstinately flat.

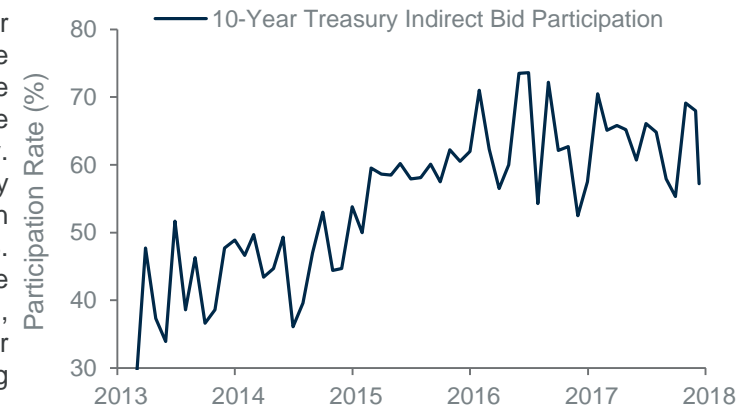
Yield not only compensates creditors for the inherent risk they incur by lending their capital, but also serves as a shield from future inflation (which erodes the future purchasing power of their capital). As a result, an obvious culprit in this curve conundrum is the fact that future inflation expectations remain low. However, the global nature of credit markets points to a second culprit: interest rate disparity. While the Fed has transitioned from a period of easing to tightening, monetary policy around the globe remains incredibly loose. Yields on most government debt in developed markets struggle to break above 1%, let alone 2%. As a result, U.S. Treasury securities remain remarkably attractive to foreign investors. While there are scant statistics which directly quantify foreign demand for U.S. Treasury securities, the percentage of indirect bid participants (which can be viewed as a loose proxy for foreign demand) in Treasury auctions has increased markedly (see chart). So long as this disparity persists, the long end of the yield curve will remain under pressure.

CURVE CONUNDRUM



Source: Bloomberg LP as of 01/01/2018

FOREIGN FIXATION



Source: Bloomberg LP, U.S. Treasury as of 01/01/2018



“Global yields are low just about everywhere, and that’s keeping the long end of the curve down.”

- Dr. Scott Brown, Chief Economist, Equity Research

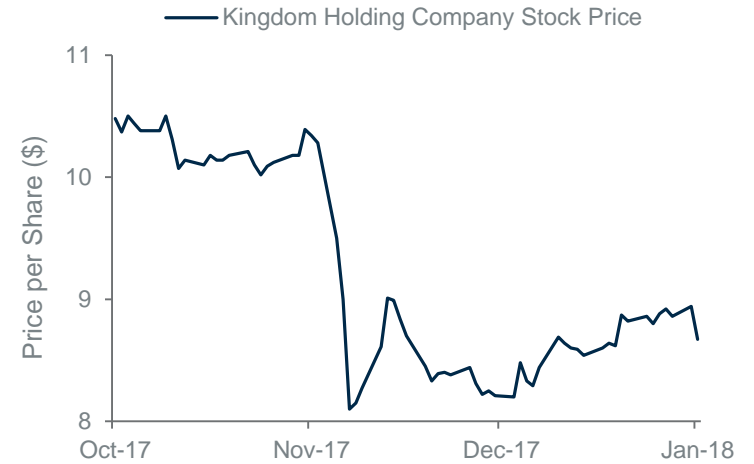
AUTOCRACY INC.

As the world economy becomes increasingly globalized, countries are racing to join the international stage. However, recent developments in Saudi Arabia and China serve as a reminder that embracing freer economics does not necessarily connote embracing freer government.

On November 4, 11 Saudi princes were arrested on charges of corruption at the behest of Crown Prince Muhammad bin Salman, the heir apparent to Saudi Arabia’s throne. Amongst those arrested was Prince Alwaleed bin Talal, the grandson of Saudi Arabia’s first king, Ibn Saud. Prince Alwaleed is the 45th richest person in the world according to Forbes, and, in many circles, is considered to be the Saudi equivalent to Warren Buffet. As its founder and chairman, the stock price of Alwaleed’s Kingdom Holdings Company plunged more than 20% on the news of his arrest and has yet to recover (see chart). At the time of this writing, Alwaleed remains in custody (along with over 200 royals and officials). The move by Crown Prince Muhammad was eerily similar to the anti-corruption campaign waged by Xi Jinping, which consolidated his own power and quelled opposition to his rule in China. While both leaders have been lauded for attempts to implement progressive market reforms in their respective countries, their grip on the reins of power have only tightened. If this trend continues unchecked, it constitutes an alarming precedent.

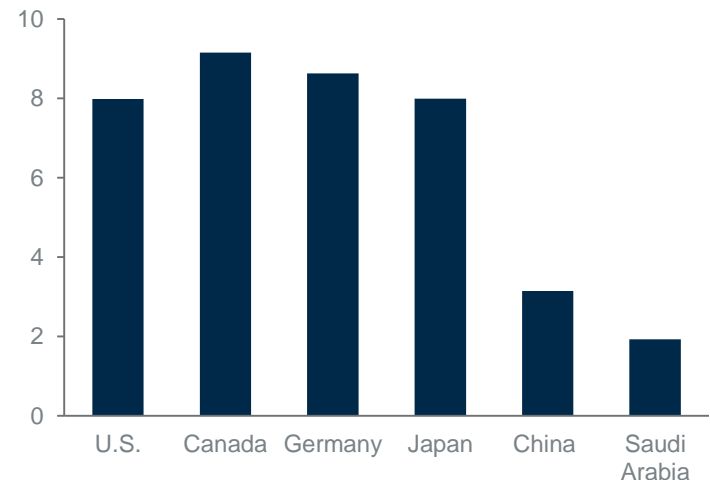
Traditionally, a transition from a command economy to a market economy also necessitated a transition from autocracy to democracy. The most notable example in recent history was the dissolution of the USSR in 1991. While Russia’s fledgling democracy has arguably devolved into another autocratic regime under Vladimir Putin, the initial transition under Mikhail Gorbachev was marked by liberalization in both economics and government. However, an unnerving hybrid has since taken shape: a synergy between capitalism and autocracy without the trappings of democracy. So long as authoritarians can avoid relinquishing the reins of their respective regimes while simultaneously embracing economic reform, Autocracy Inc. will remain a viable and frightening alternative to liberal democracy.

A PRINCELY PRICE



Source: Bloomberg LP as of 01/01/2018

DEMOCRACY INDEX



Source: The Economist Intelligence Unit, Cato Institute as of 01/01/2018

The U.S. economy is in good shape and should see some lift from the tax bill in 2018. However, labor market constraints are expected to become more binding. Monetary policy is now close to neutral, but personnel changes at the Federal Reserve add to uncertainty and the risks of a policy error are on the rise. The wider budget deficit and the unwinding of the Fed's balance sheet ought to add some upward pressure on long-term interest rates, but inflation is expected to remain low. While the underlying trends in most sectors were moderate in 2017, activity was uneven from quarter to quarter. Expect a similar pattern in 2018.

DR. SCOTT BROWN
Chief Economist,
Equity Research

	ECONOMIC INDICATOR	COMMENTARY
FAVORABLE	GROWTH	Most sectors appear to be ending 2017 with good momentum and the late additions to the tax bill will provide some stimulus in 2018.
	BUSINESS INVESTMENT	Business sentiment remains elevated and firms already have the cash. Increases in after-tax corporate profits are more likely to show up as share buybacks and increased dividends, and less as capital investment.
	HOUSING AND CONSTRUCTION	Monthly figures on sales and construction activity have been choppy, but generally stronger than a year ago. Demand for homes remains strong, but the industry faces supply constraints and affordability issues.
	REST OF THE WORLD	The broader global outlook has improved, helping U.S. exporters. However, a mistake on trade policy remains a significant risk, possibly disrupting supply chains (many firms have already planned work-arounds).
NEUTRAL	EMPLOYMENT	Private-sector job growth was about the same in 2017 as in 2016, but the pace will slow as the job market tightens.
	CONSUMER SPENDING	Uneven over the course of 2017, the (moderate) underlying trend has outpaced income growth. Expect moderate, but uneven, growth in 2018.
	MANUFACTURING	Mixed across sectors in 2017, with a lackluster spring and summer, but with a stronger trend into the final months of 2017.
	INFLATION	Still seeing a mild deflationary trend in consumer goods and moderate inflation in services. Some pressure in prices of raw materials and moderate wage pressures in the near term.
	MONETARY POLICY	Still gradual and data dependent, but personnel changes add more uncertainty, particularly beyond the middle of the year.
	LONG-TERM INTEREST RATES	The Fed's balance sheet run-off ought to put slight upward pressure on U.S. bond yields and the increased budget deficit won't help, but a variety of factors are likely to keep yields from rising sharply.
	FISCAL POLICY	Even before the tax bill, the budget deficit has been rising as a percent of GDP. As stimulus, the bill is not expected to add much to economic growth over the next 10 years, but late additions to the final version frontload that.
	THE DOLLAR	It will take some time to gauge the tax bill's full effect on foreign investment in the U.S., but it should have a negative impact on the dollar.

This report is intended to highlight the dynamics underlying the 11 S&P 500 sectors, with a goal of providing a timely assessment to be used in developing your personal portfolio strategy. Our time horizon for the sector weightings is not meant to be short-term oriented. Our goal is to look for trends that can be sustainable for several quarters; yet given the dynamic nature of financial markets, our opinion could change as market conditions dictate. Most investors should seek diversity to balance risk versus reward. For this reason, even the least-favored sectors may be appropriate for portfolios seeking a more balanced equity allocation. Those investors seeking a more aggressive investment style may choose to overweight the preferred sectors and entirely avoid the least favored sectors.

J. MICHAEL GIBBS
 Managing Director of Equity
 Portfolio & Technical Strategy

	SECTOR	S&P WEIGHT	TACTICAL COMMENTS
OVERWEIGHT	INFORMATION TECHNOLOGY	24.0%	Fundamental strength influences our opinion as earnings growth remains strong. Elevated valuation is a potential headwind but shouldn't derail price performance as long as fundamental trends remain healthy. The sector is subject to short-term underperformance if investors rotate to other higher taxed sectors. Should this develop, we would be an aggressive buyer as long as fundamental trends are maintained.
	FINANCIALS	14.8%	Despite a big drop in 2017 earnings estimates (due to hurricane impact), fundamental trends and 2018 estimates continue to climb. Fundamental trends should be generally healthy for the banks with solid U.S. economic growth, opportunity for improving loan growth, and a less stringent regulatory environment. The high effective tax rate paying sector will be a beneficiary of lower taxes at the corporate level. Payouts to shareholders should accelerate. Potential headwinds include projected earnings falling short of consensus due to the continued flattening of the yield curve and if recent sluggish trends for loan growth do not improve.
	HEALTH CARE	14.0%	Coinciding with recent underperformance are sharply lowered estimated earnings for 2018. Bifurcated fundamentals and price performance over the past 12 months make it an area of the market ripe with potential opportunity in 2018 if fundamentals improve. With relative valuation well below historical levels, we would keenly watch the sector for opportunity.
	INDUSTRIALS	10.1%	Healthy global economic growth should continue to provide a strong foundation for fundamentals. Earnings growth in the upper single digits, in conjunction with decent relative valuation, lends additional support for relative outperformance. Technical trends are just ok as relative strength continues to lag the general market.
	ENERGY	5.8%	OPEC (unsurprisingly) and Russia chose to extend current production cuts until the end of 2018. The cartel will review the deal at the June meeting, leaving the door open for alteration should stockpiles retreat beyond acceptable levels. Crude oil prices are virtually flat with levels prior to the extension.
EQUAL WEIGHT	MATERIALS	2.9%	Strong economic growth should boost the fundamentals of the sector and (if so) should lead to relative outperformance of prices. For the near term, lagging relative strength is likely due to investor positioning in sectors more favorably positioned to benefit from lower taxes.
UNDERWEIGHT	CONSUMER DISCRETIONARY	12.2%	Trading trends have improved for this higher taxed sector but forward earnings estimates continue to move downward. Earnings will get a boost from lower taxes; but with operating trends still modest, we wonder how long the relative price performance will last.
	CONSUMER STAPLES	8.2%	A recent price rally influenced by tax reform has the sector on the verge of joining the general market at all-time highs. Improved earnings growth in 2018 is expected as the sector laps easy comparisons. Nevertheless, we do not feel lower tax rates deserve the same credit as operational fundamental trends. Despite easier comps, the sector still faces secular challenges.
	UTILITIES	3.1%	Our main concern is the potential for rising interest rates. Our position has been emboldened as relative performance has plummeted recently despite the sector being a high effective tax payer.
	REAL ESTATE	2.9%	Fundamental trends are set to improve modestly in 2018 and valuations are attractive. Normally, improving fundamentals and inexpensive valuation would perk our interest, but the sector is subject to an inverse trading relationship with interest rates.
	TELECOM	2.0%	This highest effective tax paying sector has posted relative strength gains as the tax bill gained momentum. Despite the improvement, we are less enthused for the intermediate term as fundamental trends remains sluggish.

BROAD ASSET CLASS RETURNS

U.S. EQUITY | Russell 3000 Total Return Index: This index represents 3000 large U.S. companies, ranked by market capitalization. It represents approximately 98% of the U.S. equity market. This index includes the effects of reinvested dividends.

NON-U.S. EQUITY | MSCI ACWI Ex USA Net Return Index: The index is a market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI) and designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. The index includes both developed and emerging markets.

GLOBAL REAL ESTATE | FTSE EPRA/NAREIT Global Net Return Index: This index is designed to track the performance of listed real estate companies and REITs in both developed and emerging markets. By making the index constituents free-float adjusted, liquidity, size and revenue screened, the series is suitable for use as the basis for investment products. Prior to 2009, this asset class was represented by the NASDAQ Global Real Estate Index.

CASH & CASH ALTERNATIVES | Citigroup 3 Month U.S. Treasury-Bill Total Return Index: This index is a measurement of the movement of 3-month T-Bills. The income used to calculate the monthly return is derived by subtracting the original amount invested from the maturity value.

FIXED INCOME | Bloomberg Barclays Capital Aggregate Bond Total Return Index: This index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

COMMODITIES | Bloomberg Commodity Total Return Index: The index tracks prices of futures contracts on physical commodities on the commodity markets. The index is designed to minimize concentration in any one commodity or sector. It currently has 22 commodity futures in seven sectors. No one commodity can compose less than 2% or more than 15% of the index, and no sector can represent more than 33% of the index (as of the annual weightings of the components). The weightings for each commodity included in the Bloomberg Commodity Index are calculated in accordance with rules that ensure that the relative proportion of each of the underlying individual commodities reflects its global economic significance and market liquidity. Annual rebalancing and reweighting ensure that diversity is maintained over time.

DOMESTIC EQUITY RETURNS

LARGE GROWTH | Russell 1000 Growth Total Return Index: This index represents a segment of the Russell 1000 Index with a greater-than-average growth orientation. Companies in this index have higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values. This index includes the effects of reinvested dividends.

MID GROWTH | Russell Mid Cap Growth Total Return Index: This index contains stocks from the Russell Midcap Index with a greater-than-average growth orientation. The stocks are also members of the Russell 1000 Growth Index. This index includes the effects of reinvested dividends.

SMALL GROWTH | Russell 2000 Growth Total Return Index: This index represents a segment of the Russell 2000 Index with a greater-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000. This index includes the effects of reinvested dividends.

LARGE BLEND | Russell 1000 Total Return Index: This index represents the 1000 largest companies in the Russell 3000 Index. This index is highly correlated with the S&P 500 Index. This index includes the effects of reinvested dividends.

MID BLEND | Russell Mid Cap Total Return Index: This index consists of the bottom 800 securities in the Russell 1000 Index as ranked by total market capitalization. This index includes the effects of reinvested dividends.

SMALL BLEND | Russell 2000 Total Return Index: This index covers 2000 of the smallest companies in the Russell 3000 Index, which ranks the 3000 largest U.S. companies by market capitalization. The Russell 2000 represents approximately 10% of the Russell 3000 total market capitalization. This index includes the effects of reinvested dividends.

LARGE VALUE | Russell 1000 Value Total Return Index: This index represents a segment of the Russell 1000 Index with a less-than-average growth orientation. Companies in this index have low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values. This index includes the effects of reinvested dividends.

DOMESTIC EQUITY RETURNS (CONT.)

MID VALUE | Russell Mid Cap Value Total Return Index: This index contains stocks from the Russell Midcap Index with a less-than-average growth orientation. The stocks are also members of the Russell 1000 Value Index. This index includes the effects of reinvested dividends.

SMALL VALUE | Russell 2000 Value Total Return Index: This index represents a segment of the Russell 2000 Index with a less-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000. This index includes the effects of reinvested dividends.

FIXED INCOME RETURNS

AGGREGATE BOND | Bloomberg Barclays US Agg Bond Total Return Index: The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

HIGH YIELD | Bloomberg Barclays US Corporate High Yield Total Return Index: The index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

CREDIT | Bloomberg Barclays U.S. Credit Total Return Index: The index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

SHORT-TERM BOND | Bloomberg Barclays US Govt/Credit 1-3 Yr Total Return Index: The index is the 1-3 year component of the Bloomberg Barclays U.S. Government/Credit Index. The Bloomberg Barclays U.S. Government/Credit Index covers treasuries, agencies, publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

LONG-TERM BOND | Bloomberg Barclays US Govt/Credit Long Total Return Index: The index is a measure of domestic fixed income securities, including Treasury issues and corporate debt issues, that are rated investment grade (Baa by Moody's Investors Service and BBB by Standard and Poor's) and with maturities of ten years or greater.

MBS | Bloomberg Barclays US MBS Total Return Index: The index tracks agency mortgage backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon and vintage.

TREASURY | Bloomberg Barclays US Treasury Total Return Index: The index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index.

U.S. TIPS | Bloomberg Barclays US Treasury US TIPS Total Return Index: The index includes all publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have \$250 million or more of outstanding face value.

GLOBAL BOND EX U.S. | Bloomberg Barclays Gbl Agg Ex USD Total Return Index: The index provides a broad-based measure of the global investment grade fixed-rate debt markets, excluding the United States. Currency exposure is hedged to the US dollar.

T-BILLS | Citi Treasury Bill 3 Mon Total Return Index: This index is a measurement of the movement of 3-month T-Bills. The income used to calculate the monthly return is derived by subtracting the original amount invested from the maturity value.

EMERGING MKT BOND | J.P. Morgan EMBI Plus Total Return Index: The index tracks total returns for traded external debt instruments (external meaning foreign currency denominated fixed income) in the emerging markets.

AGENCY | Bloomberg Barclays US Agency Total Return Index: The index includes native currency agency debentures from issuers such as Fannie Mae, Freddie Mac, and Federal Home Loan Bank. It is a subcomponent of the Government-Related Index (which also includes non-native currency agency bonds, sovereigns, supranationals, and local authority debt) and the U.S. Government Index (which also includes U.S. Treasury debt). The index includes callable and non-callable agency securities that are publicly issued by U.S. government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. government (such as USAID securities).

FIXED INCOME RETURNS (CONT.)

MUNICIPAL | Bloomberg Barclays Municipal Total Return Index: The index is a measure of the long-term tax-exempt bond market with securities of investment grade (rated at least Baa by Moody's Investors Service and BBB by Standard and Poor's). This index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

INTERNATIONAL EQUITY RETURNS

EMERGING MARKETS EASTERN EUROPE | MSCI EM Eastern Europe Net Return Index: The index captures large and mid cap representation across 4 Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS ASIA | MSCI EM Asia Net Return Index: The index captures large and mid cap representation across 8 Emerging Markets countries. With 554 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS LATIN AMERICA | MSCI EM Latin America Net Return Index: The index captures large and mid cap representation across 5 Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS | MSCI Emerging Markets Net Return Index: This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

PACIFIC EX-JAPAN | MSCI Pacific Ex Japan Net Return Index: The index captures large and mid cap representation across 4 of 5 Developed Markets (DM) countries in the Pacific region (excluding Japan). With 150 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

UNITED KINGDOM | MSCI Pacific Ex Japan Net Return Index: The index captures large and mid cap representation across 4 of 5 Developed Markets (DM) countries in the Pacific region (excluding Japan). With 150 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

U.S. LARGE CAP | S&P 500 Total Return Index: The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

JAPAN | MSCI Japan Net Return Index: The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

FOREIGN DEVELOPED MARKETS | MSCI EAFE Net Return Index: This index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries.

EUROPE EX UK | MSCI Europe Ex UK Net Return Index: The index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe. With 337 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

EQUITY SECTOR RETURNS

ENERGY | S&P 500 Sec/Energy Total Return Index: The S&P 500® Energy Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Energy sector.

MATERIALS | S&P 500 Sec/Materials Total Return Index: The S&P 500® Materials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Materials sector.

UTILITIES | S&P 500 Sec/Utilities Total Return Index: The S&P 500® Utilities Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Utilities sector.

INFO TECH | S&P 500 Sec/Information Technology Total Return Index: The S&P 500® Info Tech Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Info Tech sector.

EQUITY SECTOR RETURNS (CONT.)

CONS STAPLES | S&P 500 Sec/Cons Staples Total Return Index: The S&P 500® Consumer Staples Index comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer staples sector.

INDUSTRIALS | S&P 500 Sec/Industrials Total Return Index: The S&P 500® Industrials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Industrials sector.

TELECOM | S&P 500 Sec/Telecom Services Total Return Index: The S&P 500® Telecom Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Telecom sector.

HEALTH CARE | S&P 500 Sec/Health Care Total Return Index: The S&P 500® Health Care Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Health Care sector.

S&P 500 | S&P 500 Total Return Index: The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

CONS DISC | S&P 500 Sec/Cons Disc Total Return Index: The S&P 500® Consumer Discretionary Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Consumer Discretionary sector.

REAL ESTATE | S&P 500 Sec/Real Estate Total Return Index: The S&P 500® Real Estate Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Real Estate sector.

FINANCIALS | S&P 500 Sec/Financials Total Return Index: The S&P 500® Financials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Financials sector.

MISC.

STOXX 600 | The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

CAC 40 | The CAC 40® is a free float market capitalization weighted index that reflects the performance of the 40 largest and most actively traded shares listed on Euronext Paris, and is the most widely used indicator of the Paris stock market. The index serves as an underlying for structured products, funds, exchange traded funds, options and futures.

DAX | The DAX® index, the best known German stock exchange barometer, measures the performance of the 30 largest and most liquid companies on the German stock market. It represents around 80 percent of the market capitalization of listed stock corporations in Germany.

NIKKEI 225 | Japan's Nikkei 225 is a price-weighted index comprised of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange. The Nikkei is equivalent to the Dow Jones Industrial Average Index in the United States.

ADDITIONAL DISCLOSURES

Any charts and tables presented herein are for illustrative purposes only and should not be considered as the sole basis for an investment decision. There can be no assurance that the future performance of any specific investment or investment strategy made reference to be profitable or equal any corresponding indicated historical performance level(s). This information should not be construed as a recommendation.

The foregoing content is subject to change at any time without notice. Content provided herein is for informational purposes only. There is no guarantee that these statements, opinions or forecasts provided herein will prove to be correct.

Past performance is not a guarantee of future results. Indices and peer groups are not available for direct investment. Any investor who attempts to mimic the performance of an index or peer group would incur fees and expenses that would reduce returns. All investing involves risk. Asset allocation and diversification does not ensure a profit or protect against a loss. Dividends are not guaranteed and a company's future ability to pay them may be limited.

International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

High-yield bonds are not suitable for all investors. The risk of default may increase due to changes in the issuer's credit quality. Price changes may occur due to changes in interest rates and the liquidity of the bond. When appropriate, these bonds should only comprise a modest portion of your portfolio.

Investing in small- and mid-cap stocks are riskier investments which include price volatility, less liquidity and the threat of competition.

