A Message from the Chairman

Dear People of the Commonwealth,

In compliance with Article XI, Section 6(e), of the Commonwealth Constitution, the Board of Trustees of the Marianas Public Land Trust makes this report on its investments and related activities for the year 2008.

The Trust has continued to deal with the default of the loan made to NMHC for mortgage financing. Once the loan portfolio was return to MPLT, we had the task of dealing with the large number of delinquent loans plus a number of loans in foreclosure. It was the goal of the Trustees to limit the number of foreclosures by instituting a loan modification program whereby the borrowers would have their delinquent accrued interest forgiven, their interest rate reduced to 2% and the monthly payment reduced accordingly. The Trustees are continuing to work with the borrowers in order that they may remain in their homes. But this has resulted in a significant reduction to the interest earnings for this investment. This is the sacrifice the Trust had to make in order to revitalize the program.

On August 4, 2008, the Trust made a $3.5 million loan to CUC. While this loan may be seen as a controversial investment, the Trustees viewed this loan as benefitting the whole community as the power generating capacity for CUC was in a state of collapse. Our action allowed for the power generation situation to be stabilized. Additionally, the crisis did allow the Trust to receive a $3.5 million distribution from the Department of Public Lands, which may have not been forthcoming otherwise. There was also an appropriation from the Legislature to allow for an offset to the Trust's distribution to the General Fund to be withheld to payoff this loan in 2009 and 2010. This investment has proven to be very worthwhile for the Trust as the interest earnings have helped to meet the NMHC interest shortfall.

But a negative note, our managed portfolio suffered due to the severe economic conditions that commenced at the beginning of this fiscal year, which resulted in a -6.2% return for the portfolio as a whole. The Trust was able to avoid the full impact of this recession as the asset allocation favors current income as opposed to long term capital growth. This has been the investment policy of the Trustees for the past several years as only 35% of the total portfolio was devoted to equities with the balance in fixed income. Thus we were spared the full impact of the collapsing stock market. It is our intention to continue with this policy in the foreseeable future in order to provide full support to the Commonwealth General Fund.

We hope this report provides an insight into the operations of the Trust and provides useful information to all our beneficiaries. The Trustees take their fiduciary duty very seriously, and welcome any questions or suggestions regarding the operation of the Marianas Public Land Trust.

Respectfully Submitted,

Alvaro A. Santos
Chairman, Board of Trustees

CONTENTS

OVERVIEW

The Marianas Public Land Trust (MPLT) was established to preserve and enhance the net revenues received from the lease of public lands for the benefit of future generations. MPLT functions, therefore, as the money or financial manager for the net revenues distributed to it by the Marianas Public Land Corporation (MPLC) or its successor organization, the Marianas Public Land Authority (MPLA) or the Department of Public Lands (DPL).

The following are the distributions from MPLC & Successor Entities to MPLT and recorded as principal in the General & Park Trust Funds:

July 19, 1983	$ 5,000,000
January 20, 1984	100,000
February 17, 1984	14,080,046
April 13, 1984	5,958,700
August 27, 1984	803,856
May 22, 1991	500,000
December 20, 1991	500,000
September 19, 2007	1,250,000
August 4, 2008	3,500,000
Total	$ 31,692,602

DPL=s primary duty is to manage the public lands for the benefit of the people of the Commonwealth. In this regard, they function as the Commonwealth=s public land managers. In addition, they also have the responsibility to facilitate and manage a homestead development program. The revenues from the lease of public lands, less DPL=s reasonable expenses of administration, are distributable to the Trust on an annual basis.

MPLT invests the funds it receives from DPL within clearly established guidelines. The net distributable income received from its investments is distributed to the Commonwealth Government=s General Fund and to the American Memorial Park. Monies distributed to the

General Fund are general revenues subject to appropriation by the CNMI Legislature. Funds distributed to the American Memorial Park are dedicated to the maintenance and development of the Park.

It should be noted that most of the historical principal contributions made to the Trust were derived from the Tinian land lease as provided for in Article VIII, Section 803, of the Covenant. This portion of the single-payment rent has been preserved in the Trust=s general fund and constitutes the payment from the United States for up to one hundred years usage of the prescribed land area.

IMPLEMENTING AUTHORITY

The origins of the Trust are found both in the ***Constitution of the Northern Mariana Islands*** and Public Law 94-241, ***Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America***. Both of these documents came into full force and effect on January 9, 1978.

