

Trust Fund Management in the North Pacific

A discussion of the status and future outlook from a insider's perspective

Gerard A. Cruz, AIFA
Chairman



The North Pacific



Overview

- Most funds established in the mid 1900's
- Corporate governance standards were implemented by US government.
 - Local Board, but with a hired consultant and in many cases a trustee that “oversaw” local Board decisions
- All funds started with
 - Seed money
 - Good intentions
 - The promise of a bright future

Unsustainable Foundation

- Historical decision-making
 - “Unilateral”
 - Local boards rubber stamped recommendations
 - Trustee education was limited to what the advisor discussed
 - Trustees were politically appointed with little understanding of their responsibilities
- Culture
 - Many Trustees trusted their advisors and never questioned them out of respect.
 - Islanders felt intimidated to question
- Leadership
 - Lack the formal education to properly question
- No known resource for trustees to approach except their advisors

Crisis shook foundation

- Globally.
 - The collapse of the Japanese Bubble in the early 1990's
 - Although equity markets saw a huge run up in the mid 90's due to “.com”s
 - 1999's Tech Bubble
 - All subsequent recessions and the Financial Meltdown of 2008
- Locally
 - Local leaders passed generous legislation that increased benefits without funding them causing fund balances to decline
 - Locally, many fund trustees began seeing that several investment advisors and consultants were taking advantage of a naïve board

Fund Statistics

Jurisdiction	Political status	Market Value	Funded Ratio
Guam	US Territory		
GGRF		2 billion	53%
UOG Foundation		15 million	
UOG Land Grant Fund		21 million	
GCC Foundation		10 million	
CNMI	US Commonwealth		
Marianas Public Land Trust		90 million	
NMIRF		25 million*	
Palau	Free Association		
Social Security		100 million	20%
Compact Trust Fund		200 million	
FSM	Free Association		
Social Security		100 million	20%
Compact Trust Fund		350 million	
RMI	Free Association		
Social Security		100 million	20%
Compact Trust Fund		300 million	

Typical Fund Characteristic

- Average funded ratio is 30%, with the 54% funding ratio being the best performer and 0% being the worst
- Employer contribution rates are as high as 29% of total payroll
- Actuarial rates of return are 6.5-7%
- Experience studies are showing longer life spans, therefore requiring longer anticipated benefit payments

Crisis led many leaders to re-think corporate governance

Government leaders recognized new realities

- Financial markets are unemotional and will perform as it wishes and volatility remains high
- In severe enough market downturns, correlation of different asset classes is close to 1
- Accrued liabilities are increasing
- Future expected returns will be much lower than historical experiences
- Funding from plan sponsors will continue to be challenging

Fundamental change sought

Capacity Building from within

- Using local talent with “skin in the game”
 - » Leaders believe that trustees need to have real ownership in the funds they oversee, in spite of being politically appointed
- Local men and women, educated and armed with the same tools used globally
 - » Leaders want board composition to be by those who are knowledgeable about global markets AND understand the local culture and traditions

Capacity Building from within

- Signs that change is happening
 - More officials of island nations are understanding their role as trustees and fiduciaries
 - Trustees are showing a new level of eagerness to learn and make positive and informed decisions
 - Officials are realizing that trustees will need more education to address these problems
 - Government officials are beginning to pass legislation that place minimum standards and requirements for service providers
- Regional leaders asking for regional resource that is capable of being a library of best practices led by those who relate to their way of thinking

Asia Pacific Association for Fiduciary Studies (APAFS)

- Formed in 2000 with the mission of being a resource “For regional fiduciaries, by regional fiduciaries”.
- Regional non-profit organization, based in Guam
- Composed of organizations representing member countries including Guam, the Commonwealth of the Northern Mariana Islands, Federated States of Micronesia, Republic of the Marshall Islands, Republic of the Philippines, American Samoa, and Kiribati
- Oversight is through a Board of Governors made up of representatives from the different jurisdictions
- Staffed by an Executive Director and a Administrator

What we do

- Fund Review
 - Look at a fund's current investment portfolio, and analyze managers against an objective benchmark.
 - Provide analytics that provide the likelihood of achieving the expected return.
- Legislative proposal review
- Draft document templates
 - Request for Proposals
 - Trustee qualifications and recruitment

- Education

- Key Differentiating Factor

- APAFS, through our partnerships, provides the same educational opportunities and curriculum that is given in the US mainland but in a manner that recognizes and respects the cultural differences that exist among islander and island nations

- Types of Educational opportunities

- Country Conferences. On demand
 - Annual Investment Conference
 - Fiduciary Education Week (FEW) – November 28 – November 30, 2016
 - » A week long series of classes tailored to fit all levels of knowledge and learning goals.
 - » Includes classes that may lead to Accredited Investment Fiduciary designation
 - Annual Pacific Region Investment Conference - December 1-December 2, 2016

- Education
 - Partnered with Fi360 Pacific.
 - Based in New Zealand
 - Headed by CEO Ross Fowler