Not FDIC or NCUA Insured • No Bank Guarantee • May Lose Value

Micronesia Conservation Trust
 Report Period Ending December 31, 2017
 Fiscal Year Ends: December

	Market Value	Current Allocation	QTD 09/30/2017 12/31/2017	Fiscal YTD	Latest 3 Years	Latest 5 Years	Latest 7 Years	Inception to Date	Inception Date
Total Relationship Policy Index	\$21,475,338	100.00%	4.05%	17.42%	7.44%	8.36%	6.95%	8.17%	12/31/2008
6.2% Total Return Index			1.49%	6.20%	6.20%	6.20%	6.20%	6.20%	
Large Cap Value									
Aristotle Capital Management	\$2,848,861	13.27%	6.56%	23.52%	14.73%	N/A	N/A	14.49%	10/31/2014
Russell 1000 Value			5.33%	13.66%	8.65%	14.04%	12.46%	9.08%	
Large Cap Growth									
Winslow Capital	\$3,003,905	13.99%	5.95%	33.10%	11.76%	16.09%	N/A	12.96%	01/31/2011
Russell 1000 Growth			7.86%	30.21%	13.79%	17.33%	14.81%	14.59%	
Mid Cap Value									
Boston Partners	\$2,345,110	10.92%	5.13%	16.12%	10.69%	13.97%	N/A	12.89%	01/31/2011
Russell 2500 Value			4.25%	10.36%	9.30%	13.27%	11.54%	11.45%	
International Equity									
Lazard International	\$3,336,776	15.54%	4.93%	26.67%	9.27%	N/A	N/A	8.03%	05/31/2013
MSCI EAFE			4.23%	25.03%	7.80%	7.90%	6.04%	6.85%	
Emerging Markets									
Lazard Emerging Markets	\$2,406,847	11.21%	8.67%	33.54%	10.14%	5.61%	N/A	5.15%	01/31/2011
MSCI Emerging Markets			7.44%	37.28%	9.10%	4.35%	2.56%	3.00%	
Fixed Income									
Garcia Hamilton	\$3,993,706	18.60%	0.80%	3.73%	2.49%	2.91%	N/A	2.91%	12/31/2012
Barclays Aggregate Bond			0.39%	3.54%	2.24%	2.10%	3.20%	2.10%	
Templeton Global Bond	\$1,873,995	8.73%	-1.81%	2.62%	1.64%	1.82%	N/A	3.28%	01/31/2011
Citi WGBI Non-US			1.57%	10.33%	1.99%	-0.29%	0.73%	0.74%	
Master Limited Partnership									
Miller Howard MLP	\$730,465	3.40%	0.08%	-3.72%	N/A	N/A	N/A	-11.06%	01/31/2015
Alerian MLP Index Trust TR			-0.95%	-6.52%	-9.33%	-0.06%	2.51%	-8.62%	
Real Estate									
Adelante	\$935,674	4.36%	3.19%	9.92%	N/A	N/A	N/A	3.59%	01/31/2015
Wilshire REIT			-1.66%	0.21%	1.31%	5.37%	6.48%	-0.79%	

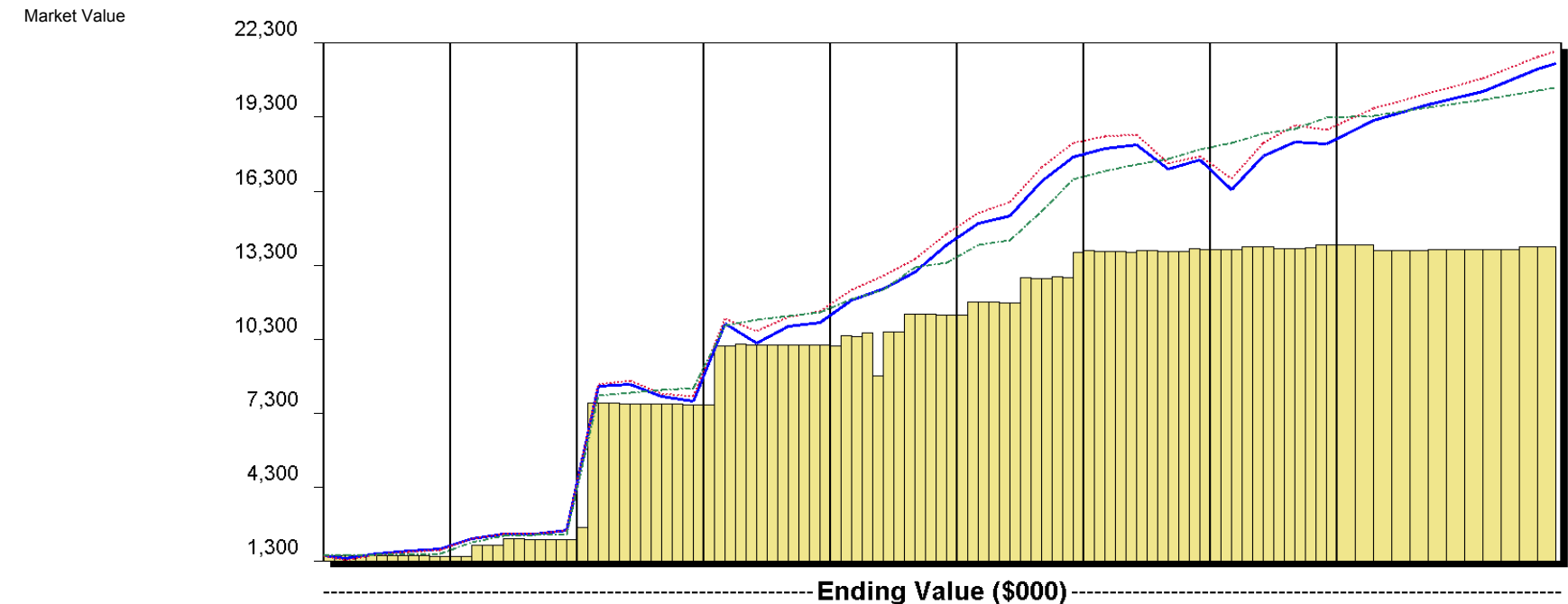
****All returns are gross of management fees

The Policy Index is comprised of: 12.5% Russell 1000 Growth, 12.5% Russell 1000 Value, 10% Russell 2500, 15% MSCI EAFE, 10% MSCI Emerging Markets, 20% Barclays Aggregate Bond, 10% MSCI WGBI Ex US, 5% Alerian MLP TR, 5% Wilshire REIT

Micronesia Conservation Trust Total Relationship

Report Period: 12-31-08 to 12-31-17
Fiscal Year Ends: December

Market Value vs. Invested Capital



	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17
— Micronesia Conse	1,524	1,815	3,142	7,694	11,205	14,360	17,528	17,237	18,514	21,475
■ Invested Capital	1,524	1,508	2,682	7,650	10,030	11,288	13,895	13,948	14,112	14,031
Investment Gain/Loss	00	307	460	44	1,176	3,072	3,633	3,289	4,402	7,445
Net Contrib. Since Incep.	00	-15	1,159	6,126	8,506	9,765	12,371	12,424	12,589	12,507
..... Policy Index	1,524	1,771	3,190	8,001	11,565	14,698	18,154	17,501	19,090	21,973
- - - - 6.2% Total Retur	1,524	1,602	2,913	8,372	11,421	13,451	16,970	18,075	19,366	20,479

Returns are calculated gross of management fees using trade date positions and including accrued income. Returns for greater than one year are annualized.
The independent variable is the Policy Index
The independent variable is the 6.2% Total Return Index

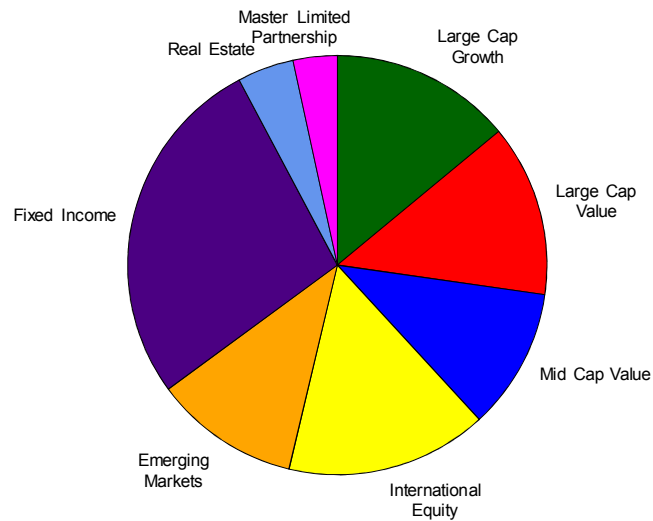
Micronesia Conservation Trust

Total Composite

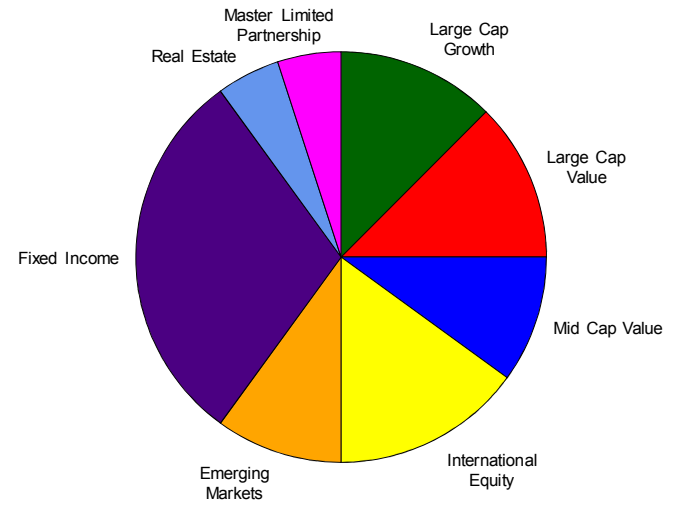
Report Period: 12-31-17
Fiscal Year Ends: December

Current Allocation versus Target Allocation

Current Allocation



Target Allocation



	Market Value	Current Allocation%	Target Allocation%	% Difference
Large Cap Growth	\$3,003,905	13.99	12.50	1.49
Large Cap Value	2,848,861	13.27	12.50	0.77
Mid Cap Value	2,345,110	10.92	10.00	0.92
International Equity	3,336,776	15.54	15.00	0.54
Emerging Markets	2,406,847	11.21	10.00	1.21
Fixed Income	5,867,701	27.32	30.00	-2.68
Real Estate	935,674	4.36	5.00	-0.64
Master Limited Partnership	730,465	3.40	5.00	-1.60
TOTAL	\$21,475,338	100.00	100.00	

Micronesia Conservation Trust

Total Relationship

Report Period: 12-31-08 to 12-31-17

Fiscal Year Ends: December

Account Activity Summary

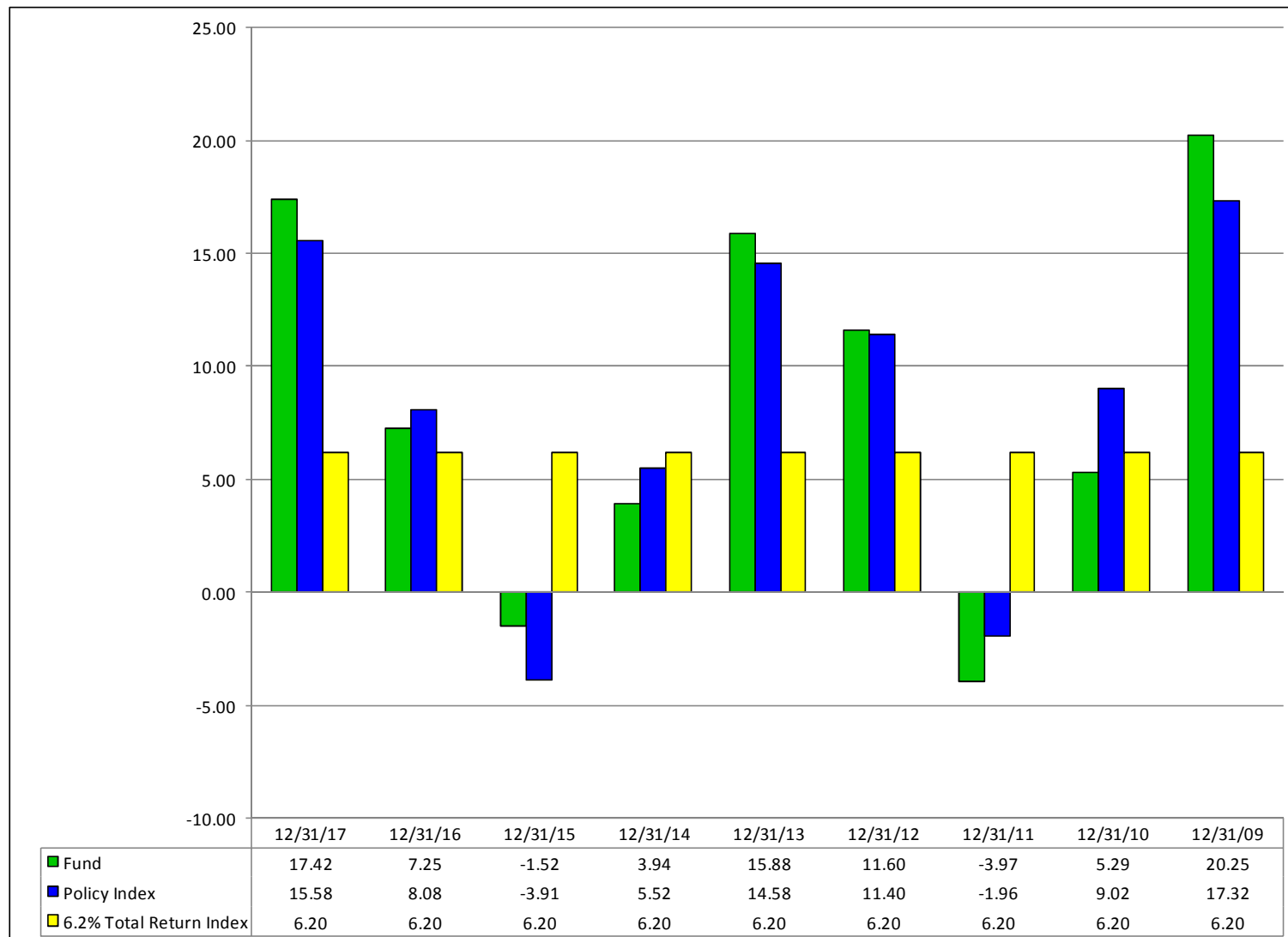
	Latest Quarter	Fiscal Yr to Date	Latest 1 Year	Latest 3 Years	Latest 5 Years	Latest 10 Years	From 12-31-08
Beginning Mkt Value	20,586,915	18,514,216	18,514,216	17,527,850	11,205,110	N/A	1,523,620
Contributions	97,750	381,545	381,545	800,889	6,544,515	N/A	15,227,316
Withdrawals	4,331	463,421	463,421	665,289	2,543,975	N/A	2,720,808
Management Fees	39,655	147,500	147,500	317,797	317,797	N/A	317,797
Net Flows	53,764	-229,376	-229,376	-182,197	3,682,743	N/A	12,188,711
Interest/Dividend Income	116,191	477,944	477,944	1,346,143	2,109,937	N/A	2,746,052
Gains/Losses	718,468	2,712,554	2,712,554	2,783,543	4,477,549	N/A	5,016,956
Total Earnings	834,659	3,190,498	3,190,498	4,129,685	6,587,485	N/A	7,763,007
As of 12-31-17							
Ending Mkt Value	21,475,338	21,475,338	21,475,338	21,475,338	21,475,338	N/A	21,475,338
Time-Weighted Return	4.05	17.42	17.42	7.44	8.36	N/A	8.17
Policy Index	3.65	15.58	15.58	6.27	7.73	N/A	8.17
6.2% Total Return Index	1.49	6.20	6.20	6.20	6.20	N/A	6.20

Returns are calculated gross of management fees using trade date positions and including accrued income.
Returns for greater than one year are annualized.

Micronesia Conservation Trust Total Relationship

Report Period: 12-31-17
Fiscal Year Ends: December

Comparative Returns for Last 10 Years : Gross of Fees



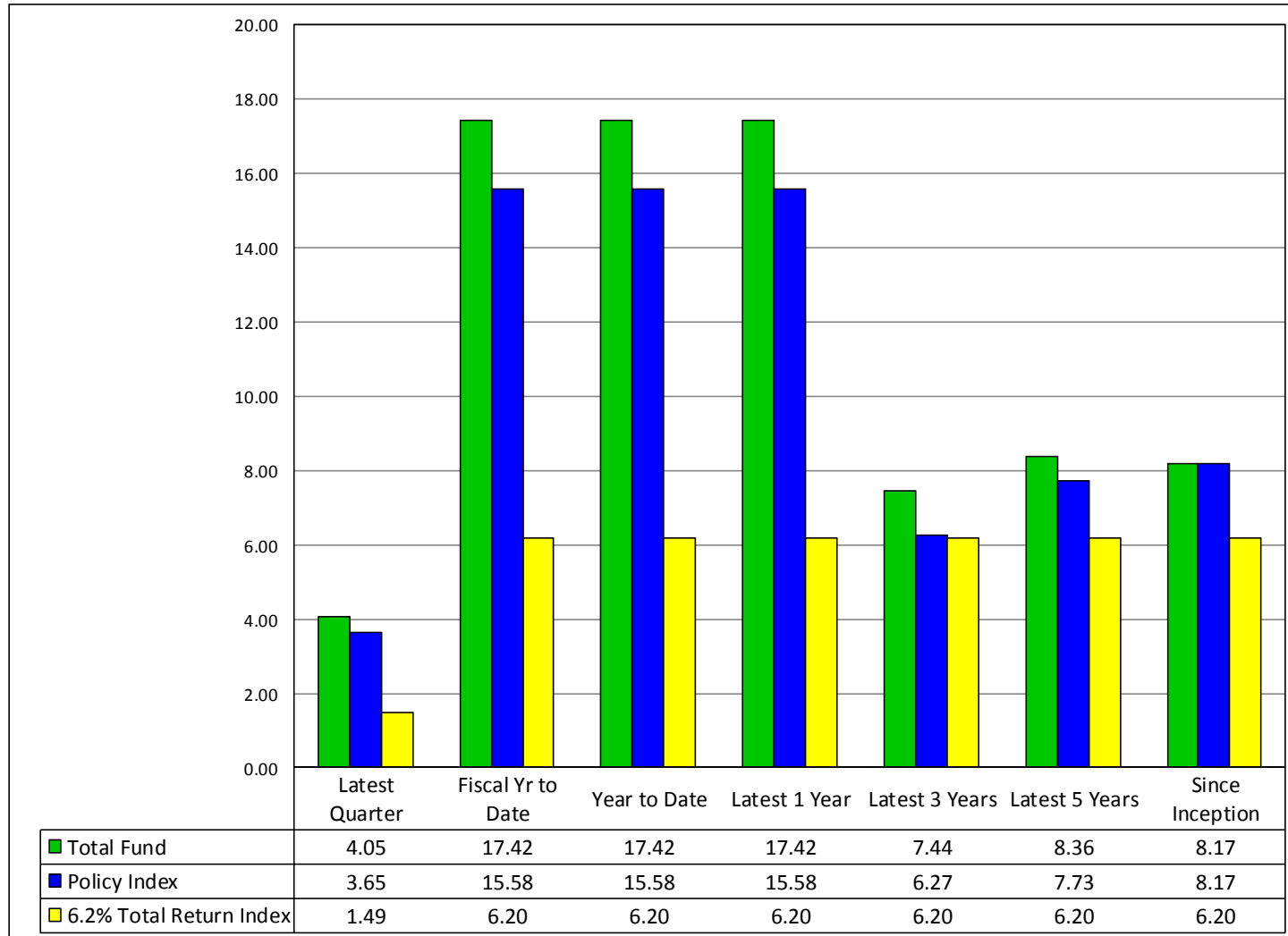
Returns are calculated using trade date positions and including accrued income. Returns for greater than one year are annualized.

Micronesia Conservation Trust Total Relationship

Report Period: 12-31-08 to 12-31-17

Fiscal Year Ends: December

Comparative Returns for Fiscal Periods: Total Fund : Gross of Fees

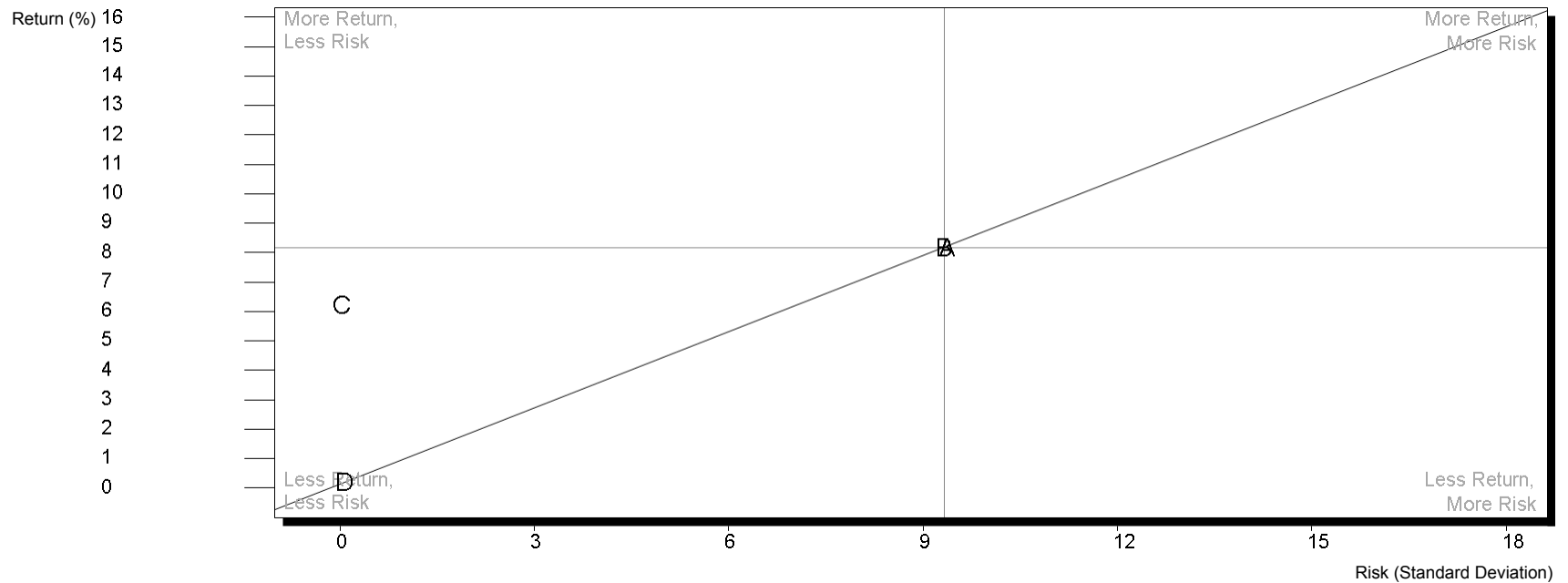


Returns are calculated using trade date positions and including accrued income. Returns for greater than one year are annualized.

Micronesia Conservation Trust Total Relationship

Report Period: 12-31-08 to 12-31-17
Fiscal Year Ends: December

Risk/Return Analysis



Description	Annual Return	Standard Deviation	Alpha	Beta	R-Squared	Sharpe Ratio	Available Data	
							Beg Date	End Date
A Total Relationship	8.17	9.39	0.15	0.98	0.98	0.85	12/31/08	12/31/17
B Policy Index	8.17	9.32	0.00	1.00	1.00	0.86	12/31/08	12/31/17
C 6.2% Total Return Index	6.20	0.03	5.84	0.00	0.11	198.25	12/31/08	12/31/17
D Citi 3 Month T-Bill	0.18	0.08	0.00	0.00	0.00	0.00	12/31/08	12/31/17

Returns are calculated gross of management fees using trade date positions and including accrued income. Returns for greater than one year are annualized.
The independent variable is the Policy Index

Micronesia Conservation Trust Aristotle Capital Management

Report Period: 10-31-14 to 12-31-17
Fiscal Year Ends: December

Account Activity Summary

	Latest Quarter	Fiscal Yr to Date	Latest 1 Year	Latest 3 Years	Latest 5 Years	Latest 10 Years	From 10-31-14
Beginning Mkt Value	2,679,358	2,584,649	2,584,649	2,660,647	N/A	N/A	2,402,187
Contributions	0	0	0	0	N/A	N/A	214,756
Withdrawals	415	267,754	267,754	780,189	N/A	N/A	780,189
Management Fees	5,778	22,363	22,363	47,709	N/A	N/A	47,709
Net Flows	-6,193	-290,117	-290,117	-827,897	N/A	N/A	-613,141
Interest/Dividend Income	12,854	45,610	45,610	136,516	N/A	N/A	141,159
Gains/Losses	162,841	508,719	508,719	879,595	N/A	N/A	918,656
Total Earnings	175,696	554,329	554,329	1,016,111	N/A	N/A	1,059,815
As of 12-31-17							
Ending Mkt Value	2,848,861	2,848,861	2,848,861	2,848,861	N/A	N/A	2,848,861
Time-Weighted Return	6.56	23.52	23.52	14.73	N/A	N/A	14.49
Russell 1000 Value	5.33	13.66	13.66	8.65	N/A	N/A	9.08

Returns are calculated gross of management fees using trade date positions and including accrued income.
Returns for greater than one year are annualized.