Article XI, Section 6 of the ***Constitution*** provides for the establishment of the Trust upon the effective date of the ***Constitution.*** Some excerpts pertaining to the operating requirements for the Trust are:

- A... The number of trustees appointed by the Governor with the advice and consent of the Senate shall be ...[five]. Three shall be from Saipan, one from Rota and one from Tinian. At least one trustee shall be a woman and at least one trustee shall be of Carolinian descent. The trustees shall serve for a term of six years ... [shall] be staggered.@
- A... The trustees shall make reasonable, careful and prudent investments.@
- A... The trustees shall ...[use] the interest on the amount received for the lease of property at Tanapag Harbor for the development and maintenance of a memorial park. The trustees shall transfer to the general revenues of the Commonwealth the remaining interest accrued ... [except] that the trustees may retain the amount necessary to meet reasonable expenses of administration.@
- A... The trustees shall make an annual written report to the people of the Commonwealth accounting for the revenues received and expenses incurred by the Trust and describing the investments and other transactions authorized by the trustees.@
- A... The trustees shall be held to strict standards of fiduciary care. Each trustee shall annually submit to the Governor and the presiding officers of the Legislature a report disclosing their financial affairs, as provided by law.@

A lease agreement was signed on January 6, 1983 between the Commonwealth and the United States, for the designated premises, for an initial lease term of fifty (50) years.

The CPI adjustment yielded a total price of $33 million for the entire term of the lease, including the fifty (50) year additional option period. From this total amount $6,565,800 was withheld and placed in a joint escrow account pending the Commonwealth=s acquisition of private land holdings within the leasehold area. This escrow fund was later transferred to the Commonwealth Superior Court (named the Tinian Land Acquisition Fund) to be used for funding of the condemnation and land acquisition costs. The final balance of this fund was ordered by the Superior Court to be distributed to MPLC on November 25, 1994.

The ***Covenant*** contains key provisions which are fundamental to the Trust=s development. Article VIII, Section 802 requires that certain lands be made available to the United States Government by lease in order for it to carry out its defense responsibilities. These lands consist of 7,203 hectares on Tinian, 72 hectares at Tanapag Harbor in Saipan, and the entire island of Farallon de Medinilla.

Article VIII, Section 803 of the ***Covenant*** describes the lease terms for the above properties. The Commonwealth will lease the property to the United States for 50 years with the United States having the option of renewing the lease for all or part of the property for an additional term of 50 years. The United States will pay the Commonwealth, in full settlement of the two 50 year lease terms, the total sum of $19,520,600 determined as follows:

- Tinian Island property - $17.5 million;
- Saipan Island property located at Tanapag Harbor - $2 million;
- Farallon de Medinilla Island - $20,600.

The above sum will be adjusted by a percentage, which will be the same as the percentage change in the United States Department of Commerce composite price index from the date of signing the ***Covenant***. Additional terms and conditions of this lease are found in the ***Technical Agreement Regarding Use of Land To Be Leased by the United States,*** which was executed simultaneously with the ***Covenant.***

Furthermore, Section 803 provides for 54 hectares of the leased property at Tanapag Harbor to be made available by the United States, at no cost to the Commonwealth, to establish an American Memorial Park to honor the American and Marianas dead in the World War II Marianas Campaign. The $2 million received from the United States for the lease of this property would be placed into a trust fund with the Aincome@ to be used for the development and maintenance of the park.

PERFORMANCE ANALYSIS

The performance for FY 2008 was down from the resurgence of yields beginning in 2003. An all time high in the stock market was achieved in October 2007 but these values were not sustained as the full weight of the collapsing credit markets ensued for the rest of the fiscal year. The losses were unprecedented as the World financial markets reeled from its effects. The causes for this event were many but in the forefront were the many years of low interest rates and overextension of credit as typified in the subprime market. There were no safe havens as all investment classes were affected. Lucky for the Trust was its investment policy of maximizing its distribution to the Commonwealth General Fund. This policy favors fixed income as opposed to equity and cushioned the Trust's losses.

The result of these economic events caused the Trust to have an investment return of loss of -6.2%. The loss of value from realized and unrealized capital losses was $8,058,525. This is a substantial setback to the Trust's growth progress and will take many years to regain.