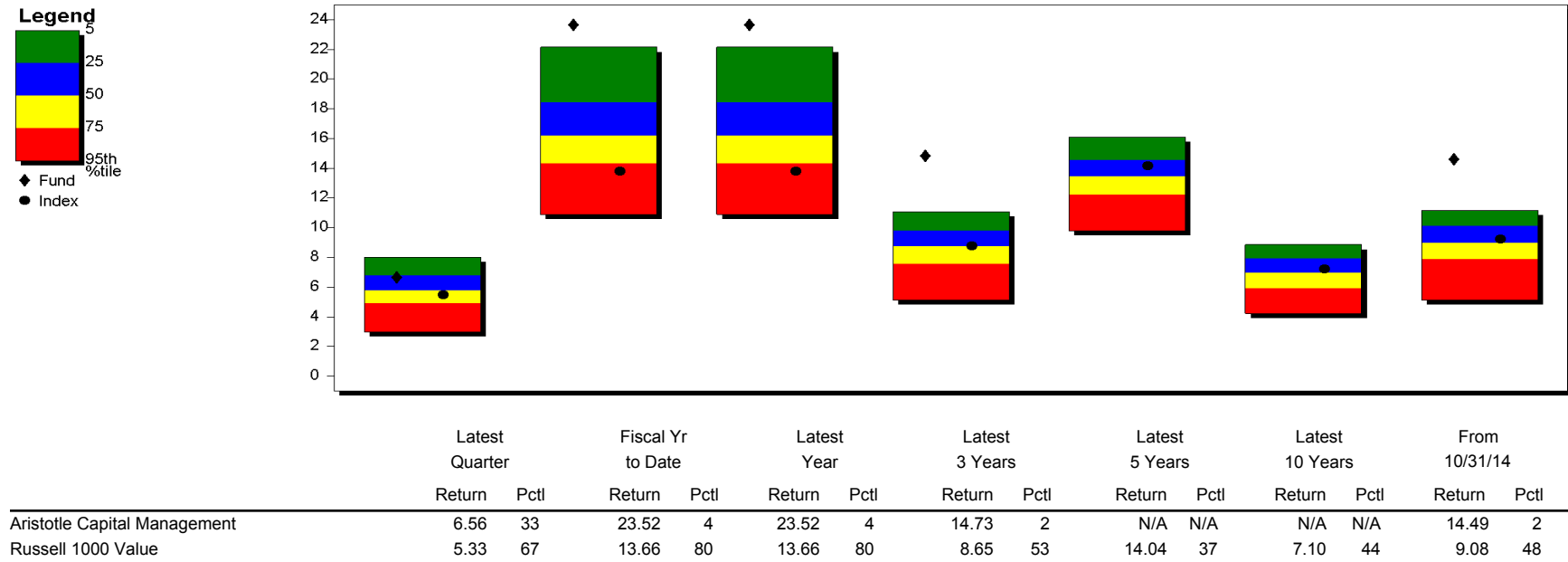
Micronesia Conservation Trust

Aristotle Capital Management

Report Period: 10-31-14 to 12-31-17
 Fiscal Year Ends: December

Universe Comparison for Fiscal Periods

Universe Composition: 100% Equity

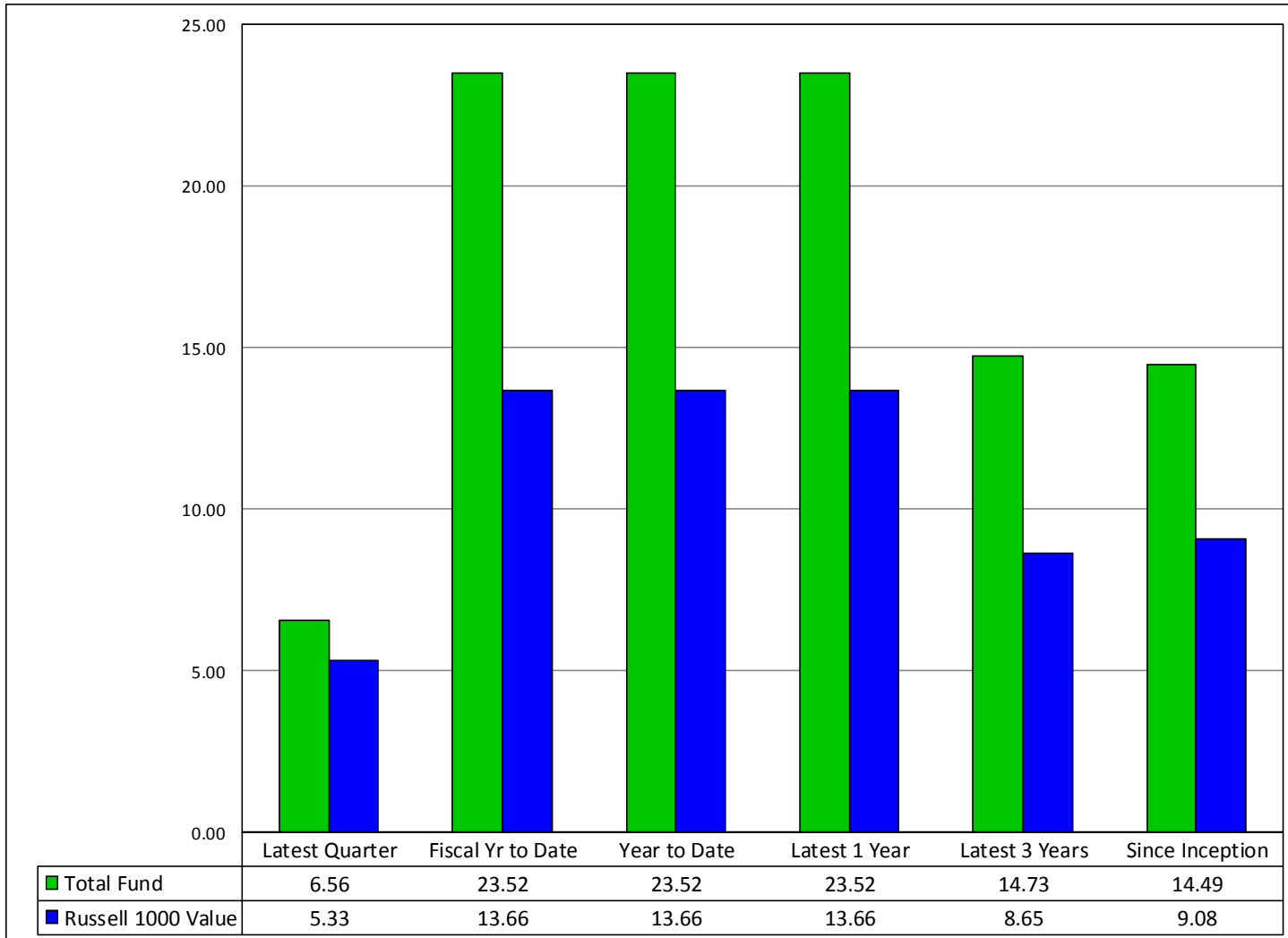


Returns are calculated gross of management fees using trade date positions and including accrued income. Returns for greater than one year are annualized.
 Universe calculations are based on manager returns provided by Morningstar.
 The universe components are Large Value.
 From 10/31/2014 to 12/31/2017 the number of equity funds ranged from 700 to 837.

**Micronesia Conservation Trust
Aristotle Capital Management**

Report Period: 10-31-14 to 12-31-17
Fiscal Year Ends: December

Comparative Returns for Fiscal Periods: Total Fund : Gross of Fees

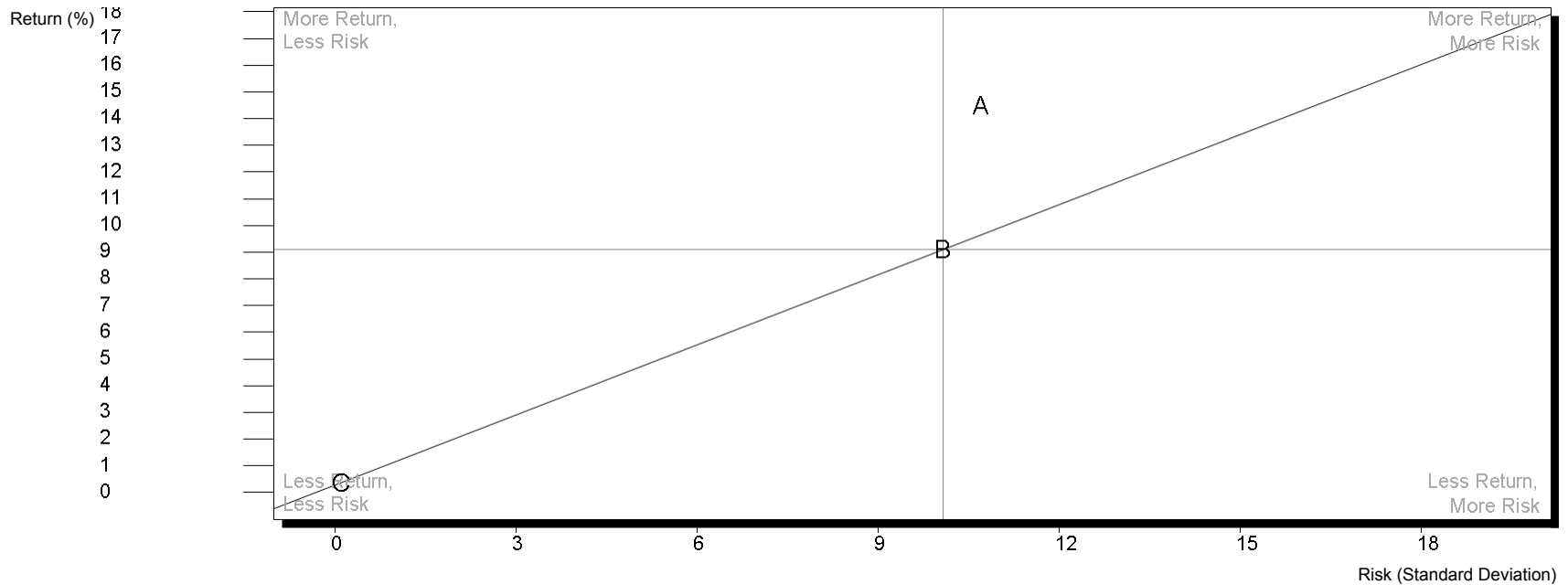


Returns are calculated using trade date positions and including accrued income. Returns for greater than one year are annualized.

Micronesia Conservation Trust Aristotle Capital Management

Report Period: 10-31-14 to 12-31-17
Fiscal Year Ends: December

Risk/Return Analysis



Description	Annual Return	Standard Deviation	Alpha	Beta	R-Squared	Sharpe Ratio	Available Data	
							Beg Date	End Date
A Aristotle Capital Management	14.49	10.72	4.89	1.01	0.95	1.32	10/31/14	12/31/17
B Russell 1000 Value	9.08	10.08	0.00	1.00	1.00	0.86	10/31/14	12/31/17
C Citi 3 Month T-Bill	0.36	0.11	0.00	0.00	0.00	0.00	10/31/14	12/31/17

Returns are calculated gross of management fees using trade date positions and including accrued income. Returns for greater than one year are annualized. The independent variable is the Russell 1000 Value

Micronesia Conservation Trust Winslow Capital

Report Period: 01-31-11 to 12-31-17

Fiscal Year Ends: December

Account Activity Summary

	Latest Quarter	Fiscal Yr to Date	Latest 1 Year	Latest 3 Years	Latest 5 Years	Latest 10 Years	From 01-31-11
Beginning Mkt Value	2,841,167	2,274,402	2,274,402	2,670,099	1,599,271	N/A	823,667
Contributions	0	0	0	10	246,549	N/A	972,721
Withdrawals	0	1,402	1,402	471,237	507,789	N/A	633,106
Management Fees	6,122	19,185	19,185	43,723	43,723	N/A	43,723
Net Flows	-6,122	-20,587	-20,587	-514,949	-304,962	N/A	295,893
Interest/Dividend Income	5,470	22,909	22,909	60,150	93,827	N/A	117,215
Gains/Losses	163,390	727,180	727,180	788,605	1,615,769	N/A	1,767,130
Total Earnings	168,860	750,089	750,089	848,755	1,709,596	N/A	1,884,345
As of 12-31-17							
Ending Mkt Value	3,003,905	3,003,905	3,003,905	3,003,905	3,003,905	N/A	3,003,905
Time-Weighted Return	5.95	33.10	33.10	11.76	16.09	N/A	12.96
Russell 1000 Growth	7.86	30.21	30.21	13.79	17.33	N/A	14.59

Returns are calculated gross of management fees using trade date positions and including accrued income.
Returns for greater than one year are annualized.

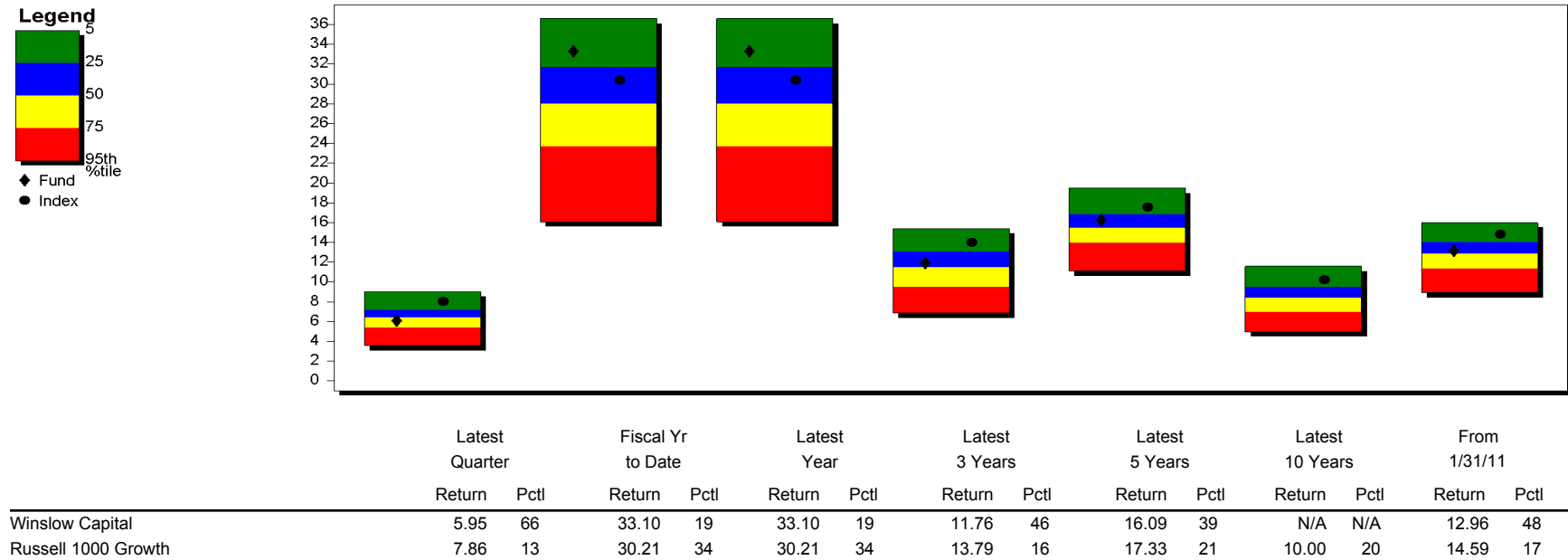
Micronesia Conservation Trust

Winslow Capital

Report Period: 01-31-11 to 12-31-17
 Fiscal Year Ends: December

Universe Comparison for Fiscal Periods

Universe Composition: 100% Equity

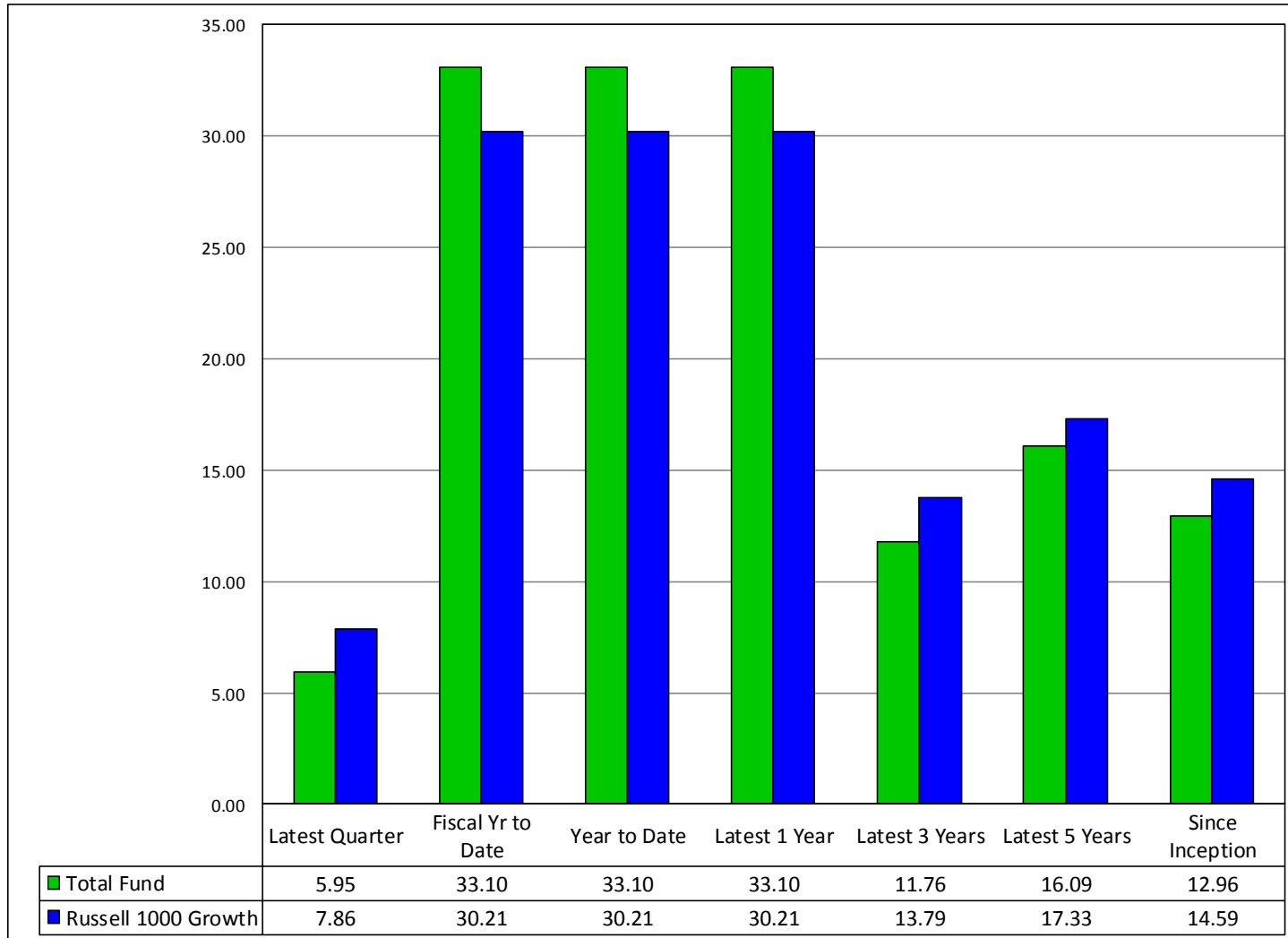


Returns are calculated gross of management fees using trade date positions and including accrued income. Returns for greater than one year are annualized.
 Universe calculations are based on manager returns provided by Morningstar.
 The universe components are Large Growth.
 From 1/31/2011 to 12/31/2017 the number of equity funds ranged from 810 to 1502.

Micronesia Conservation Trust Winslow Capital

Report Period: 01-31-11 to 12-31-17
Fiscal Year Ends: December

Comparative Returns for Fiscal Periods: Total Fund : Gross of Fees

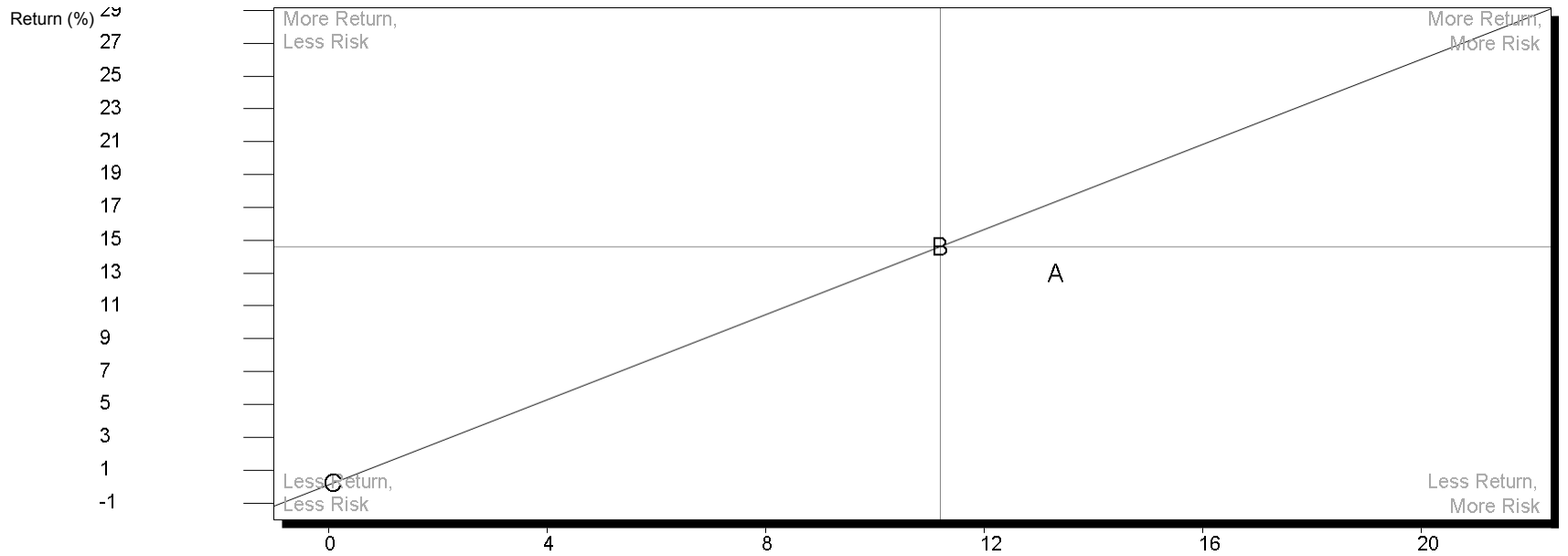


Returns are calculated using trade date positions and including accrued income. Returns for greater than one year are annualized.

Micronesia Conservation Trust Winslow Capital

Report Period: 01-31-11 to 12-31-17
Fiscal Year Ends: December

Risk/Return Analysis



Description	Annual Return	Standard Deviation	Alpha	Beta	R-Squared	Sharpe Ratio	Available Data	
							Beg Date	End Date
A Winslow Capital	12.96	13.32	-3.28	1.15	0.97	0.96	01/31/11	12/31/17
B Russell 1000 Growth	14.59	11.19	0.00	1.00	1.00	1.29	01/31/11	12/31/17
C Citi 3 Month T-Bill	0.20	0.09	0.00	0.00	0.00	0.00	01/31/11	12/31/17

Returns are calculated gross of management fees using trade date positions and including accrued income. Returns for greater than one year are annualized.
The independent variable is the Russell 1000 Growth

Micronesia Conservation Trust Boston Partners

Report Period: 01-31-11 to 12-31-17

Fiscal Year Ends: December

Account Activity Summary

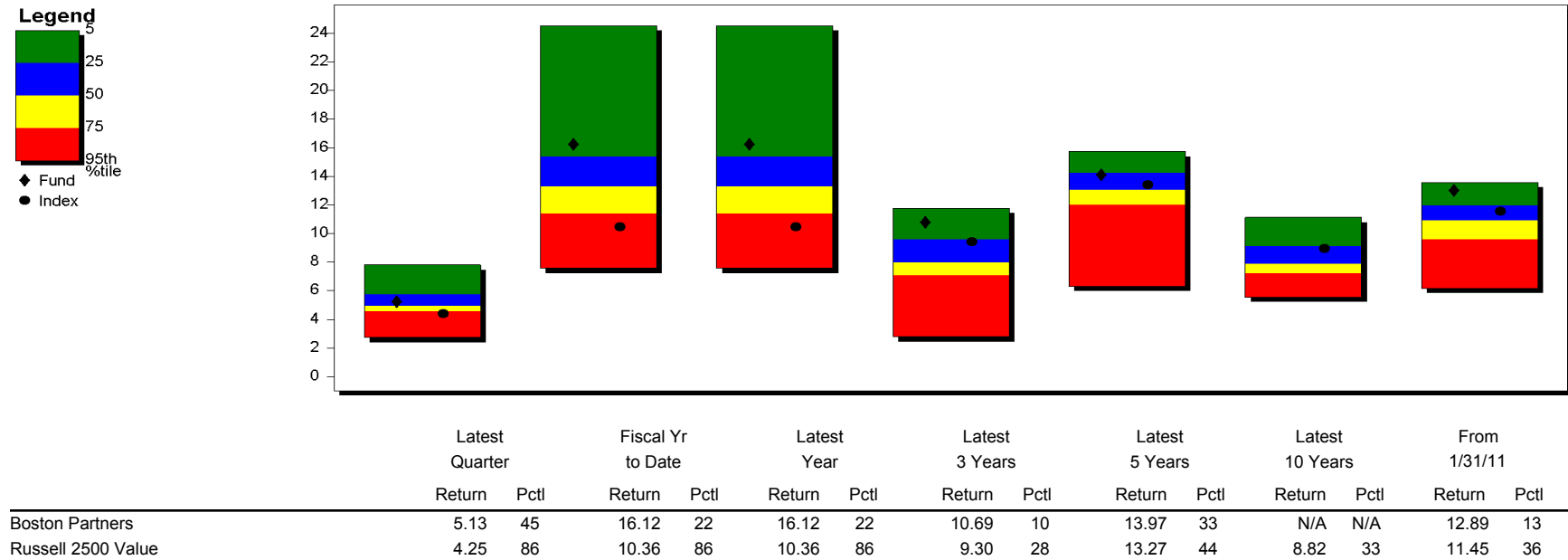
	Latest Quarter	Fiscal Yr to Date	Latest 1 Year	Latest 3 Years	Latest 5 Years	Latest 10 Years	From 01-31-11
Beginning Mkt Value	2,235,450	2,037,258	2,037,258	1,779,372	1,190,004	N/A	823,737
Contributions	0	0	0	930	107,971	N/A	326,130
Withdrawals	58	193	193	13,022	38,974	N/A	100,257
Management Fees	4,840	18,544	18,544	38,054	38,054	N/A	38,054
Net Flows	-4,898	-18,738	-18,738	-50,146	30,943	N/A	187,819
Interest/Dividend Income	8,381	31,694	31,694	105,751	169,847	N/A	210,867
Gains/Losses	106,178	294,896	294,896	510,134	954,317	N/A	1,122,688
Total Earnings	114,559	326,590	326,590	615,884	1,124,163	N/A	1,333,554
As of 12-31-17							
Ending Mkt Value	2,345,110	2,345,110	2,345,110	2,345,110	2,345,110	N/A	2,345,110
Time-Weighted Return	5.13	16.12	16.12	10.69	13.97	N/A	12.89
Russell 2500 Value	4.25	10.36	10.36	9.30	13.27	N/A	11.45

Returns are calculated gross of management fees using trade date positions and including accrued income.
Returns for greater than one year are annualized.

Micronesia Conservation Trust Boston Partners

Report Period: 01-31-11 to 12-31-17
Fiscal Year Ends: December

Universe Comparison for Fiscal Periods Universe Composition: 100% Equity

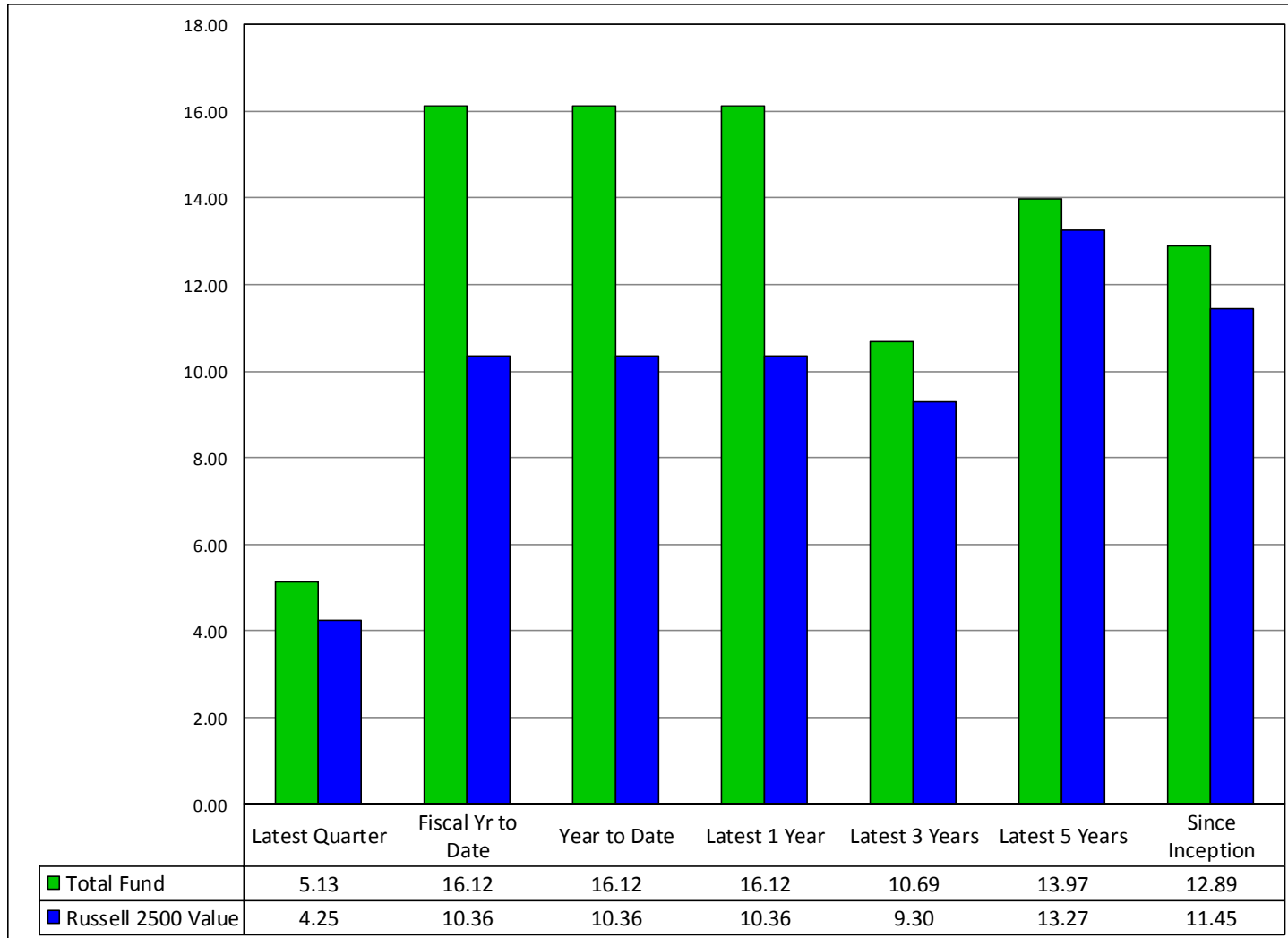


Returns are calculated gross of management fees using trade date positions and including accrued income. Returns for greater than one year are annualized.
Universe calculations are based on manager returns provided by Morningstar.
The universe components are Mid-Cap Value.
From 1/31/2011 to 12/31/2017 the number of equity funds ranged from 225 to 381.

Micronesia Conservation Trust Boston Partners

Report Period: 01-31-11 to 12-31-17
Fiscal Year Ends: December

Comparative Returns for Fiscal Periods: Total Fund : Gross of Fees

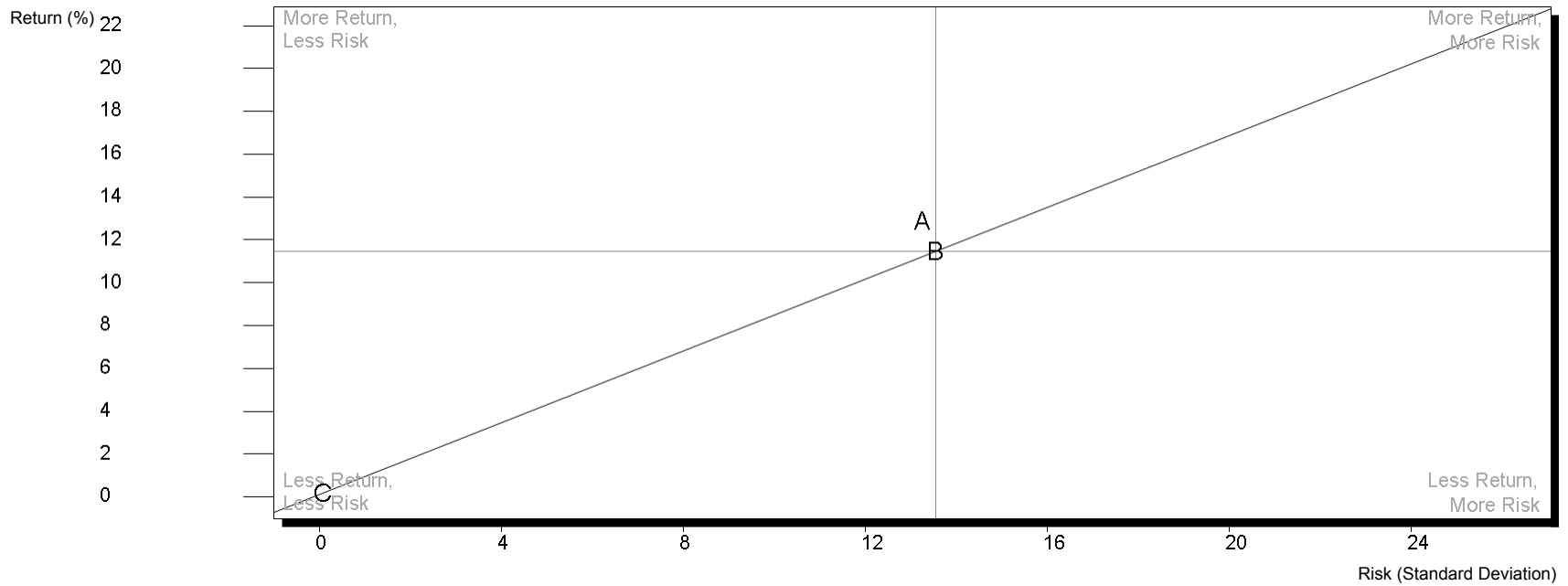


Returns are calculated using trade date positions and including accrued income. Returns for greater than one year are annualized.

Micronesia Conservation Trust Boston Partners

Report Period: 01-31-11 to 12-31-17
Fiscal Year Ends: December

Risk/Return Analysis



Description	Annual Return	Standard Deviation	Alpha	Beta	R-Squared	Sharpe Ratio	Available Data	
							Beg Date	End Date
A Boston Partners	12.89	13.27	1.85	0.95	0.97	0.96	01/31/11	12/31/17
B Russell 2500 Value	11.45	13.54	0.00	1.00	1.00	0.83	01/31/11	12/31/17
C Citi 3 Month T-Bill	0.20	0.09	0.00	0.00	0.00	0.00	01/31/11	12/31/17

Returns are calculated gross of management fees using trade date positions and including accrued income. Returns for greater than one year are annualized. The independent variable is the Russell 2500 Value

Micronesia Conservation Trust Lazard International

Report Period: 05-31-13 to 12-31-17

Fiscal Year Ends: December

Account Activity Summary

	Latest Quarter	Fiscal Yr to Date	Latest 1 Year	Latest 3 Years	Latest 5 Years	Latest 10 Years	From 05-31-13
Beginning Mkt Value	3,189,140	2,666,795	2,666,795	2,541,014	N/A	N/A	1,673,540
Contributions	0	0	0	110,856	N/A	N/A	835,011
Withdrawals	2,316	11,304	11,304	36,524	N/A	N/A	62,103
Management Fees	6,905	25,365	25,365	54,822	N/A	N/A	54,822
Net Flows	-9,221	-36,670	-36,670	19,510	N/A	N/A	718,086
Interest/Dividend Income	16,553	71,613	71,613	202,802	N/A	N/A	280,548
Gains/Losses	140,304	635,037	635,037	573,450	N/A	N/A	664,602
Total Earnings	156,857	706,651	706,651	776,253	N/A	N/A	945,151
As of 12-31-17							
Ending Mkt Value	3,336,776	3,336,776	3,336,776	3,336,776	N/A	N/A	3,336,776
Time-Weighted Return	4.93	26.67	26.67	9.27	N/A	N/A	8.03
MSCI EAFE	4.23	25.03	25.03	7.80	N/A	N/A	6.85

Returns are calculated gross of management fees using trade date positions and including accrued income.
Returns for greater than one year are annualized.

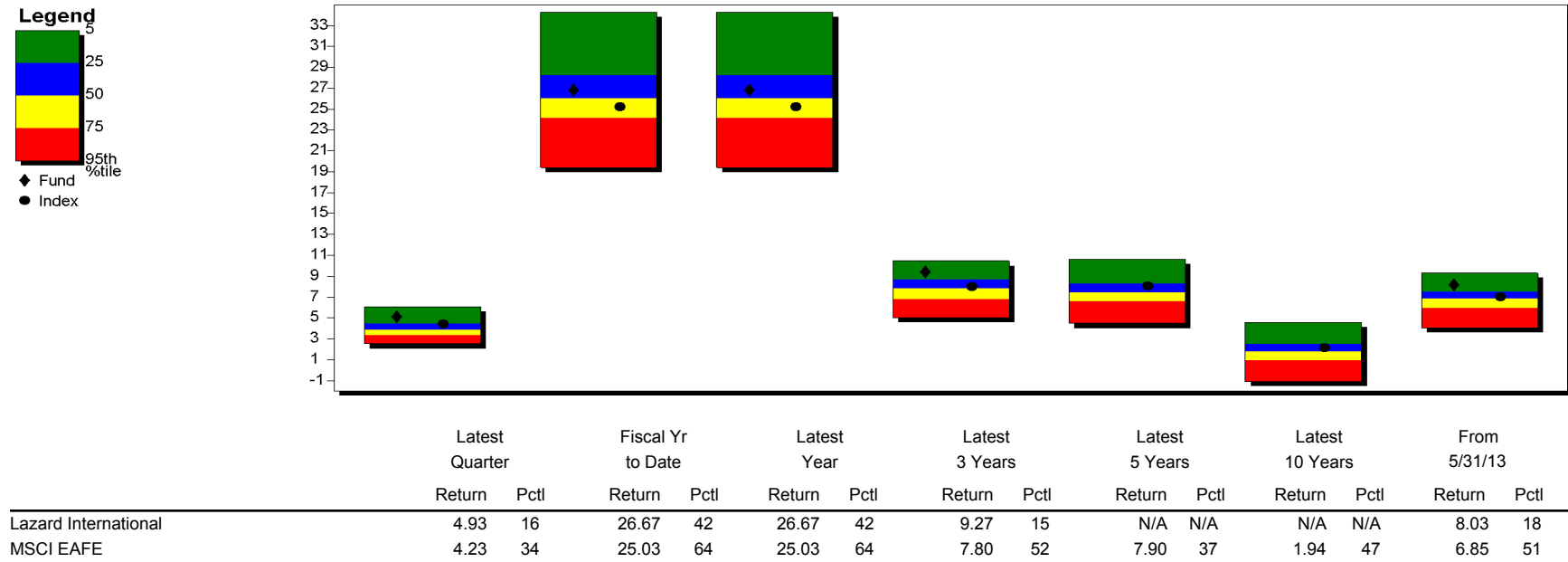
Micronesia Conservation Trust

Lazard International

Report Period: 05-31-13 to 12-31-17
 Fiscal Year Ends: December

Universe Comparison for Fiscal Periods

Universe Composition: 100% Equity

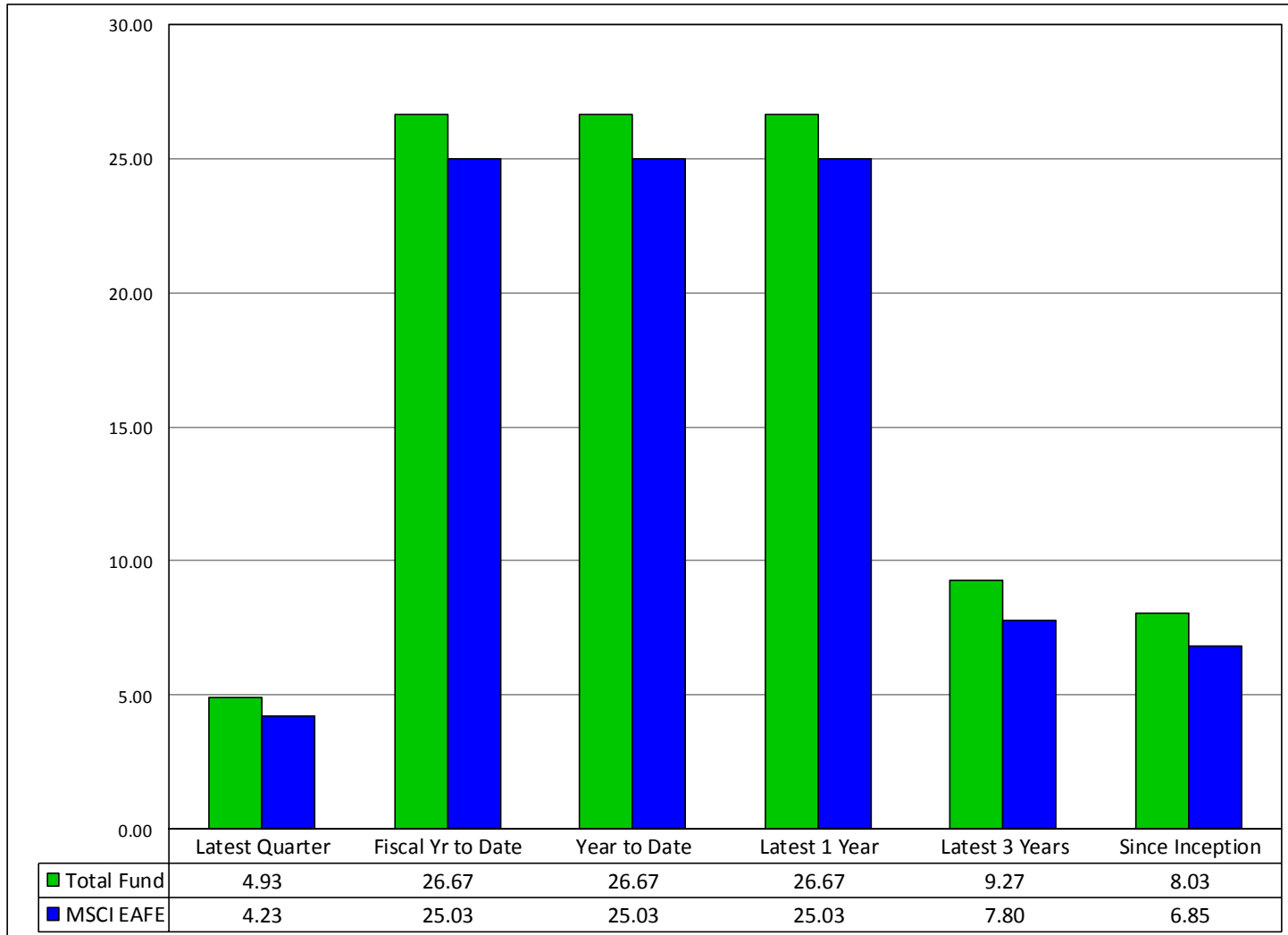


Returns are calculated gross of management fees using trade date positions and including accrued income. Returns for greater than one year are annualized.
 Universe calculations are based on manager returns provided by Morningstar.
 The universe components are Foreign Large Blend.
 From 5/31/2013 to 12/31/2017 the number of equity funds ranged from 429 to 557.

**Micronesia Conservation Trust
Lazard International**

Report Period: 05-31-13 to 12-31-17
Fiscal Year Ends: December

Comparative Returns for Fiscal Periods: Total Fund : Gross of Fees

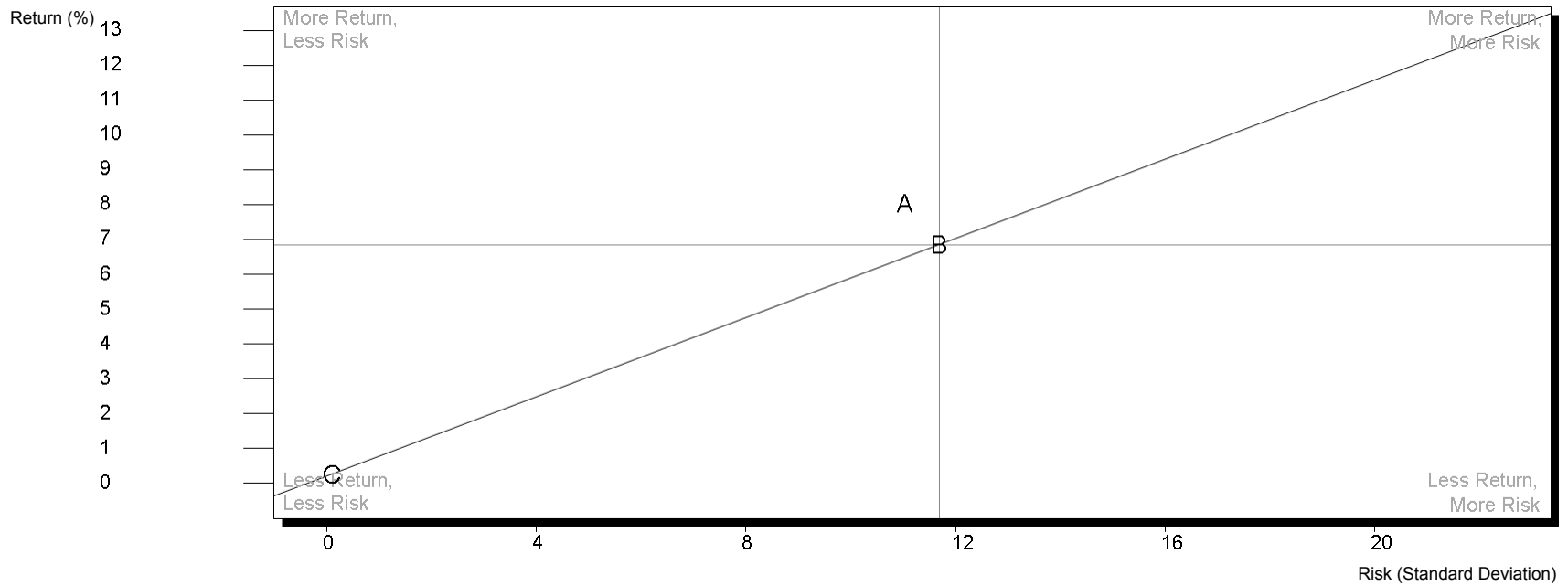


Returns are calculated using trade date positions and including accrued income. Returns for greater than one year are annualized.

Micronesia Conservation Trust Lazard International

Report Period: 05-31-13 to 12-31-17
Fiscal Year Ends: December

Risk/Return Analysis



Description	Annual Return	Standard Deviation	Alpha	Beta	R-Squared	Sharpe Ratio	Available Data	
							Beg Date	End Date
A Lazard International	8.03	11.04	1.80	0.89	0.94	0.70	05/31/13	12/31/17
B MSCI EAFE	6.85	11.68	0.00	1.00	1.00	0.56	05/31/13	12/31/17
C Citi 3 Month T-Bill	0.26	0.10	0.00	0.00	0.00	0.00	05/31/13	12/31/17

Returns are calculated gross of management fees using trade date positions and including accrued income. Returns for greater than one year are annualized. The independent variable is the MSCI EAFE

Micronesia Conservation Trust

Lazard Emerging Markets

Report Period: 01-31-11 to 12-31-17

Fiscal Year Ends: December

Account Activity Summary

	Latest Quarter	Fiscal Yr to Date	Latest 1 Year	Latest 3 Years	Latest 5 Years	Latest 10 Years	From 01-31-11
Beginning Mkt Value	2,221,134	1,829,430	1,829,430	1,640,732	1,153,528	N/A	823,667
Contributions	0	0	0	212,030	732,113	N/A	1,008,759
Withdrawals	1,528	13,386	13,386	27,938	48,880	N/A	108,169
Management Fees	4,809	17,558	17,558	35,433	35,433	N/A	35,433
Net Flows	-6,337	-30,944	-30,944	148,659	647,800	N/A	865,157
Interest/Dividend Income	13,852	65,031	65,031	176,145	265,478	N/A	331,771
Gains/Losses	178,199	543,330	543,330	441,310	340,040	N/A	386,251
Total Earnings	192,051	608,361	608,361	617,456	605,519	N/A	718,023
As of 12-31-17							
Ending Mkt Value	2,406,847	2,406,847	2,406,847	2,406,847	2,406,847	N/A	2,406,847
Time-Weighted Return	8.67	33.54	33.54	10.14	5.61	N/A	5.15
MSCI Emerging Markets	7.44	37.28	37.28	9.10	4.35	N/A	3.00

Returns are calculated gross of management fees using trade date positions and including accrued income.
Returns for greater than one year are annualized.