MPLT=s principal fund decreased to $69.7 million due to the 2008 economic crisis but even with this, this balance is 2.2 times more than the original principal contributions received from MPLC, etc. This principal growth has occurred while making cumulative distributions of $44.5 million since inception.

While the 2008 economic crash was unprecedented, it does illustrate why the Trust invests in fixed income. It is to cushion or offset the volatility of the equity markets and provide a safety net of guaranteed earnings.

MPLT Trustees invest for the long term by analyzing income needs, acceptable risk levels and investment time horizons. This forms the basis for asset allocations.

Market cycle timing is more important than trying to peg annual market fluctuations caused by changing interest rates.

With this backdrop in place, why does MPLT invest in equities? The reason is long-term equities outperform all other types or classes of investments. MPLT is a long-term investor who does not allow short-term market declines to influence its long-term time horizon. MPLT has grown its principal through the investment in equities. To do otherwise, would be irresponsible and in contradiction to ***modern portfolio theory***.

A review of the Trust=s annual returns for the last five years (see Table 1 below) indicates a five year annualized average rate of return of 6.05% on the total portfolio. This five-year average shows a good performance trend even with the write-down of the NMHC loan in 2006 and this year's economic crises. By comparison the five-year average for managed portfolio is 7.19% and when compared to the Weighted Average of Target Allocation of 5.89% for the same period, it indicates the Trust has been meeting our targeted return for the asset allocation per the Investment Policy Statement. By being able to meet our target, it demonstrates a sound asset allocation strategy.

Annual rates of return taken alone do not present an accurate picture of investment performance. Investment performance must be analyzed consecutively for a range of three to five years. This is because money managers do not try to time market fluctuations caused by short-term interest rate changes and other economic factors. Their goal is to analyze market cycles in order to be fully invested when markets are in an up-swing pattern. Trying to outguess the market in the short term will not yield continuous portfolio growth over the years. Instead added risk and volatility will mark performance negatively resulting in average yields below the historical trends.

The investment revenues (interest & dividends) for 2008 were $3,422,126 as compared to $3,145,308 for 2007. But the capital gains for the year resulted in a loss of $8,058,525 due to the U.S. recession and crises causing huge losses of value.

In summary, MPLT showed that it can maintain its principal even when the stock market has big losses. This defensive or conservative nature of investment style has been able to provide a reliable distributions to its beneficiaries for this year as well as for the preceding years. We are predicting a 2009 rate of return will be in the 8 to 9% range. This is a substantial improvement over this year's loss, but there are still uncertainties as the U.S. as well as the World recovers from the recession. We anticipate being able to continue adding value to the portfolio in accordance with our long-term investment strategy as well as meet the needs of our income beneficiaries.

MARIANAS PUBLIC LAND TRUST

ANALYSIS OF INVESTMENT RETURNS - Table 1

	2008	2007	2006	2005	2004	Five Year Average
Investment Returns:						
Interest	$ 3,041,931	2,729,975	$ 2,018,976	$ 1,801,232	$ 1,895,376	$ 2,297,498
Dividends	680,195	415,333	459,581	466,919	524,402	509,286
Realized Capital Gains	-1,832,256	3,644,123	2,035,408	980,519	1,745,306	1,314,620
Unrealized Capital Gains (Losses)	-6,226,269	1,612,852	-3,012,154	3,583,868	1,998,851	-408,570
Totals	$ -4,636,399	8,402,283	$ 1,501,811	$ 6,832,538	$ 6,163,935	$ 3,652,834
Average Cost of Investments	$ 69,483,856	64,360,902	$ 60,417,320	$ 58,910,592	$ 57,312,960	$ 62,097,126
MPLT Return on Total Investment	-6.19%	12.42%	2.23%	11.36%	10.41%	6.05%
MPLT Return on Managed Investments	-8.69%	12.60%	8.28%	12.37%	11.37%	7.19%
Performance Benchmarks:						
S&P 500	-21.98%	16.44%	5.66%	12.25%	13.87%	5.25%