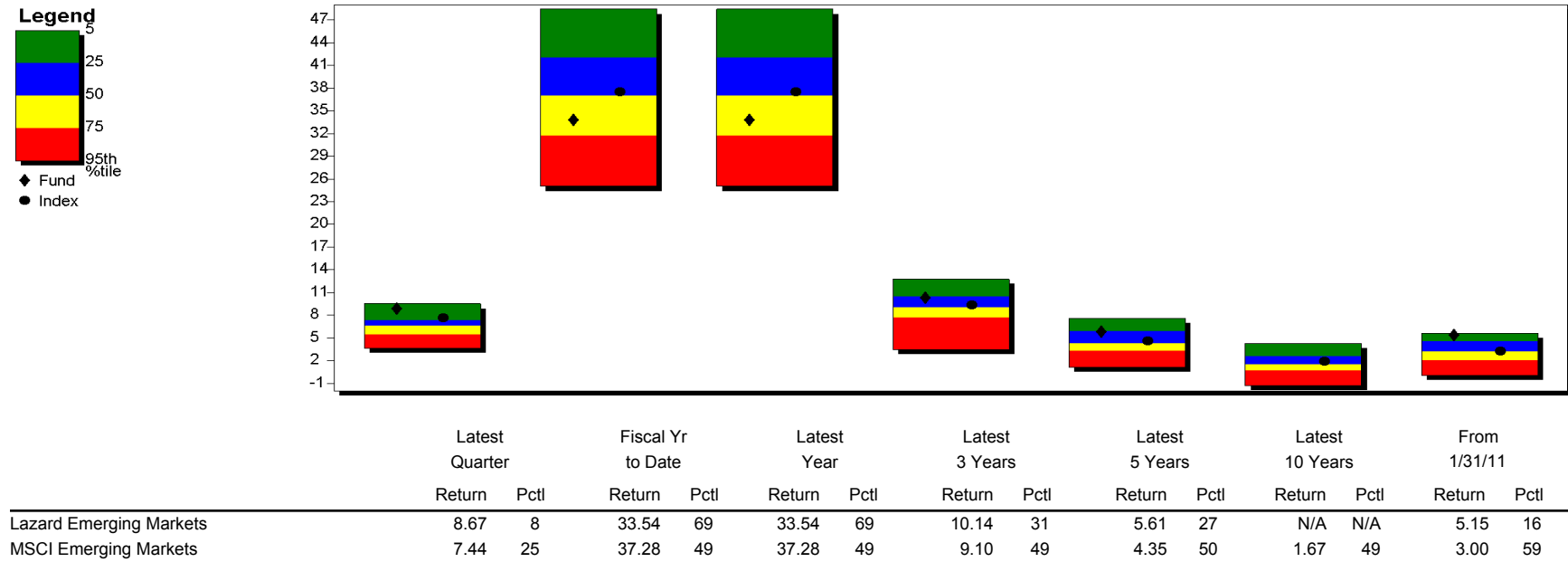
Micronesia Conservation Trust

Lazard Emerging Markets

Report Period: 01-31-11 to 12-31-17
 Fiscal Year Ends: December

Universe Comparison for Fiscal Periods

Universe Composition: 100% Equity

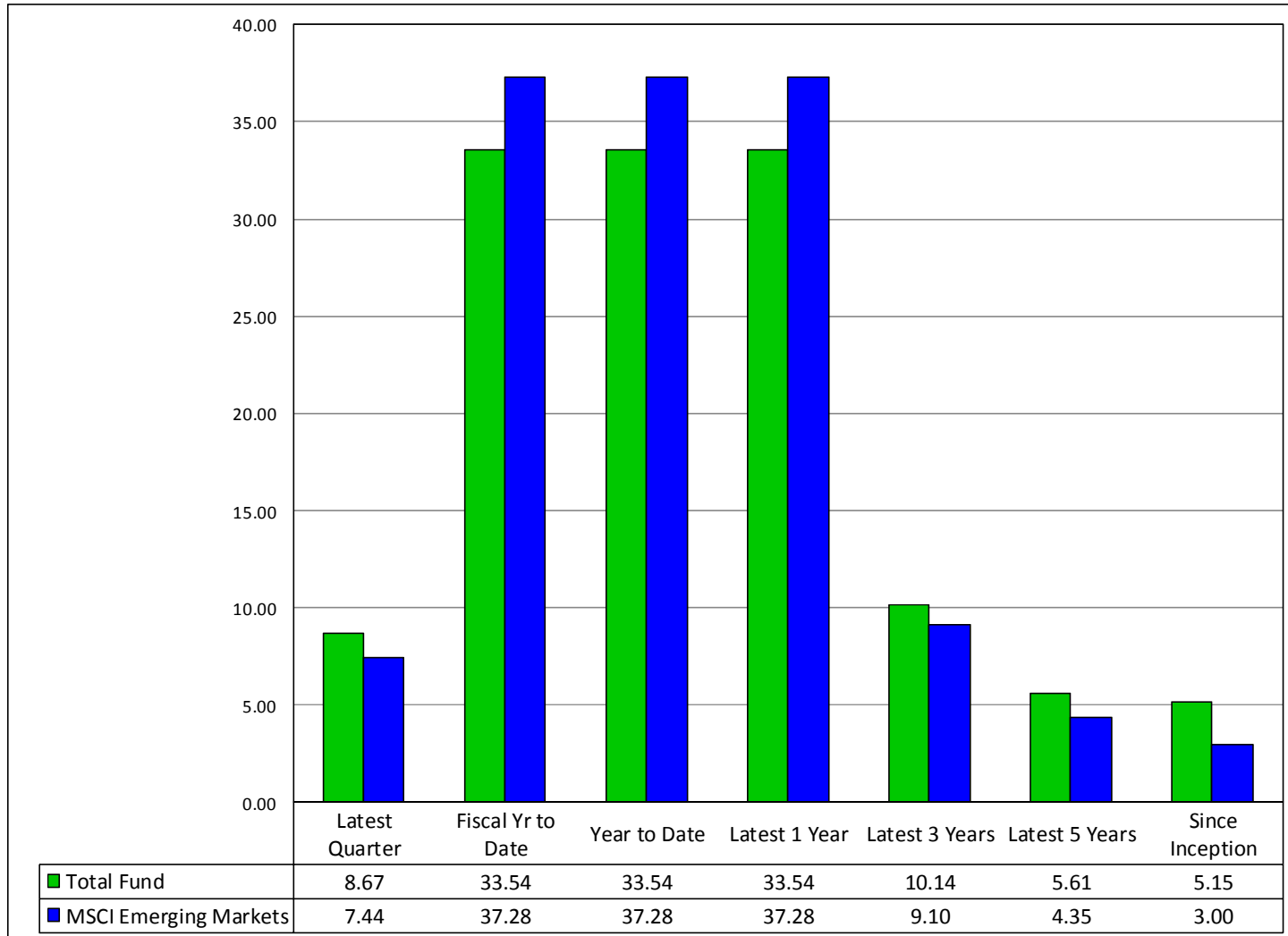


Returns are calculated gross of management fees using trade date positions and including accrued income. Returns for greater than one year are annualized.
 Universe calculations are based on manager returns provided by Morningstar.
 The universe components are Diversified Emerging Mkts.
 From 1/31/2011 to 12/31/2017 the number of equity funds ranged from 190 to 319.

Micronesia Conservation Trust Lazard Emerging Markets

Report Period: 01-31-11 to 12-31-17
Fiscal Year Ends: December

Comparative Returns for Fiscal Periods: Total Fund : Gross of Fees

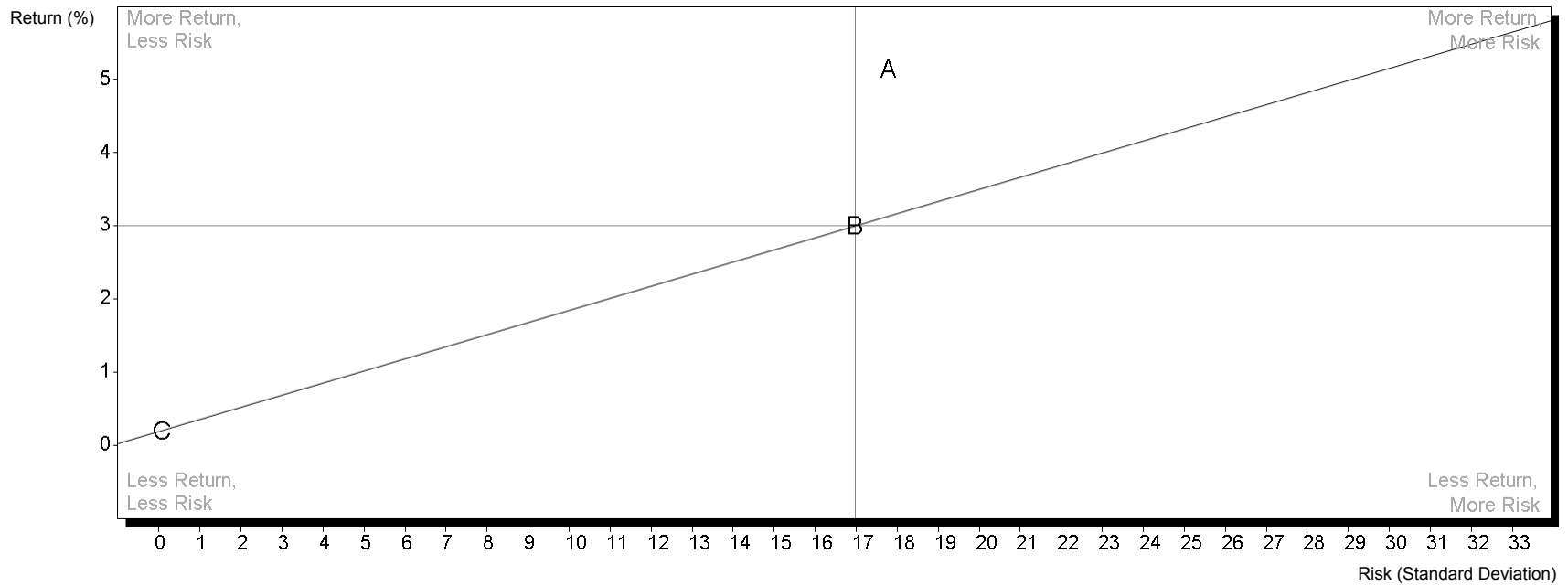


Returns are calculated using trade date positions and including accrued income. Returns for greater than one year are annualized.

Micronesia Conservation Trust Lazard Emerging Markets

Report Period: 01-31-11 to 12-31-17
Fiscal Year Ends: December

Risk/Return Analysis



Description	Annual Return	Standard Deviation	Alpha	Beta	R-Squared	Sharpe Ratio	Available Data	
							Beg Date	End Date
A Lazard Emerging Markets	5.15	17.80	2.28	0.98	0.94	0.28	01/31/11	12/31/17
B MSCI Emerging Markets	3.00	16.98	0.00	1.00	1.00	0.16	01/31/11	12/31/17
C Citi 3 Month T-Bill	0.20	0.09	0.00	0.00	0.00	0.00	01/31/11	12/31/17

Returns are calculated gross of management fees using trade date positions and including accrued income. Returns for greater than one year are annualized. The independent variable is the MSCI Emerging Markets

Micronesia Conservation Trust Garcia Hamilton

Report Period: 12-31-12 to 12-31-17
Fiscal Year Ends: December

Account Activity Summary

	Latest Quarter	Fiscal Yr to Date	Latest 1 Year	Latest 3 Years	Latest 5 Years	Latest 10 Years	From 12-31-12
Beginning Mkt Value	3,870,128	3,671,479	3,671,479	4,525,499	2,809,620	N/A	2,809,620
Contributions	97,750	374,841	374,841	531,570	1,986,259	N/A	1,986,259
Withdrawals	0	169,368	169,368	1,302,017	1,328,564	N/A	1,328,564
Management Fees	5,928	23,305	23,305	53,406	53,406	N/A	53,406
Net Flows	91,822	182,168	182,168	-823,853	604,289	N/A	604,289
Interest/Dividend Income	16,283	93,658	93,658	298,512	546,266	N/A	546,266
Gains/Losses	15,473	46,401	46,401	-6,452	33,531	N/A	33,531
Total Earnings	31,756	140,059	140,059	292,059	579,796	N/A	579,796
As of 12-31-17							
Ending Mkt Value	3,993,706	3,993,706	3,993,706	3,993,706	3,993,706	N/A	3,993,706
Time-Weighted Return	0.80	3.73	3.73	2.49	2.91	N/A	2.91
Barclays Aggregate Bond	0.39	3.54	3.54	2.24	2.10	N/A	2.10

Returns are calculated gross of management fees using trade date positions and including accrued income.
Returns for greater than one year are annualized.

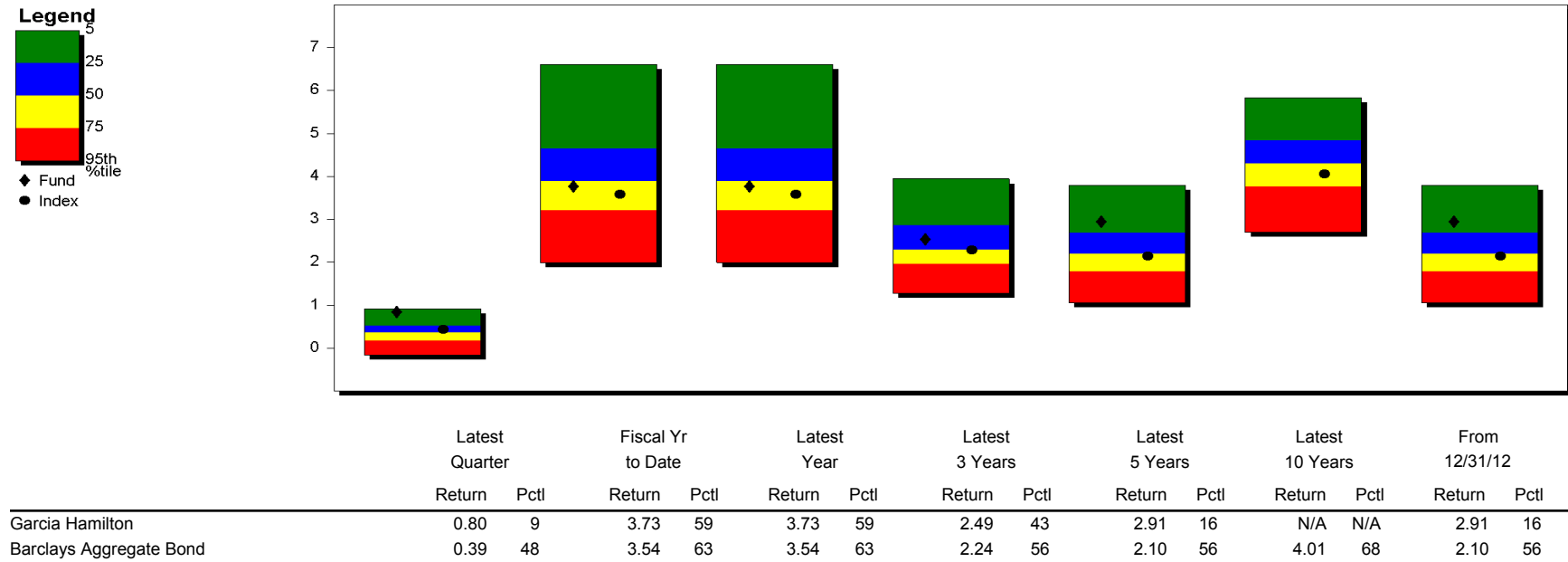
Micronesia Conservation Trust

Garcia Hamilton

Report Period: 12-31-12 to 12-31-17
 Fiscal Year Ends: December

Universe Comparison for Fiscal Periods

Universe Composition: 100% Fixed Income

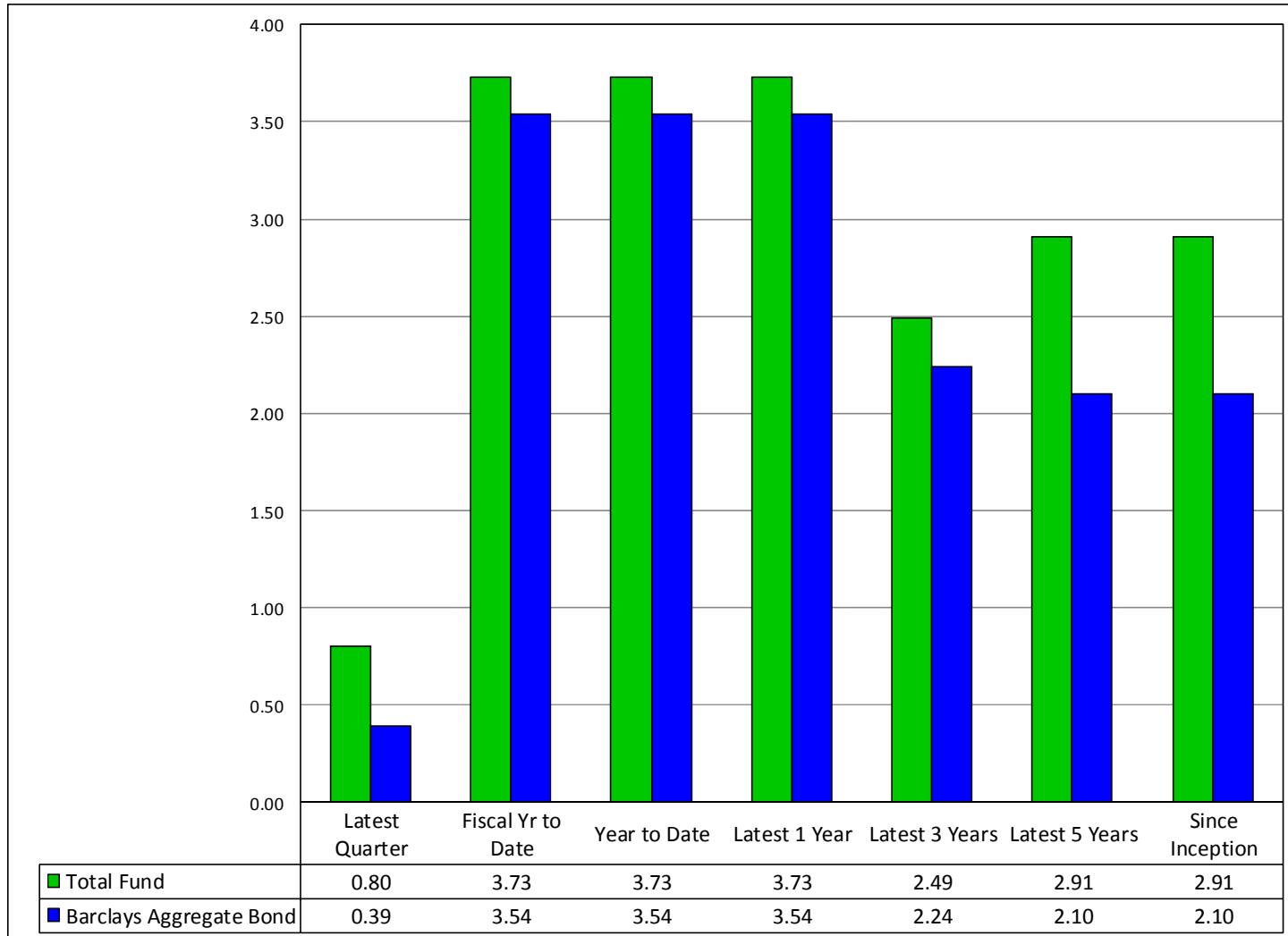


Returns are calculated gross of management fees using trade date positions and including accrued income. Returns for greater than one year are annualized.
 Universe calculations are based on manager returns provided by Morningstar.
 The universe components are Intermediate-Term Bond.
 From 12/31/2012 to 12/31/2017 the number of fixed income funds ranged from 605 to 1036 and the number of equity funds ranged from 83 to 141.

**Micronesia Conservation Trust
Garcia Hamilton**

Report Period: 12-31-12 to 12-31-17
Fiscal Year Ends: December

Comparative Returns for Fiscal Periods: Total Fund : Gross of Fees

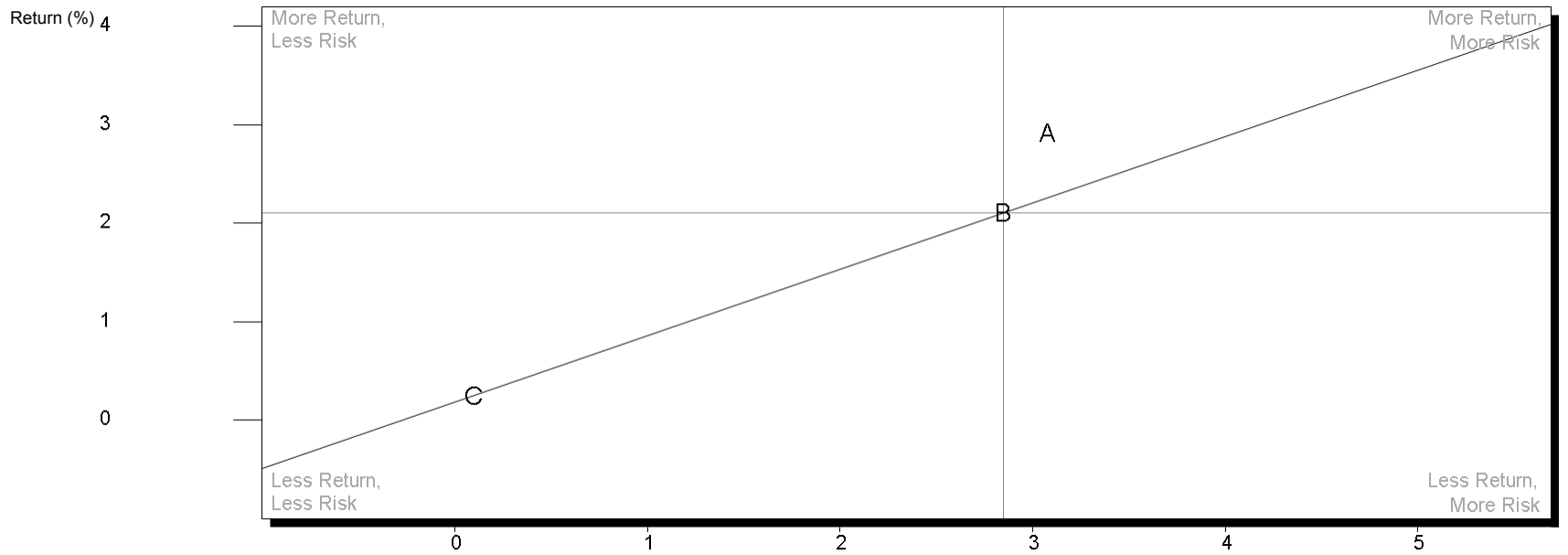


Returns are calculated using trade date positions and including accrued income. Returns for greater than one year are annualized.

Micronesia Conservation Trust Garcia Hamilton

Report Period: 12-31-12 to 12-31-17
Fiscal Year Ends: December

Risk/Return Analysis



Description	Annual Return	Standard Deviation	Alpha	Beta	R-Squared	Sharpe Ratio	Available Data	
							Beg Date	End Date
A Garcia Hamilton	2.91	3.08	0.74	1.03	0.95	0.86	12/31/12	12/31/17
B Barclays Aggregate Bond	2.10	2.85	0.00	1.00	1.00	0.65	12/31/12	12/31/17
C Citi 3 Month T-Bill	0.24	0.10	0.00	0.00	0.00	0.00	12/31/12	12/31/17

Returns are calculated gross of management fees using trade date positions and including accrued income. Returns for greater than one year are annualized.
The independent variable is the Barclays Aggregate Bond

Micronesia Conservation Trust Templeton Global Bond

Report Period: 01-31-11 to 12-31-17

Fiscal Year Ends: December

Account Activity Summary

	Latest Quarter	Fiscal Yr to Date	Latest 1 Year	Latest 3 Years	Latest 5 Years	Latest 10 Years	From 01-31-11
Beginning Mkt Value	1,910,328	1,826,330	1,826,330	1,710,482	1,193,527	N/A	823,666
Contributions	0	6,681	6,681	91,271	568,965	N/A	796,024
Withdrawals	0	0	0	4,674	13,598	N/A	20,895
Management Fees	1,729	6,918	6,918	14,921	14,921	N/A	14,921
Net Flows	-1,729	-236	-236	71,676	540,446	N/A	760,208
Interest/Dividend Income	23,458	66,304	66,304	166,802	331,817	N/A	468,254
Gains/Losses	-58,063	-18,403	-18,403	-74,965	-191,795	N/A	-178,133
Total Earnings	-34,605	47,901	47,901	91,837	140,022	N/A	290,121
As of 12-31-17							
Ending Mkt Value	1,873,995	1,873,995	1,873,995	1,873,995	1,873,995	N/A	1,873,995
Time-Weighted Return	-1.81	2.62	2.62	1.64	1.82	N/A	3.28
Citi WGBI Non-US	1.57	10.33	10.33	1.99	-0.29	N/A	0.74

Returns are calculated gross of management fees using trade date positions and including accrued income.
Returns for greater than one year are annualized.

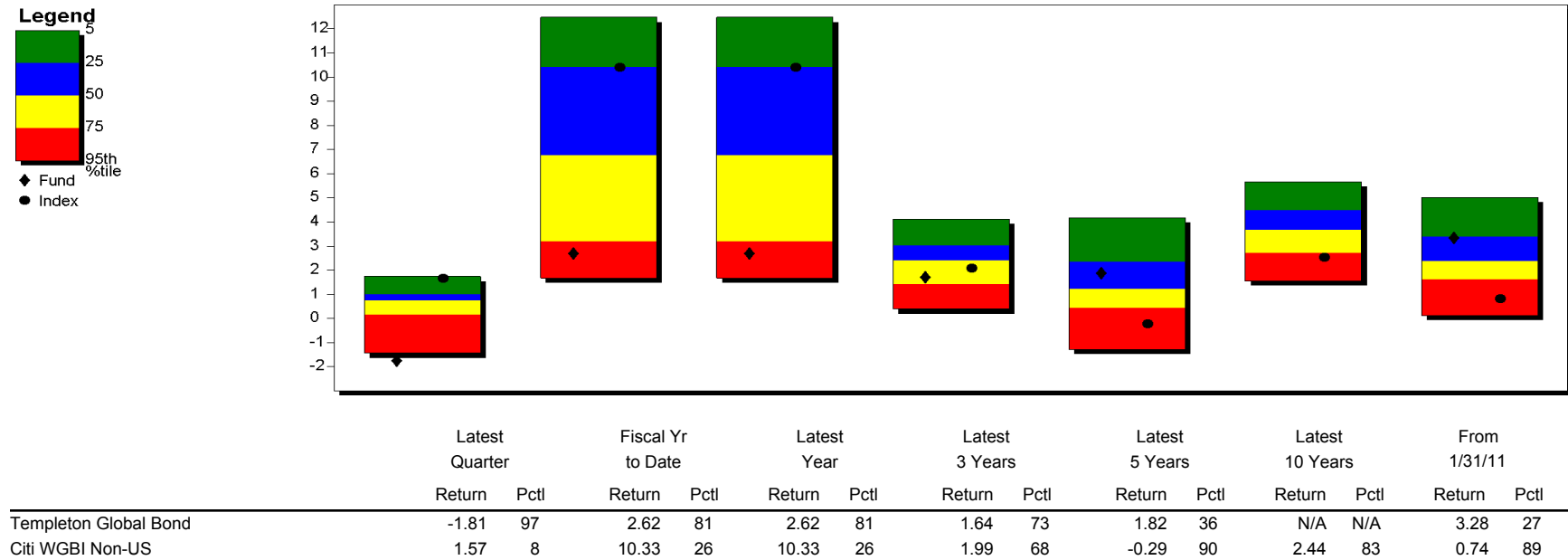
Micronesia Conservation Trust

Templeton Global Bond

Report Period: 01-31-11 to 12-31-17
 Fiscal Year Ends: December

Universe Comparison for Fiscal Periods

Universe Composition: 100% Fixed Income



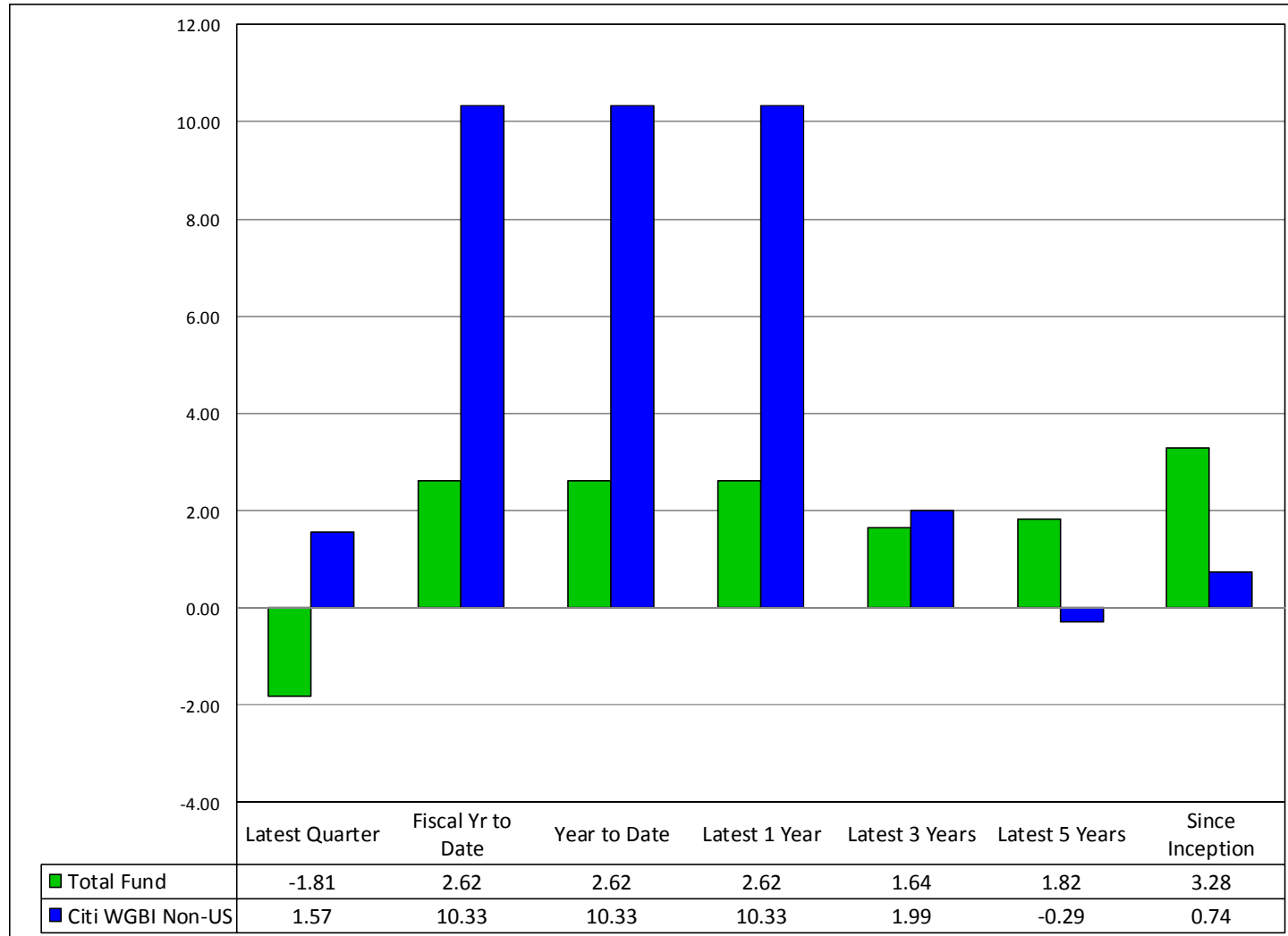
Returns are calculated gross of management fees using trade date positions and including accrued income. Returns for greater than one year are annualized.
 Universe calculations are based on manager returns provided by Morningstar.
 The universe components are World Bond.
 From 1/31/2011 to 12/31/2017 the number of fixed income funds ranged from 149 to 274 and the number of equity funds ranged from 23 to 50.

Micronesia Conservation Trust Templeton Global Bond

Report Period: 01-31-11 to 12-31-17

Fiscal Year Ends: December

Comparative Returns for Fiscal Periods: Total Fund : Gross of Fees

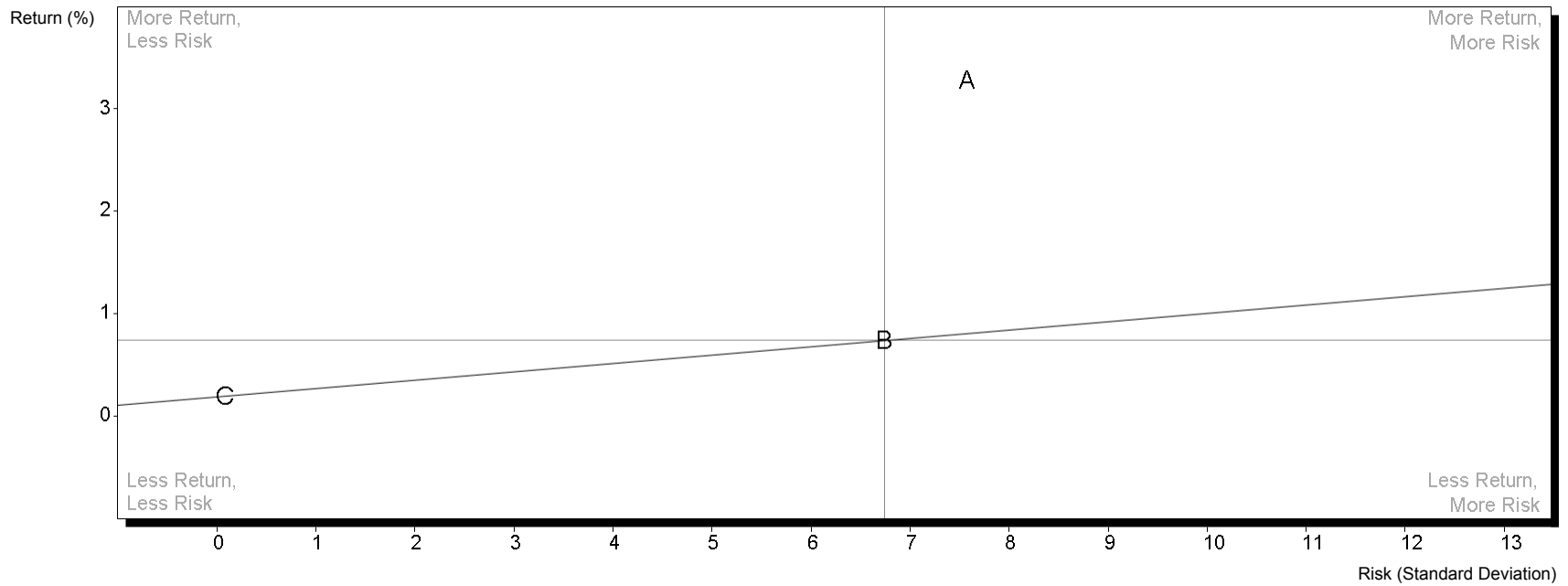


Returns are calculated using trade date positions and including accrued income. Returns for greater than one year are annualized.

Micronesia Conservation Trust Templeton Global Bond

Report Period: 01-31-11 to 12-31-17
Fiscal Year Ends: December

Risk/Return Analysis



Description	Annual Return	Standard Deviation	Alpha	Beta	R-Squared	Sharpe Ratio	Available Data	
							Beg Date	End Date
A Templeton Global Bond	3.28	7.58	3.16	0.20	0.18	0.41	01/31/11	12/31/17
B Citi WGBI Non-US	0.74	6.74	0.00	1.00	1.00	0.08	01/31/11	12/31/17
C Citi 3 Month T-Bill	0.20	0.09	0.00	0.00	0.00	0.00	01/31/11	12/31/17

Returns are calculated gross of management fees using trade date positions and including accrued income. Returns for greater than one year are annualized. The independent variable is the Citi WGBI Non-US

Micronesia Conservation Trust Miller Howard MLP

Report Period: 01-31-15 to 12-31-17

Fiscal Year Ends: December

Account Activity Summary

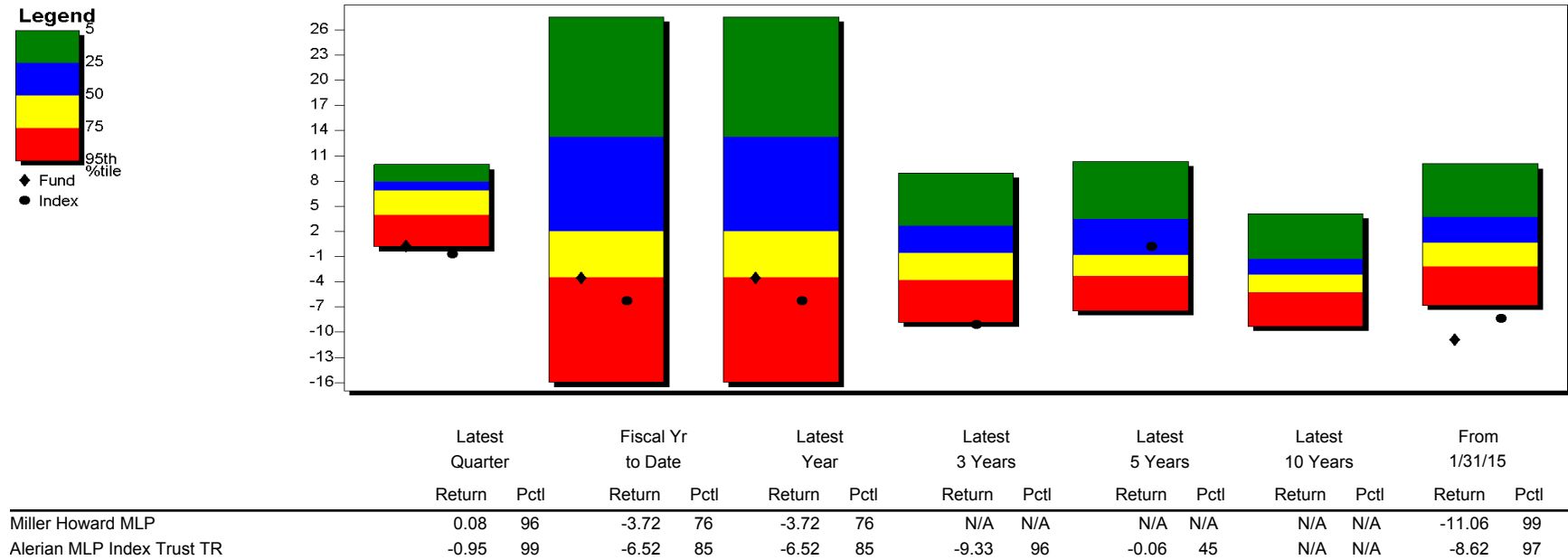
	Latest Quarter	Fiscal Yr to Date	Latest 1 Year	Latest 3 Years	Latest 5 Years	Latest 10 Years	From 01-31-15
Beginning Mkt Value	731,544	765,315	765,315	N/A	N/A	N/A	890,634
Contributions	0	23	23	N/A	N/A	N/A	98,227
Withdrawals	14	14	14	N/A	N/A	N/A	4,969
Management Fees	1,576	6,605	6,605	N/A	N/A	N/A	13,923
Net Flows	-1,590	-6,596	-6,596	N/A	N/A	N/A	79,334
Interest/Dividend Income	12,602	50,999	50,999	N/A	N/A	N/A	110,799
Gains/Losses	-12,091	-79,253	-79,253	N/A	N/A	N/A	-350,302
Total Earnings	511	-28,254	-28,254	N/A	N/A	N/A	-239,503
As of 12-31-17							
Ending Mkt Value	730,465	730,465	730,465	N/A	N/A	N/A	730,465
Time-Weighted Return	0.08	-3.72	-3.72	N/A	N/A	N/A	-11.06
Alerian MLP Index Trust TR	-0.95	-6.52	-6.52	N/A	N/A	N/A	-8.62

Returns are calculated gross of management fees using trade date positions and including accrued income.
Returns for greater than one year are annualized.

Micronesia Conservation Trust Miller Howard MLP

Report Period: 01-31-15 to 12-31-17
Fiscal Year Ends: December

Universe Comparison for Fiscal Periods Universe Composition: 100% Equity



Returns are calculated gross of management fees using trade date positions and including accrued income. Returns for greater than one year are annualized.

Universe calculations are based on manager returns provided by Morningstar.

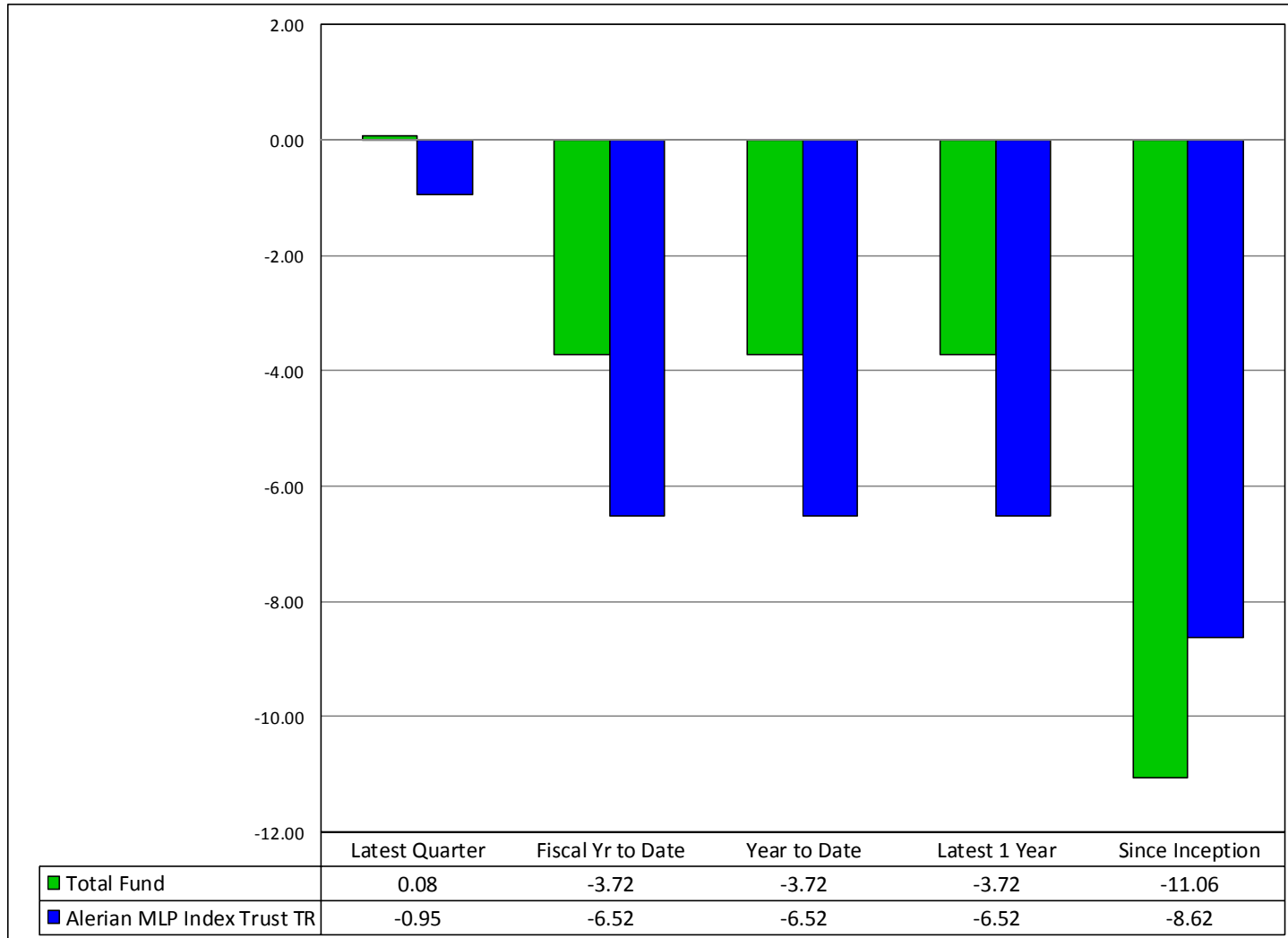
The universe components are Specialty-Natural Res.

From 1/31/2015 to 12/31/2017 the number of equity funds ranged from 117 to 143.

Micronesia Conservation Trust Miller Howard MLP

Report Period: 01-31-15 to 12-31-17
Fiscal Year Ends: December

Comparative Returns for Fiscal Periods: Total Fund : Gross of Fees

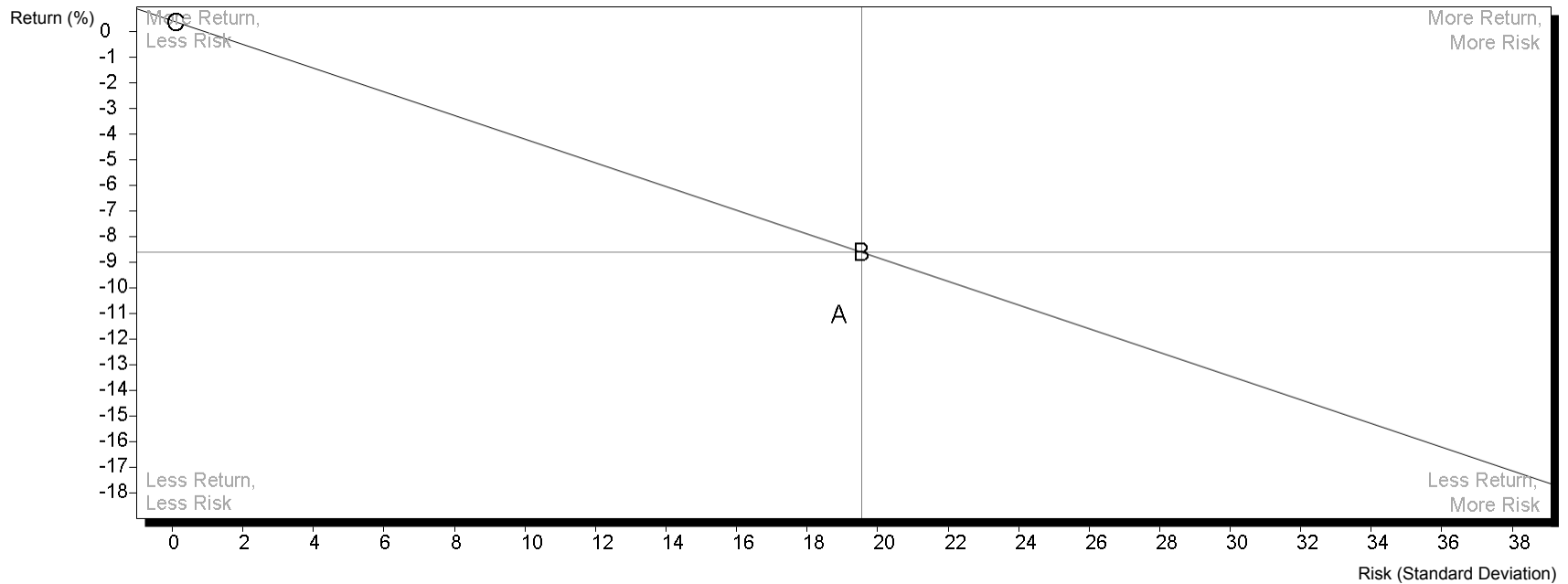


Returns are calculated using trade date positions and including accrued income. Returns for greater than one year are annualized.

Micronesia Conservation Trust Miller Howard MLP

Report Period: 01-31-15 to 12-31-17
Fiscal Year Ends: December

Risk/Return Analysis



Description	Annual Return	Standard Deviation	Alpha	Beta	R-Squared	Sharpe Ratio	Available Data	
							Beg Date	End Date
A Miller Howard MLP	-11.06	18.92	-3.20	0.94	0.97	-216.55	01/31/15	12/31/17
B Alerian MLP Index Trust TR	-8.62	19.56	0.00	1.00	1.00	-176.19	01/31/15	12/31/17
C Citi 3 Month T-Bill	0.39	0.11	0.00	0.00	0.00	0.00	01/31/15	12/31/17

Returns are calculated gross of management fees using trade date positions and including accrued income. Returns for greater than one year are annualized. The independent variable is the Alerian MLP Index Trust TR

Micronesia Conservation Trust Adelante

Report Period: 01-31-15 to 12-31-17
Fiscal Year Ends: December

Account Activity Summary

	Latest Quarter	Fiscal Yr to Date	Latest 1 Year	Latest 3 Years	Latest 5 Years	Latest 10 Years	From 01-31-15
Beginning Mkt Value	908,667	858,557	858,557	N/A	N/A	N/A	868,000
Contributions	0	0	0	N/A	N/A	N/A	0
Withdrawals	0	0	0	N/A	N/A	N/A	4,712
Management Fees	1,967	7,656	7,656	N/A	N/A	N/A	15,806
Net Flows	-1,967	-7,656	-7,656	N/A	N/A	N/A	-20,518
Interest/Dividend Income	6,737	30,126	30,126	N/A	N/A	N/A	88,632
Gains/Losses	22,237	54,646	54,646	N/A	N/A	N/A	-441
Total Earnings	28,974	84,773	84,773	N/A	N/A	N/A	88,191
As of 12-31-17							
Ending Mkt Value	935,674	935,674	935,674	N/A	N/A	N/A	935,674
Time-Weighted Return	3.19	9.92	9.92	N/A	N/A	N/A	3.59
Wilshire REIT	-1.66	0.21	0.21	N/A	N/A	N/A	-0.79

Returns are calculated gross of management fees using trade date positions and including accrued income.
Returns for greater than one year are annualized.

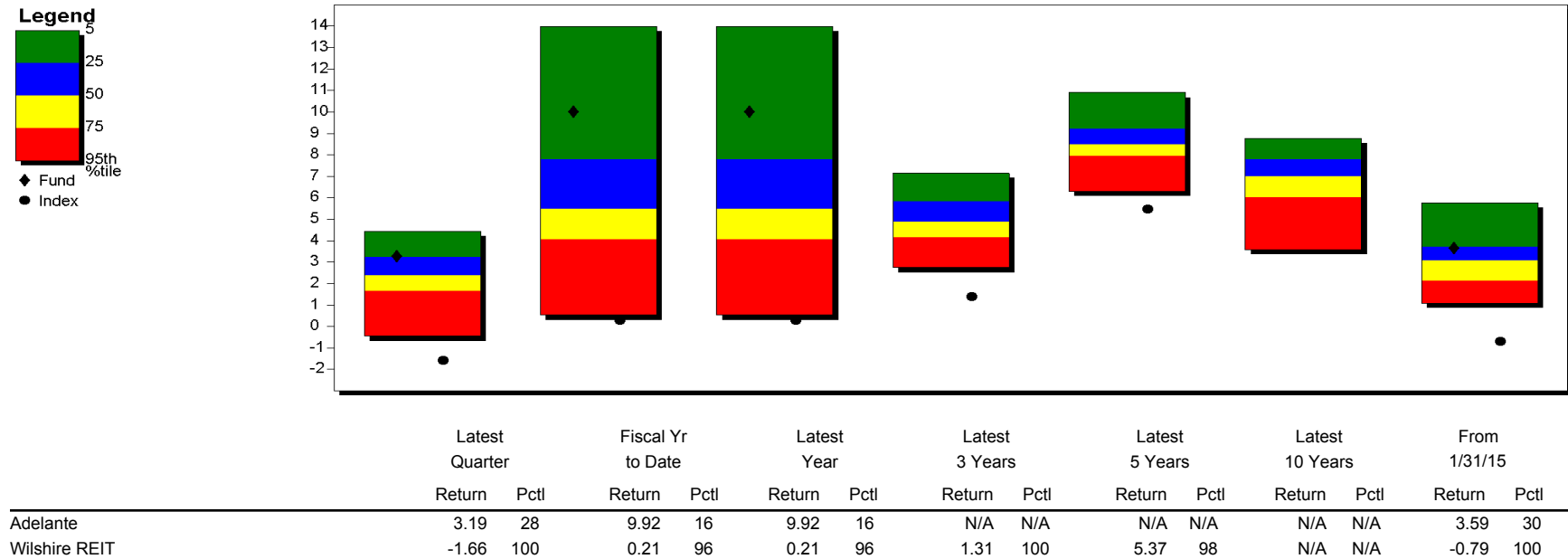
Micronesia Conservation Trust

Adelante

Report Period: 01-31-15 to 12-31-17
 Fiscal Year Ends: December

Universe Comparison for Fiscal Periods

Universe Composition: 100% Equity

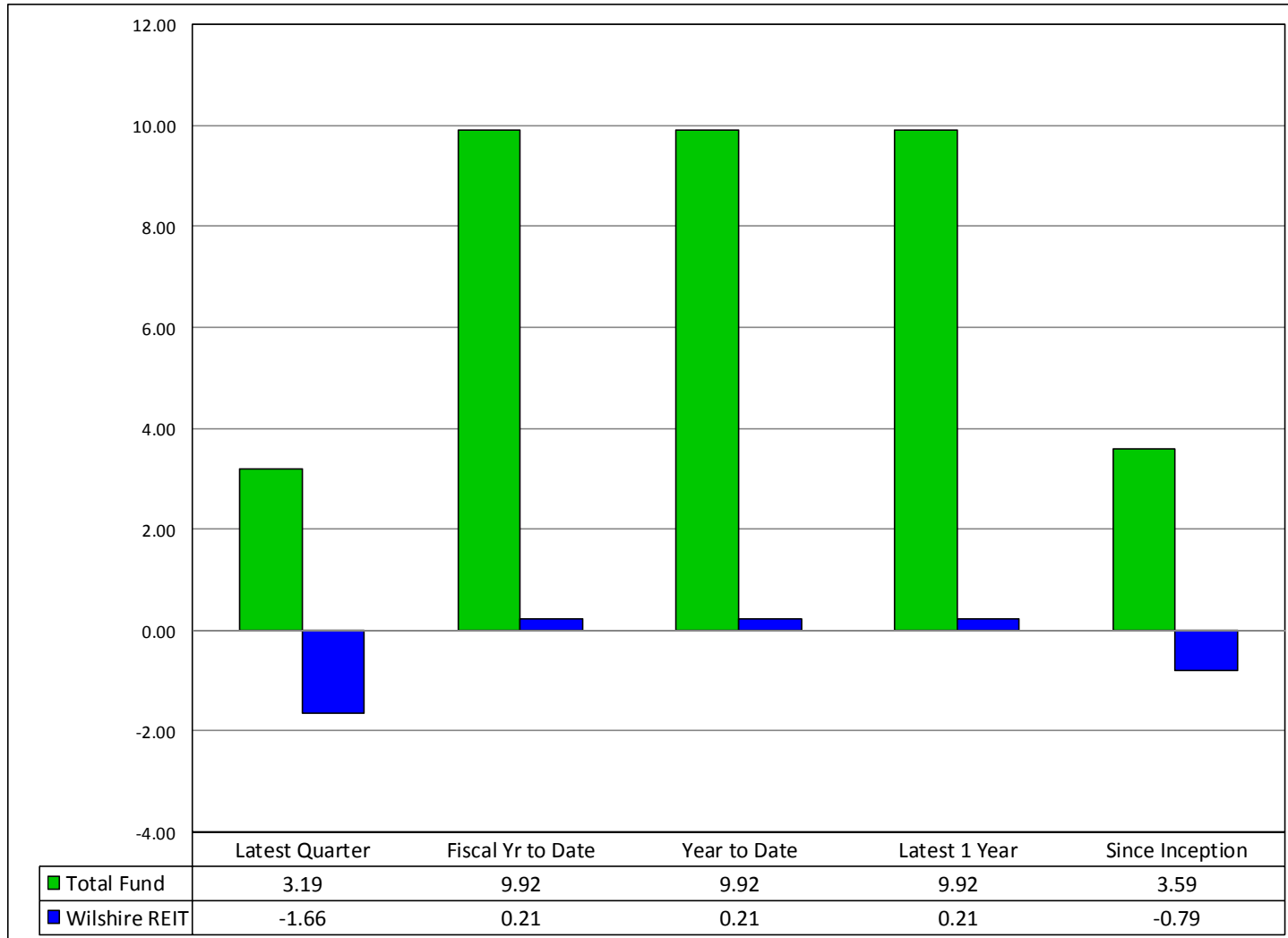


Returns are calculated gross of management fees using trade date positions and including accrued income. Returns for greater than one year are annualized.
 Universe calculations are based on manager returns provided by Morningstar.
 The universe components are Specialty-Real Estate.
 From 1/31/2015 to 12/31/2017 the number of equity funds ranged from 152 to 171.

Micronesia Conservation Trust Adelante

Report Period: 01-31-15 to 12-31-17
Fiscal Year Ends: December

Comparative Returns for Fiscal Periods: Total Fund : Gross of Fees

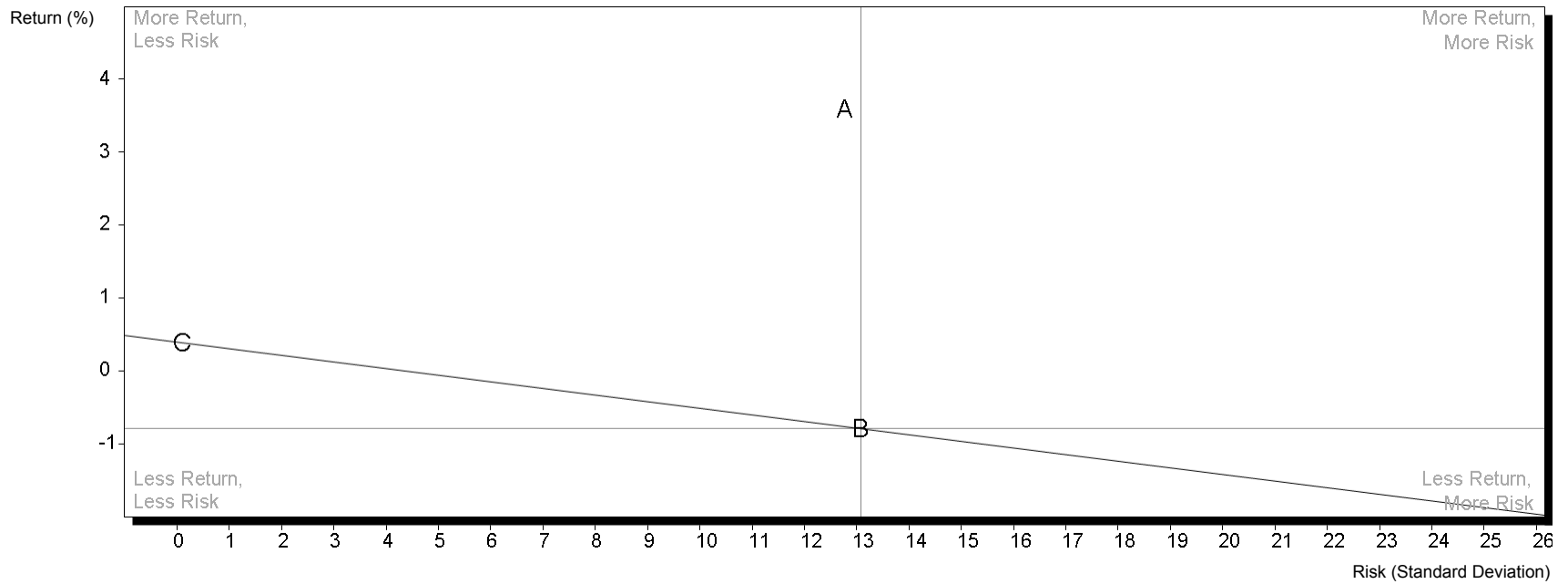


Returns are calculated using trade date positions and including accrued income. Returns for greater than one year are annualized.

Micronesia Conservation Trust Adelante

Report Period: 01-31-15 to 12-31-17
Fiscal Year Ends: December

Risk/Return Analysis



Description	Annual Return	Standard Deviation	Alpha	Beta	R-Squared	Sharpe Ratio	Available Data	
							Beg Date	End Date
A Adelante	3.59	12.79	4.27	0.96	0.98	0.25	01/31/15	12/31/17
B Wilshire REIT	-0.79	13.08	0.00	1.00	1.00	-15.46	01/31/15	12/31/17
C Citi 3 Month T-Bill	0.39	0.11	0.00	0.00	0.00	0.00	01/31/15	12/31/17

Returns are calculated gross of management fees using trade date positions and including accrued income. Returns for greater than one year are annualized.
The independent variable is the Wilshire REIT

IMPORTANT DISCLOSURES

This information is provided for your convenience, but should not be used as a substitute for your account's monthly statements and trade confirmations. Material is provided for informational purposes only and does not constitute a recommendation. It has been gathered in a manner which we believe to be reliable, but accuracy is not guaranteed. It is not intended as tax advice. Past performance does not guarantee future results.

Diversification and strategic asset allocation does not ensure a profit or protect against a loss. No investment strategy can guarantee success. Investments are subject to market risk, including possible loss of principal.

Investing in small and mid-cap stocks are riskier investments which include price volatility, less liquidity and the threat of competition. International investing involves additional risks such as currency fluctuations, differing financial accounting standards and possible political and economic instability. These risks are greater in emerging markets. Alternative investment strategies involve greater risks and are only appropriate for the most sophisticated, knowledgeable and wealthiest of investors. Managed futures involve specific risks that maybe greater than those associated with traditional investments and may be offered only to clients who meet specific suitability requirements, including minimum net worth tests. You should consider the special risks with alternative investments including limited liquidity, tax considerations, incentive fee structures, potentially speculative investment strategies, and different regulatory and reporting requirements. Commodities are generally considered speculative because of the significant potential for investment loss. REITs are financial vehicles that pool investors' capital to purchase or finance real estate. REITs involve risks such as refinancing, economic conditions in the real estate industry, changes in property values and dependency on real estate management.

Beta compares volatility of a security with an index, such as the S&P 500. A beta of one means the security has volatility equal to that of an index. Alpha compares a fund's actual returns with those that would be expected by its beta. A positive alpha means that for the given amount of volatility, the fund returned more than expected when compared to the benchmark index. Alpha and beta measures are historical.

Index Descriptions:

It is not possible to invest directly in an index.

Barclays Municipal Bond: 1-10 Year Blend - A component of the Barclays Capital Municipal Bond Index with municipal bonds in the 1-10 year blend (1-12) maturity range.

Barclays 1-5 Government/Credit - Barclays 1-5 Year Government/Credit Index: Includes all medium and larger issues of U.S. government, investment-grade corporate, and investment-grade international dollar-denominated bonds that have maturities of between 1 and 5 years and are publicly issued.

Barclays 1-5 Year Government - An inclusion of securities within the Barclays Government Index that have a maturity range from 1 up to (but not including) 5 years.

Barclays 1-5 yr Treasury - The 1-5 year component of the Barclays Capital U.S. Treasury Index with securities in the maturity range from 1 year (but not including) 5 years.

Barclays Credit 1-3 Year - Barclays 1-5 Year Credit Index: Includes all medium and larger issues of U.S. government, investment-grade corporate, and investment-grade international dollar-denominated bonds that have maturities of between 1 and 3 years and are publicly issued.

Barclays U.S. Government/Credit (BCGC) - The Government/Credit component of the U.S. Aggregate. The government portion includes treasuries (public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (publicly issued debt of the U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The credit portion includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. Must be a publicly issued, dollar-denominated and non-convertible, U.S. Government or Investment Grade Credit security. Must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following rating agencies: Moody's, S&P, Fitch; regardless of call features, have at least one year to final maturity, and have an outstanding par value amount of at least \$250 million.

Barclays Intermediate U.S. Government/Credit (BCIGC) - The intermediate component of the Barclays Capital Government/Credit Index with securities in the maturity range from 1 up to (but not including) 10 years.

Barclays Global Aggregate - The index is designed to be a broad based measure of the global investment-grade, fixed rate, fixed income corporate markets. The major components of this index are the US Aggregate, Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities.

Barclays Global Aggregate Intermediate - The intermediate component of the Barclays Global Aggregate index with securities in the maturity range from 1 up to (but not including) 10 years.

Barclays U.S. Government: Intermediate - The intermediate component of the Barclays Capital U.S. Government Index with securities in the maturity range from 1 up to (but not including) 10 years.

Barclays U.S. Government: Long - The long component of the Barclays Capital U.S. Government Index with securities in the maturity range from 10 years or more.

Barclays LT Muni - A component of the Barclays Capital Municipal Bond Index with municipal bonds with a maturity range greater than 20 years.

Barclays Municipal Bond Index - A rules-based, market-value weighted index that is engineered for the long-term tax-exempt bond market. Bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following rating agencies: Moody's, S&P, Fitch. The bonds must be fixed rate, have a dated-date after December 31, 1990, have an outstanding par value of at least \$7

million, and be issued as part of a transaction of at least \$75 million. The four main sectors of the index are: general obligation bonds, revenue bonds, insured bonds (including all insured bonds with a Aaa/AAA rating), and prefunded bonds. Remarketed issues, taxable municipal bonds, floating rate bonds, and derivatives, are excluded from the benchmark.

Barclays U.S. Treasury - A component of the U.S. Government Index. Must be publicly issued, dollar-denominated and non-convertible, fixed rate (although it may carry a coupon that steps up or changes according to a predetermined schedule) U.S. Treasury security. Must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following rating agencies: Moody's, S&P, Fitch; regardless of call features, have at least one year to final maturity, and have an outstanding par value amount of at least \$250 million.

Barclays U.S. Treasury: Intermediate (BCIT) - The intermediate component of the Barclays Capital U.S. Treasury Index with securities in the maturity range from 1 year (but not including) 10 years.

Barclays U.S. Treasury: Long - The long component of the Barclays Capital U.S. Treasury Index with securities in the maturity range from 10 years or more.

Barclays U.S. Treasury: U.S. TIPS - Comprised of Inflation-Protection securities issued by the U.S. Treasury. Must be a fixed rate, publicly issued U.S. Treasury Inflation Note that is dollar-denominated and non-convertible. Must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following rating agencies: Moody's, S&P, Fitch; have at least one year to final maturity, and have an outstanding par value amount of at least \$250 million.

Barclays High Yield Composite BB - A component of the Barclays U.S. Corporate High Yield Bond Index with bonds in the BB or better.

Citigroup 1-3 Year U.S. Treasury - Component of the Citigroup U.S. Treasury that measures total returns for U.S. Treasuries with a maturity between 1-3 years.

Citigroup 3 Month U.S. Treasury Bill - This index measures monthly return equivalents of yield averages that are not marked to market. The Three-Month Treasury Bill Indices consist of the last three three-month Treasury bill issues.

Citigroup World Government Bond - Citi World Gov't Bond (CWGB) – Citigroup World Government Bond Index, includes the most significant and liquid government bond markets globally that carry at least an investment grade rating.

Consumer Price Index - All Urban Consumers (CPI-U) - As an economic indicator, and as the most widely used measure of inflation, the Consumer Price Index (CPI) is an indicator of the effectiveness of government policy, and as a guide in making economic decisions for business executives, labor leaders, and other private citizens. Published on a monthly basis by the U.S. Bureau of Labor Statistics (BLS), the CPI is a measure of the average change in prices over time of goods and services purchased by households. CPI for All Urban Consumers (CPI-U) encompasses approximately 87 percent of the total U.S. population which includes, in addition to wage earner and clerical worker households, groups such as professional, managerial, and technical workers, the self-employed, short-term workers, the unemployed, and retirees and others not in the labor force.

Dow Jones UBS Commodity - Provides a diversified representation of commodity markets as an asset class. The index is comprised of exchange-traded futures on physical commodities; representing 19 commodities which are weighted for economic significance and market liquidity. To promote diversification, weighting restrictions are placed on individual commodities and commodity groups.

FTSE NAREIT U.S. Real Estate - All REITs - The index is designed to represent a comprehensive performance of publicly traded REITs which covers the commercial real estate space across the US economy, offering exposure to all investment and property sectors. It is not free float adjusted, and constituents are not required to meet minimum size and liquidity criteria.

HFRI Equity Hedge Fund Index - The index is designed to represent strategies which maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. Equity Hedge managers would typically maintain at least 50% exposure to, and may in some cases be entirely invested in, equities - both long and short.

HFRI (Hedge Fund Research, Inc.) Fund of Funds Composite Index (1) - The index only contains fund of funds, which invest with multiple managers through funds or managed accounts. It is an equal-weighted index, which includes over 650 domestic and offshore funds that have at least \$50 Million under management or have been actively trading for at least 12 months. All funds report assets in US Dollar, and Net of All Fees returns which are on a monthly basis.

MSCI EAFE - A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. As of December 31, 2010 the MSCI EAFE Index consists of 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

MSCI EAFE Value -Net Dividend - A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. Value attribute for index construction is defined using: book value to price ratio, 12-months forward earnings to price ratio, and dividend yield. Net total return indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

MSCI EAFE Growth -Net Dividend - A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. Growth attribute for index construction is defined using: long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend, long-term historical sales per share growth trend. Net total return indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

MSCI Emerging Markets - A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of December 31, 2010, the MSCI Emerging Markets Index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

MSCI World - A free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. As of December 31, 2010, the MSCI World Index consists of the following 24 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

NCREIF - The index is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. Information on this index is available at ncreif.com.

Russell 1000 - Based on a combination of their market cap and current index membership, this index is comprised of approximately 1,000 of the largest securities from the Russell 3000. Representing approximately 92% of the Russell 3000, the index is created to provide a full and unbiased indicator of the large cap segment.

Russell 1000 Growth - Measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value - Measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.

Russell 2000 - Based on a combination of their market cap and current index membership, this index is comprised of approximately 2,000 of the smaller securities from the Russell 3000. Representing approximately 8% of the Russell 3000, the index is created to provide a full and unbiased indicator of the small cap segment.

Russell 2000 Growth - Measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 2000 Value - Measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower expected growth values.

Russell 2500 - Based on a combination of their market cap and current index membership, this index is comprised of approximately 2,500 of the smallest securities from the Russell 3000. Measures the performance of the small to mid-cap (smid) segment of the U.S. equity universe.

Russell 2500 Growth - Measures the performance of those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 2500 Value - Measures the performance of those Russell 2500 companies with lower price-to-book ratios and lower expected growth values.

Russell 3000 - Representing approximately 98% of the investable U.S. equity market, the Russell 3000 index measures the performance of the largest 3,000 U.S. companies.

Russell 3000 Growth - Measures the performance of the broad growth segment of the U.S. equity universe which includes Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 3000 Value - Measures the performance of the broad growth segment of the U.S. equity universe which includes Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell Midcap - A subset of the Russell 1000 index, the Russell Midcap index measures the performance of the mid-cap segment of the U.S. equity universe. Based on a combination of their market cap and current index membership, includes approximately 800 of the smallest securities which represents approximately 27% of the total market capitalization of the Russell 1000 companies. The index is created to provide a full and unbiased indicator of the mid-cap segment.

Russell Midcap Growth - Measures the performance of those Russell Mid-cap companies with higher price-to-book ratios and higher forecasted growth values.

Russell Midcap Value - Measures the performance of those Russell Mid-cap companies with lower price-to-book ratios and lower expected growth values.

Standard & Poor's 400 MidCap - Comprised of 400 domestic stocks that are chosen based upon market capitalization, liquidity and industry representation. The medium size US firms range with a market capitalization between \$2 billion to \$10 billion, and are between the S&P 500 Index and the S&P Smallcap 600 Index. It is a market-weighted index, which represents approximately 7% of the aggregate market value of US companies.

Standard & Poor's 500 - Representing approximately 75% of the investable US equity market, the S&P 500 measures changes in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested.

Stark 300 Trader - The Stark 300 index tracks the performance of the top-300 futures and forex traders. The index is calculated monthly using an equity-weighted formula to determine performance.

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Taki Waterfall Conservation Area © Richard Brooks

Appendices A2 Audit Report

PROTECTED AREAS NETWORK FUND
(A COMPONENT UNIT OF THE REPUBLIC OF PALAU)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

INDEPENDENT AUDITORS' REPORT

Board of Directors
Protected Areas Network Fund:

Report on the Financial Statements

We have audited the accompanying financial statements of the Protected Areas Network Fund (PAN Fund), a component unit of the Republic of Palau, which comprise the statements of net position as of September 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Protected Areas Network Fund as of September 30, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This supplementary information is the responsibility of PAN Fund's management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2018 on our consideration of PAN Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PAN Fund's internal control over financial reporting and compliance.

Deloitte & Touche LLC

February 16, 2018



Protected Areas Network Fund

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Management's Discussion and Analysis Year Ended September 30, 2017

This report presents a management's discussion and analysis of the Protected Areas Network Fund's (PAN Fund) financial performance during the fiscal year ended September 30, 2017, with selected comparative information for the fiscal years ended September 30, 2016 and 2015.

ORGANIZATION AND PURPOSE

Republic of Palau Public Law (RPPL) 6-39 (the PAN Act) established a national system of support from the National Government of Palau to the States for its conservation programs to preserve, conserve and manage its natural resources and ecological biodiversity. RPPL 7-42 was then enacted creating a national financial mechanism for the PAN and PAN Fund. PAN Fund is a registered non-profit corporation governed by a nine-member Board of Directors appointed by the initial four-member incorporators; namely The Nature Conservancy (TNC), Conservation International (CI), the Ministry of Natural Resources, Environment and Tourism (MNRET) and the Ministry of Finance (MOF) with advice and consent of the Senate of the Olbiil Era Kelulau (OEK-Palau National Congress). The Board of Directors' major responsibilities include governance, fiduciary and grant-making.

The purpose of PAN Fund is to serve as a financial trustee corporation for the "green fee" and for all monies received for the PAN, to support and finance PAN projects and programs thus administering, managing, fundraising, investing, monitoring and disbursing PAN monies for the financial sustainability of the PAN in Palau for conservation of ecological biodiversity and sustainable management and use of its natural resources.

The mission of PAN Fund is to "efficiently and equitably provide funding to the Protected Areas Network, and its associated activities, through strategic actions and medium- to long-term financial support that will advance effective management and conservation of Palau's natural and cultural resources." The types of funds administered, managed and invested by PAN Fund as the financial trustee corporation to the PAN include the environmental protection fee, donations, grants and income and other property derived from or attributable to the investment. The "green fee" or environmental impact fee allocation and distribution to the PAN Member States are prioritized based on annual work plans as per management plans to effectively implement each respective conservation program. The "green fee" is disbursed quarterly and is subject to verification of activities and program implementation.

OVERVIEW OF FINANCIAL STATEMENTS

Statements of Net Position:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current assets	\$ 3,880,195	\$ 3,032,023	\$ 3,069,329
Capital assets	<u>9,081</u>	<u>12,590</u>	<u>16,739</u>
Total assets	<u>3,889,276</u>	<u>3,044,613</u>	<u>3,086,068</u>
Current liabilities	<u>369,748</u>	<u>104,425</u>	<u>319,677</u>
Net position:			
Net investment in capital assets	9,081	12,590	16,739
Restricted	<u>3,510,447</u>	<u>2,927,598</u>	<u>2,749,652</u>
Total net position	\$ <u>3,519,528</u>	\$ <u>2,940,188</u>	\$ <u>2,766,391</u>

OVERVIEW OF FINANCIAL STATEMENTS, CONTINUED

Statements of Revenues, Expenses and Changes in Net Position:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues	\$ -	\$ -	\$ -
Operating expenses	<u>1,824,231</u>	<u>1,837,479</u>	<u>1,821,436</u>
Operating loss	(1,824,231)	(1,837,479)	(1,821,436)
Nonoperating revenues	<u>2,403,571</u>	<u>2,011,276</u>	<u>2,053,127</u>
Change in net position	579,340	173,797	231,691
Net position at beginning of year	<u>2,940,188</u>	<u>2,766,391</u>	<u>2,534,700</u>
Net position at end of year	\$ <u>3,519,528</u>	\$ <u>2,940,188</u>	\$ <u>2,766,391</u>

Statements of Cash Flows:

Cash flows from operating activities	\$ (1,703,024)	\$ (2,047,906)	\$ (1,677,933)
Cash flows from investing activities	435,362	-	-
Cash flows from noncapital financing activities	1,980,912	2,011,276	2,013,651
Cash flows from capital financing activities	<u>-</u>	<u>-</u>	<u>(3,059)</u>
Net increase (decrease) in cash	713,250	(36,630)	332,659
Cash at beginning of year	<u>3,028,269</u>	<u>3,064,899</u>	<u>2,732,240</u>
Cash at end of year	\$ <u>3,741,519</u>	\$ <u>3,028,269</u>	\$ <u>3,064,899</u>

FINANCIAL HIGHLIGHTS

PAN Fund's capital assets decreased by 28% from \$12,590 in fiscal year 2016 to \$9,081 in fiscal year 2017 and by 25% from \$16,739 in fiscal year 2015 to \$12,590 in fiscal year 2016. See note 3 to the financial statements for more detailed information on PAN Fund's capital assets and changes therein.

PAN Fund's total net position increased by 20% from \$2,940,188 in fiscal year 2016 to \$3,519,528 in fiscal year 2017 and by 6% from \$2,766,391 in fiscal year 2015 to \$2,940,188 in fiscal year 2016. The increase in net position for fiscal year 2017 was largely due to recurring green fee collections and drawdown of investment earnings from the Micronesia Conservation Trust Endowment Fund.

Total liabilities increased by 254% from \$104,425 in fiscal year 2016 to \$369,748 in fiscal year 2017 and decreased by 67% from \$319,677 in fiscal year 2015 to \$104,425 in fiscal year 2016. The increase in liabilities in fiscal year 2017 is attributed to recording of unearned grant revenues and pending disbursements to PAN States/Sites and PAN Office.

Total operating expenses decreased by 1% from \$1,837,479 in fiscal year 2016 to \$1,824,231 in fiscal year 2017 and increased by 1% from \$1,821,436 in fiscal year 2015 to \$1,837,479 in fiscal year 2016. The reduction in operating expenses is realized in special projects, salaries and wages and communications.

Net cash at the end of the year increased by 24% from \$3,028,269 in fiscal year 2016 to \$3,741,519 in fiscal year 2017 and decreased by 1% from \$3,064,899 in fiscal year 2015 to \$3,028,269 in fiscal year 2016.

ECONOMIC OUTLOOK

Based on trending data provided by the Palau Visitors Authority, the number of visitors decreased by about 11% in 2017 (122,566 compared to 138,408 in 2016) and decreased by 16% in 2016 (138,408 compared to 164,931 in 2015). Evidently, the number of visitors fluctuate each year and thus, have a direct impact on the amount of green fee collections that PAN Fund is eligible to receive. Moreover, the total amount of green fees that PAN Fund is eligible to receive from the National Government is currently capped at \$2 million. These factors affect the overall financing of the Protected Areas Network and limits the ability of PAN Fund to finance projects and investments at a level that is deemed sufficient.

PAN Fund is mindful of these factors and its implications on the green fee as the main source of revenue for the PAN. PAN Fund continues to implement necessary steps to mitigate risks associated with these factors by adopting a comprehensive sustainable financing plan with an allocation strategy utilizing current year collections to fund the succeeding year's operational budget. The allocation strategy also maintains allocations to Reserve Funds (Emergency and Legal Reserve) and Endowment Funds to mitigate risks and buffer economic downturns and environmental impacts attributed to climate change. In fiscal year 2017, PAN Fund further diversified its investment strategy by re-investing Reserve Funds in a high interest-earning investment vehicle. PAN Fund is also working very closely with the PAN Office and the PAN States/Sites in exploring opportunities to establish site-based sustainable financing mechanisms to complement the overall PAN sustainable financing plan.

CONCLUDING SUMMARY

The Management's Discussion and Analysis for the year ended September 30, 2016 is set forth in PAN Fund's report on the audit of financial statements, which is dated January 23, 2017. That Discussion and Analysis explains the major factors impacting the 2016 financial statements and can be viewed at the Office of the Public Auditor's website at www.palauopa.org.

CONTACTING PAN FUND'S FINANCIAL MANAGEMENT

This report is designed to provide a general overview of PAN Fund's finances and to demonstrate PAN Fund's accountability for the money it receives. If you have questions about this report, or need additional information, please send inquiries via the Protected Areas Network Fund, P.O. Box 6094, Koror, Republic of Palau 96940, or contact the following: Phone: (680) 488-FUND (3863) | Fax: (680) 488-1314 | Email: info@palaupanfund.org.

PROTECTED AREAS NETWORK FUND

Statements of Net Position
September 30, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash	\$ 3,741,519	\$ 3,028,269
Due from Republic of Palau	135,058	-
Prepaid expenses	<u>3,618</u>	<u>3,754</u>
Total current assets	3,880,195	3,032,023
Capital assets, net	<u>9,081</u>	<u>12,590</u>
	<u>\$ 3,889,276</u>	<u>\$ 3,044,613</u>
 <u>LIABILITIES AND NET POSITION</u> 		
Current liabilities:		
Accounts payable	\$ 115,328	\$ -
Accrued expenses	8,909	4,425
Due to Micronesia Conservation Trust	97,750	100,000
Unearned revenue	<u>147,761</u>	<u>-</u>
Total liabilities	<u>369,748</u>	<u>104,425</u>
Commitment		
Net position:		
Net investment in capital assets	9,081	12,590
Restricted	<u>3,510,447</u>	<u>2,927,598</u>
Total net position	<u>3,519,528</u>	<u>2,940,188</u>
	<u>\$ 3,889,276</u>	<u>\$ 3,044,613</u>

See accompanying notes to financial statements.

PROTECTED AREAS NETWORK FUND

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues	\$ -	\$ -
Operating expenses:		
PAN site/states	1,182,068	1,155,407
PAN Institutional System	200,000	196,054
Special projects	130,153	160,615
Micronesia Conservation Trust contribution	97,750	100,000
Salaries and wages	96,615	127,304
Professional development	26,838	22,967
Rent	17,800	14,400
Outreach/awareness meetings	11,355	2,901
Employee benefits	10,954	8,728
Audit	9,000	7,500
Communications	8,391	10,996
Utilities	3,639	4,434
Depreciation	3,509	4,149
Advertisements	3,302	3,026
Professional fees	2,676	650
Repairs and maintenance	1,018	1,904
Grants	239	-
Other	18,924	16,444
Total operating expenses	<u>1,824,231</u>	<u>1,837,479</u>
Operating loss	<u>(1,824,231)</u>	<u>(1,837,479)</u>
Nonoperating revenues:		
Transfer in from Republic of Palau	1,964,360	2,007,500
Investment earnings	435,362	-
Interest income	3,610	3,776
Grant revenue	239	-
Total nonoperating revenues	<u>2,403,571</u>	<u>2,011,276</u>
Change in net position	579,340	173,797
Net position at beginning of year	<u>2,940,188</u>	<u>2,766,391</u>
Net position at end of year	<u>\$ 3,519,528</u>	<u>\$ 2,940,188</u>

See accompanying notes to financial statements.

PROTECTED AREAS NETWORK FUND

Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Micronesia Conservation Trust contribution	\$ (100,000)	\$ (98,177)
Cash payments to PAN sites/states and institutional system	(1,267,004)	(1,559,030)
Cash payments to suppliers for goods and services	(232,671)	(258,781)
Cash payments to employees for services	<u>(103,349)</u>	<u>(131,918)</u>
Net cash used for operating activities	<u>(1,703,024)</u>	<u>(2,047,906)</u>
Cash flows from investing activities:		
Investment earnings	<u>435,362</u>	<u>-</u>
Net cash provided by investing activities	<u>435,362</u>	<u>-</u>
Cash flows from noncapital financing activities:		
Transfer in from Republic of Palau	1,829,302	2,007,500
Cash received from grants	148,000	-
Interest income	<u>3,610</u>	<u>3,776</u>
Net cash provided by noncapital financing activities	<u>1,980,912</u>	<u>2,011,276</u>
Net increase (decrease) in cash	713,250	(36,630)
Cash at beginning of year	<u>3,028,269</u>	<u>3,064,899</u>
Cash at end of year	<u>\$ 3,741,519</u>	<u>\$ 3,028,269</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (1,824,231)	\$ (1,837,479)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	3,509	4,149
Decrease in assets:		
Prepaid expenses	136	676
Increase (decrease) in liabilities:		
Accounts payable	115,328	(215,139)
Accrued expenses	4,484	(1,936)
Due to Micronesia Conservation Trust	<u>(2,250)</u>	<u>1,823</u>
Net cash used for operating activities	<u>\$ (1,703,024)</u>	<u>\$ (2,047,906)</u>

See accompanying notes to financial statements.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2017 and 2016

(1) Organization

The Protected Areas Network Fund (PAN Fund), a component unit of the Republic of Palau (ROP), was formed on May 2, 2008, under the provisions of the Republic of Palau Public Law (RPPL) No. 7-42 for the purpose of administering and managing all funds received for the financial sustainability of the Protected Areas Network (the PAN) in Palau and for other related purposes. Portions of RPPL 7-42 were revised by RPPL 8-9 and RPPL 8-18. The Law created a registered non-profit corporation under the ROP corporate registry managed by a Board of Directors, consisting of seven voting members and the ROP Minister of Finance and the ROP Minister of Resources and Development, appointed in accordance with PAN Fund's Articles of Incorporation and approved by no less than two thirds of the Senate of the Olbiil Era Kelulau (ROP National Congress). PAN Fund's non-profit corporate charter was issued on November 2, 2010 by ROP and operations formally launched on March 24, 2012 upon receiving tourist and visitor environmental protection and arrival fee (Green Fee) monies from the ROP Ministry of Finance (MOF).

RPPL 7-42 authorized MOF to implement Green Fees to be used for the purpose of the operation of the PAN and to be deposited into an account at the National Treasury. The ROP Minister of Finance shall subsequently transfer the funds collected to the PAN Fund. RPPL 9-15, passed into law on August 29, 2013 and effective for fiscal year 2014, reduced amounts transferred to the PAN Fund to 50% of Green Fees collected or \$2,000,000, whichever is less. During the years ended September 30, 2017 and 2016, MOF remitted \$1,955,360 and \$2,000,000, respectively, for this purpose, which PAN Fund recorded as transfers in from ROP. PAN Fund recorded \$9,000 and \$7,500 as transfers in from ROP for audit expense reimbursement for the years ended September 30, 2017 and 2016, respectively. The receivables and transfers with ROP constitute all of PAN Fund's related party transactions, except for grants described in note 4.

Funds administered, managed and invested by PAN Fund as the financial trustee corporation of the PAN include:

- Green Fees from ROP which are used for general operations of the PAN. PAN Fund allocates five percent (5%) of Green Fees and any unallocated funds remaining at the end of each fiscal year in the Micronesia Conservation Trust (MCT) Endowment, net investment revenues from which are available for PAN Fund's exclusive use at a later time, pursuant to guidelines of MCT. PAN Fund recorded MCT contributions of \$97,750 and \$100,000 for the years ended September 30, 2017 and 2016, respectively. PAN Fund considers its ensuing year budget to be an allocation of funds and therefore has not recorded a liability to MCT for any unallocated funds at September 30, 2017 and 2016;
- Donations, grants and other aid given to PAN Fund; and
- Income and other property derived from or attributed to the investment or application of property.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2017 and 2016

(1) Organization, Continued

PAN Fund disburses all funding for:

- The implementation of PAN management, sustainable development and work plans for PAN sites based on performance, impact/outcome and appropriate management costs for the continuing sustainable operation of the PAN Fund. During the years ended September 30, 2017 and 2016, PAN Fund provided funding to PAN sites/states for mobilization and implementation of PAN work plan of \$1,182,068 and \$1,155,407, respectively, and is recorded as PAN sites/states expense in the accompanying statements of revenue, expenses and changes in net position. Additionally, PAN Fund provided technical assistance for PAN sites/states special projects of \$130,153 and \$160,615 for the years ended September 30, 2017 and 2016, respectively.
- The undertaking of necessary research and educational activities substantially related to carrying out the provisions of RPPL No. 7-42;
- The performance of any other functions that is necessary in order to carry out the purposes of RPPL No. 7-42 including the operation of the PAN Office. The PAN Office operates under the ROP Ministry of Natural Resources, Environment and Tourism. During the years ended September 30, 2017 and 2016, PAN Fund provided funding for activities specified in an annual work plan of PAN Office in the amounts of \$200,000 and \$196,054, respectively; and
- Emergency funding to help PAN sites address exceptional needs arising from natural disasters or accidents.

PAN Fund's financial statements are incorporated into the financial statements of ROP as a component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of PAN Fund conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. PAN Fund utilizes the flow of economic resources measurement focus. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

All proprietary funds are accounted for on a flow of economic resources, measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included in the statements of net position. Proprietary fund operating statements reflect increases and decreases in net total assets and utilize the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Budget and Appropriation

In each year's national government fiscal year budget, the Olbiil Era Kelulau must authorize and appropriate all money collected through the environmental protection arrival fee which must be used for the sole purpose of the operation of the Protected Areas Network including authorization and appropriation of no more than ten percent (10%) of such amount to be allocated to PAN Fund for reasonable administrative costs of operation of PAN Fund. Budgetary financial statements are not considered to be a disclosure requirement by management.

Cash

For purposes of the statements of net position and of cash flows, cash is defined as cash on hand and cash in bank. As of September 30, 2017 and 2016, cash was \$3,741,519 and \$3,028,269, respectively, and the corresponding bank balances were \$3,743,827 and \$3,156,722, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. At September 30, 2017 and 2016, bank deposits of \$250,282 and \$500,000, respectively, were FDIC insured. Collateralization of deposits is not required; therefore, uninsured deposits are exposed to custodial credit risk.

Custodial credit risk is the risk that in the event of a bank failure, PAN Fund's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. PAN Fund does not have a deposit policy for custodial credit risk.

Capital Assets

Capital assets are stated at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the respective assets. Current policy is to capitalize items in excess of \$1,000.

Retirement Plan

On August 8, 2013, PAN Fund withdrew from the Palau Civil Service Pension Trust Fund (the Fund) as the Fund considers PAN Fund to be a non-profit, non-governmental organization, and to be exempt from participation in the Fund.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

Net Position

PAN Fund's net position is classified as follows:

- Net investment in capital assets: capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Restricted: net position subject to externally imposed stipulations that can be fulfilled by actions of PAN Fund pursuant to those stipulations or that expire by the passage of time. PAN Fund considers all assets, except investments in capital assets, to be restricted in accordance with the provisions of RPPL 7-42.
- Unrestricted: net position that is not subject to externally imposed stipulations. As PAN Fund considers all assets, except investments in capital assets, to be restricted in accordance with the provisions of RPPL 7-42, PAN Fund does not have unrestricted net position at September 30, 2017 and 2016.

New Accounting Standards

During the year ended September 30, 2017, PAN Fund implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).
- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The implementation of these statements did not have a material effect on the accompanying financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

(3) Capital Assets

Capital assets of PAN Fund as of September 30, 2017 and 2016, are summarized below:

	<u>Estimated Useful Lives</u>	Balance at October 1, 2016	<u>Additions</u>	<u>Deletions</u>	Balance at September 30, 2017
Furniture, fixtures and equipment	3 years	\$ 20,694	\$ -	\$ -	\$ 20,694
Vehicle	3 years	<u>7,000</u>	<u>-</u>	<u>-</u>	<u>7,000</u>
		27,694	-	-	27,694
Less accumulated depreciation		<u>(15,104)</u>	<u>(3,509)</u>	<u>-</u>	<u>(18,613)</u>
		\$ <u>12,590</u>	\$ <u>(3,509)</u>	\$ <u>-</u>	\$ <u>9,081</u>
		Balance at October 1, 2015	<u>Additions</u>	<u>Deletions</u>	Balance at September 30, 2016
Furniture, fixtures and equipment	3 years	\$ 20,694	\$ -	\$ -	\$ 20,694
Vehicle	3 years	<u>7,000</u>	<u>-</u>	<u>-</u>	<u>7,000</u>
		27,694	-	-	27,694
Less accumulated depreciation		<u>(10,955)</u>	<u>(4,149)</u>	<u>-</u>	<u>(15,104)</u>
		\$ <u>16,739</u>	\$ <u>(4,149)</u>	\$ <u>-</u>	\$ <u>12,590</u>

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2017 and 2016

(4) Unearned Revenue

On December 27, 2016, Oceans 5, a sponsored project of Rockefeller Philanthropy Advisors, Inc., approved a \$216,000 grant to PAN Fund to support implementation of the Palau National Marine Sanctuary, created by RPPL No. 9-49. The grant period is for one year which will expire on December 31, 2017. On April 4, 2017, PAN Fund received \$108,000 from Oceans 5 representing 50% of the total grant, in accordance with the grant agreement. On May 11, 2017, a memorandum of understanding between PAN Fund and ROP, represented by the Palau National Marine Sanctuary Office (PNMS), was signed to provide a framework for ongoing cooperation between PAN Fund and PNMS and to establish parameters of assistance to be provided by PAN Fund to PNMS in receiving, administering, accounting for and disbursing contributions to PNMS from foreign governmental, private and non-profit sources. As of September 30, 2017, PAN Fund has not disbursed the grant received from Oceans 5 to PNMS. Accordingly, the amount is recorded as unearned revenue in the accompanying financial statements.

On January 31, 2017, a memorandum of agreement between PAN Fund and the ROP Ministry of Natural Resources, Environment and Tourism (MNRET) was signed to implement the Global Environment Facility Ridge-to-Reef System of Transparent Allocation of Resources (GEF R2R STAR) project. The purpose of GEF R2R STAR is to improve the Protected Areas Network, effectively implement Palau's Sustainable Land Management policy and ensure integrated coordination, mainstreaming and project management. PAN Fund must implement activities outlined in the four-year action plan and MNRET must fund the activities at quarterly disbursements. On June 23, 2017, PAN Fund received \$40,000 or the second quarter budget of the work plan from MNRET. During the year ended September 30, 2017, PAN Fund recorded \$239 expenses related to GEF R2R STAR project. Accordingly, the remaining amount of \$39,761 is recorded as unearned revenue in the accompanying financial statements.

(5) Contributions

The Micronesia Challenge (MC) is a commitment by the Chief Executives of the Republic of Palau, the Federated States of Micronesia (FSM), the Republic of the Marshall Islands, the U.S. Territory of Guam and the U.S. Commonwealth of the Northern Mariana Islands to effectively conserve at least 30% of the near-shore marine resources and 20% of the terrestrial resources across Micronesia by 2020.

Micronesia Conservation Trust (MCT) is a non-profit trust corporation registered in the FSM whose mission is to support biodiversity conservation and related sustainable development of the people of Micronesia by providing long-term sustained funding opportunities, management and investment services. MCT holds MC assets in restricted endowment funds. During the years ended September 30, 2017, 2016, 2015, 2014, 2013 and 2012, PAN Fund contributed \$97,750, \$100,000, \$98,177, \$96,750, \$84,596 and \$1,400,000, respectively, to the MC endowment funds held by MCT. In previous years, ROP, The Nature Conservancy, Global Environmental Facility and Conservation International made contributions to MCT of \$400,000, \$2,000,000, \$1,684,848 and \$1,000,000, respectively, on Palau's behalf. During the year ended September 30, 2017, PAN Fund withdrew investment income of \$435,362 from MCT. The amount represents 5% of PAN Fund's average MC endowment fund balance for the years 2016, 2015 and 2014. At September 30, 2017 and 2016, the Palau portion of MC endowment funds held by MCT was \$9,715,265 and \$8,959,917, respectively.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2017 and 2016

(6) Commitment

PAN Fund leases office space in Koror, Palau. Total future minimum lease payment under this lease for subsequent years ending September 30 are as follows:

Year ending September 30,

2018	\$ 24,000
2019	<u>14,000</u>
	\$ <u>38,000</u>

(7) Subsequent Events

During the year ended September 30, 2017, the Board of Directors approved to invest amounts from PAN Fund's Emergency Fund, Legal Reserve Fund and investment earnings drawn from MCT, aggregating \$1,000,000. On October 10, 2017, PAN Fund transferred an initial investment of \$1,000,000 to the investment manager.

On October 25, 2017, PAN Fund disbursed the \$108,000 grant received from Oceans 5 to PNMS. On December 8 2017, PAN Fund requested for a no-cost extension of the grant from Oceans 5. On January 3, 2018, Oceans 5 granted a no-cost extension until March 31, 2018.

PROTECTED AREAS NETWORK FUND
(A COMPONENT UNIT OF THE REPUBLIC OF PALAU)

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2017

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Protected Areas Network Fund:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Protected Areas Network Fund (PAN Fund), which comprise the statement of net position as of September 30, 2017, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated February 16, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PAN Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PAN Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of PAN Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2017-001 and 2017-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PAN Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the PAN Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the PAN Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLC

February 16, 2018

PROTECTED AREAS NETWORK FUND

Schedule of Findings and Responses
Year Ended September 30, 2017

Grant Revenues

Finding No. 2017-001

Criteria: Grant revenues should be recognized when related expenses are incurred.

Condition: During the year ended September 30, 2017, PAN Fund recorded grant revenues of \$148,000; however, expenses related to the grants were \$239. A proposed audit adjustment was recorded to correct grant revenues and recognize unearned revenues.

Cause: The cause of the above condition is the lack of review of journal entries.

Effect: The effect of the above condition is the overstatement of Fund revenues.

Recommendation: We recommend that PAN Fund records grant revenues when related expenses are incurred.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Regis Emesiochel, General Manager

Corrective Action: We accept this finding and will decide whether to use liability method of recording unearned revenue or to use the income method of recording.

Proposed Completion Date: Ongoing.

PROTECTED AREAS NETWORK FUND

Schedule of Findings and Responses, Continued
Year Ended September 30, 2017

Expenses

Finding No. 2017-002

Criteria: Expenses should be recorded when incurred.

Condition: Tests of subsequent disbursements determined unrecorded liabilities of \$115,328 at September 30, 2017. A proposed audit adjustment was recorded to record the liabilities.

Cause: The cause of the above condition is the lack of policies and procedures to record expenses in the correct period.

Effect: The effect of the above condition is the understatement of Fund expense.

Recommendation: We recommend that PAN Fund establish policies and procedures to record expenses in the correct period.

Prior Year Status: The lack of policies and procedures to record expenses in the correct period was reported as a finding in our previous management letter for fiscal year 2016.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Regis Emesiochel, General Manager

Corrective Action: We accept the findings on the \$239 account payable for Utilities, however we do not accept the findings on the \$115,054 for PAN accounts payable for PAN Office and PAN Sites/States. We request the auditor to reconsider the validity of this finding and proposed adjustment. Disbursement request for PAN Office in the amount of \$50,000 was approved in October 5, 2017. It cannot be recorded as accounts payable prior to October 5, 2017. Disbursement request for PAN States/Sites (Ngiwal, Melkeok, and Kayangel) in the amount of \$65,064 was approved on October 13, 2017. Again, to record these as accounts payable prior to approval date is not reasonable.

Proposed Completion Date: Not applicable.

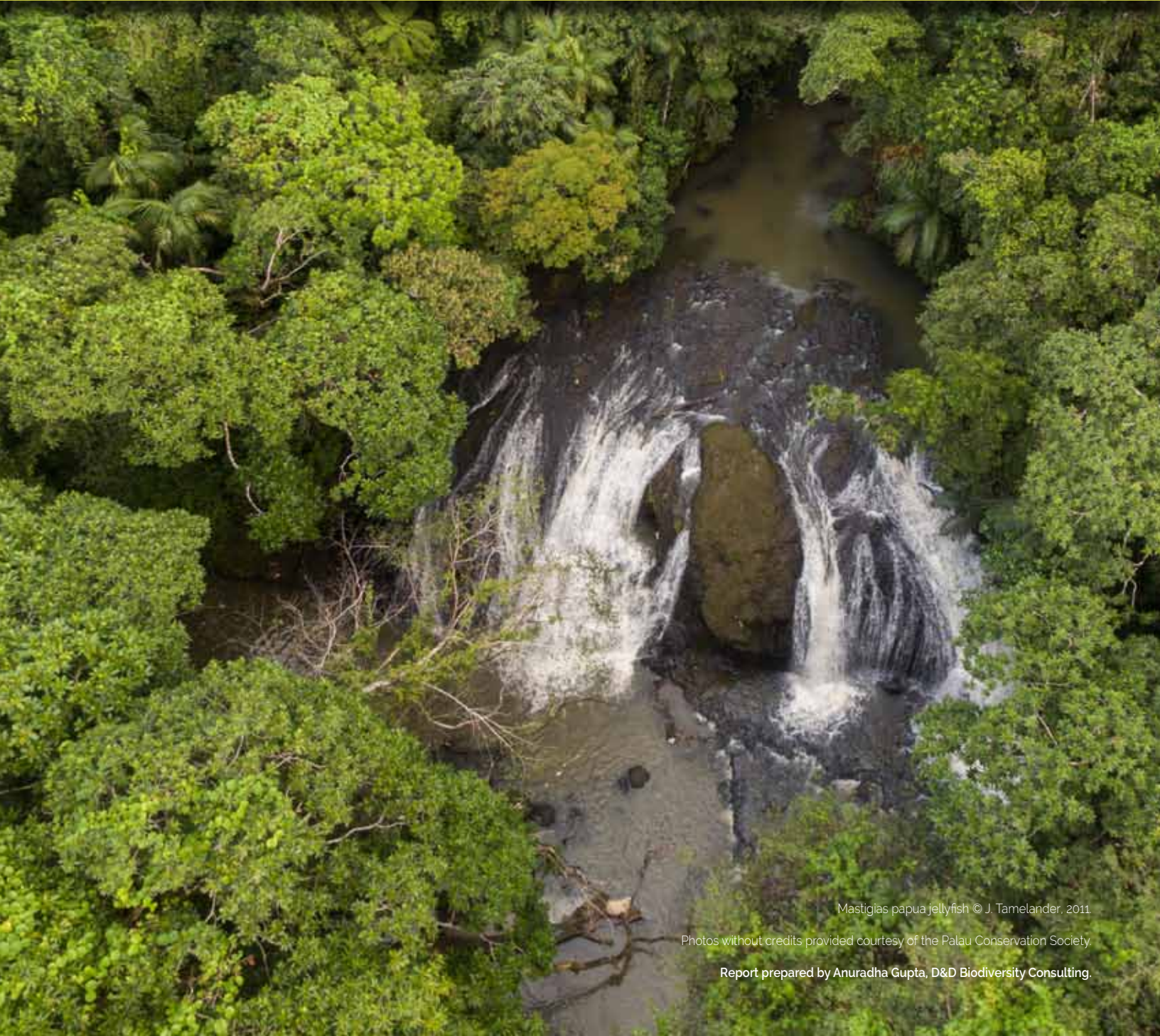
Auditor Response: Accounting principles generally accepted in the United States of America require that expenses be recognized when incurred. Expenses noted in the finding were incurred in FY2017; therefore, recognition of related expenses and liabilities is necessary.

PROTECTED AREAS NETWORK FUND

Unresolved Prior Year Findings
Year Ended September 30, 2017

There are no unresolved findings from prior year audits of PAN Fund.

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Mastigias papua jellyfish © J. Tamelander, 2011

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Report prepared by Anuradha Gupta, D&D Biodiversity Consulting.