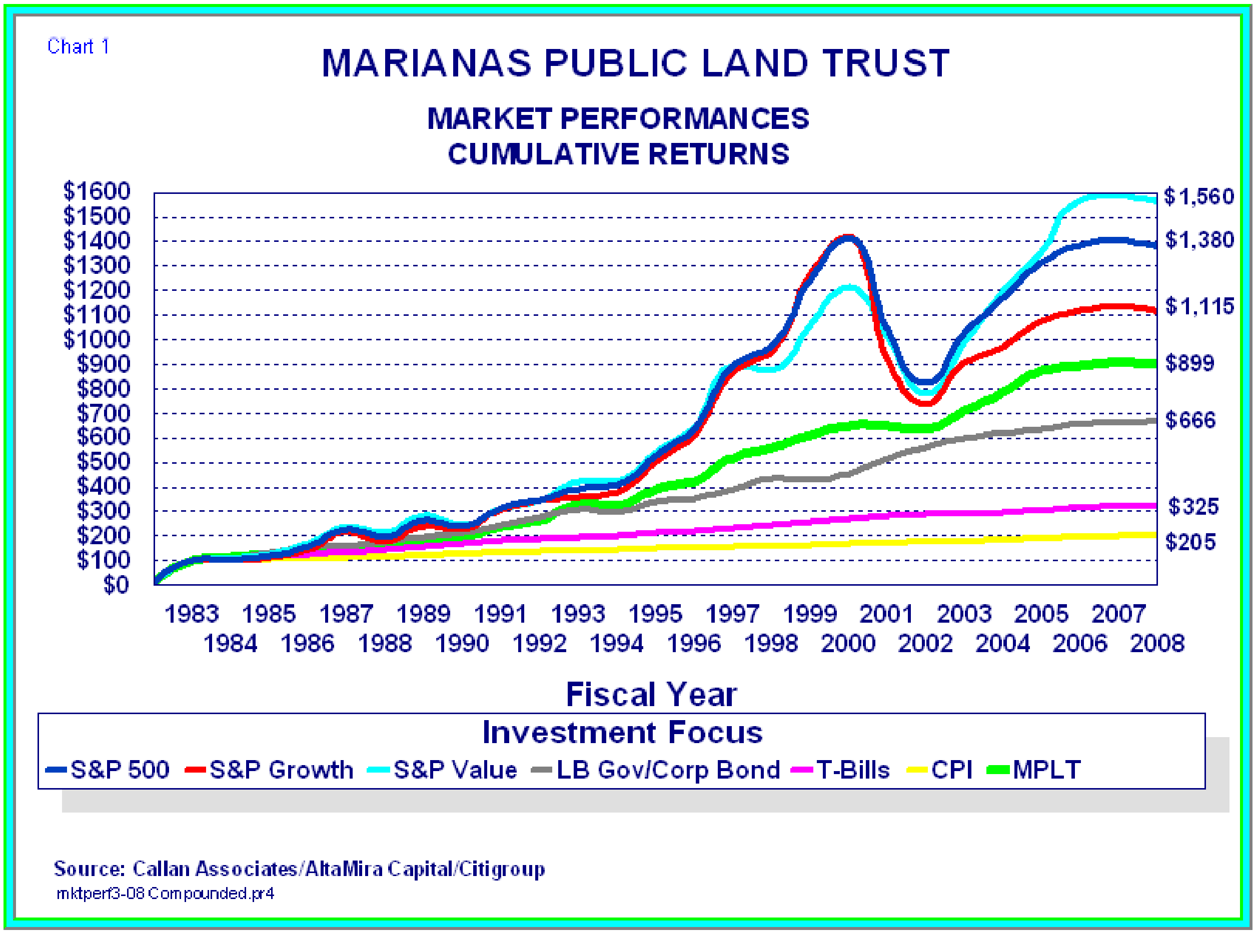
MARIANAS PUBLIC LAND TRUST

ANALYSIS OF INVESTMENT RETURNS - Table 1

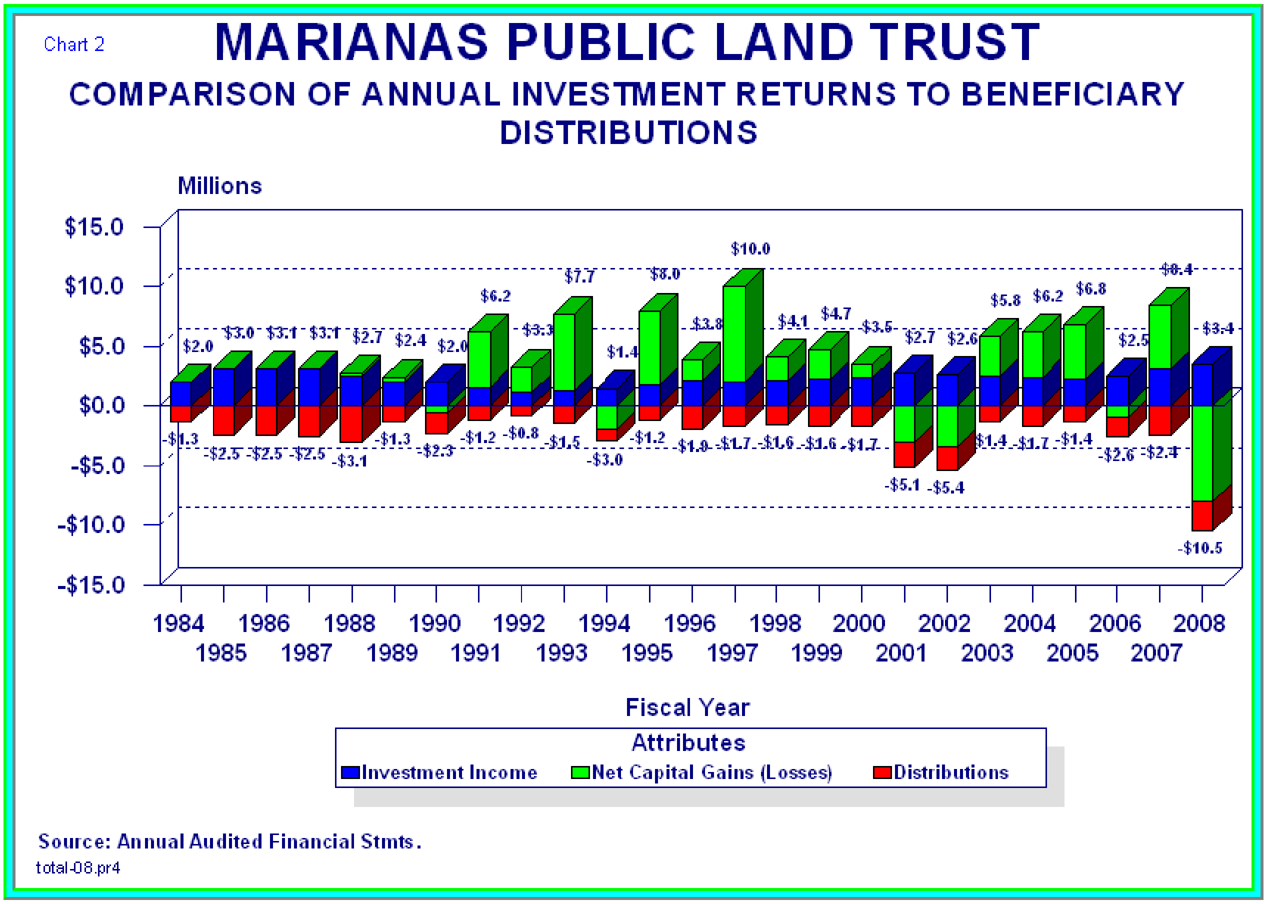
	2008	**2007**	**2006**	**2005**	**2004**	**Five Year Average**
S&P Barra Growth	-19.44%	16.78%	3.95%	10.66%	7.52%	3.89%
S&P Barra Value	-24.50%	16.11%	15.44%	13.82%	20.47%	8.27%
Lehman Govt/Corp Bond	3.66%	5.10%	3.32%	2.56%	3.35%	3.64%
91 Day T-Bills	2.05%	5.02%	4.41%	2.81%	1.78%	2.41%
Consumer Price Index	5.26%	2.76%	2.10%	4.69%	2.48%	3.46%
Weighted Average per Target Allocation	-6.85%	9.83%	9.03%	10.32%	7.10%	5.89%

Another means to review MPLT=s historical return performance is to chart the Trust=s annual rate of return since inception as compared to various indices. Chart 1 is an example of this type of analysis. It assumes an original investment of $100 made in 1983 with annual investment returns reinvested. MPLT=s annual rate of return is charted along with the annual returns for the following indices:

1. S&P 500 Index
2. S&P BARRA Growth Index
3. S&P BARRA Value Index
4. Lehman Bros. Govt/Corp Bond Index
5. 91-Day T-Bills Index
6. Consumers Price Index



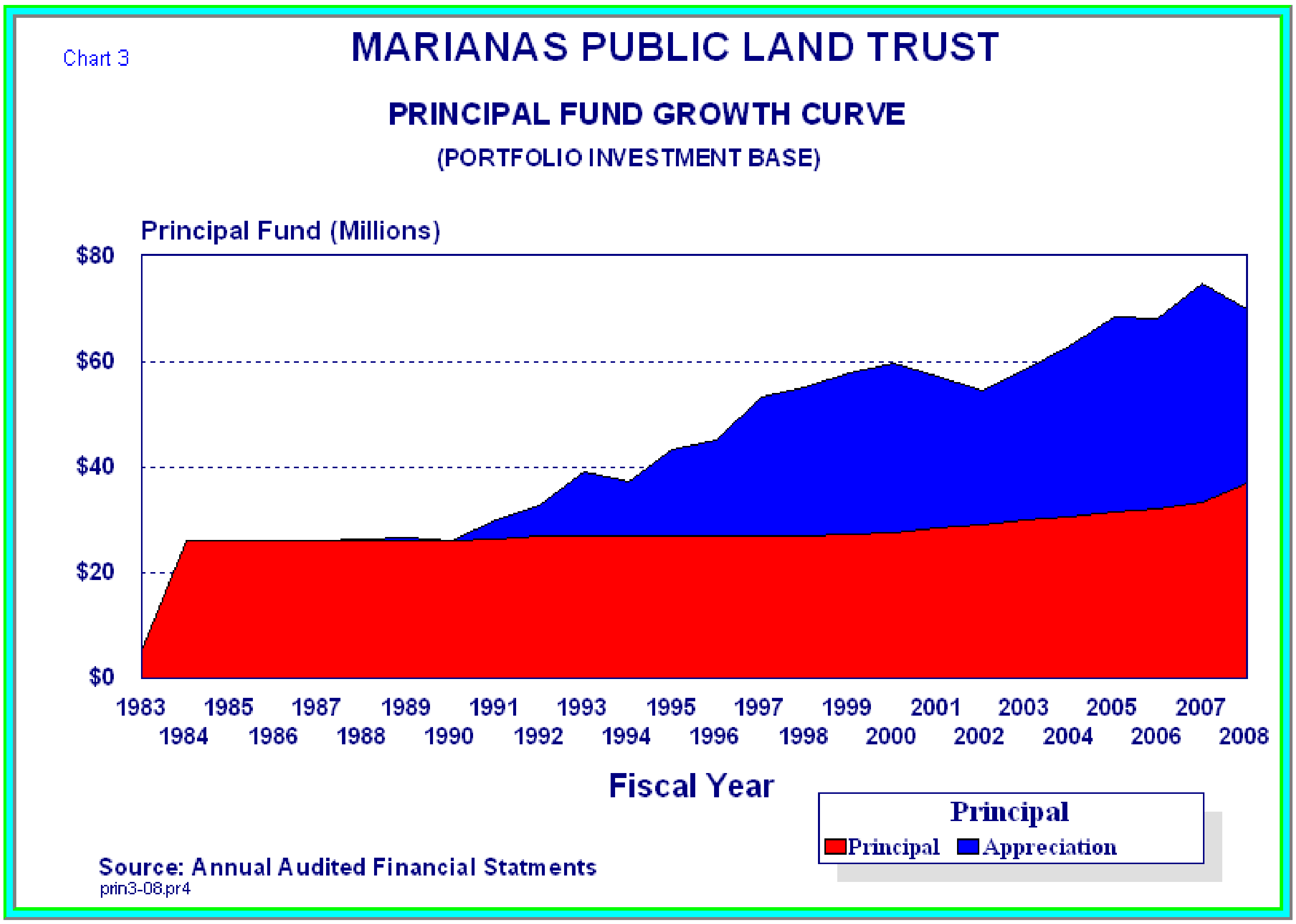
This chart reveals that MPLT has performed very well since inception, earning a cumulative return to grow our original investment of $100 to $899 as compared to the S&P 500, S&P 500 Growth and S&P 500 Value all of which grew to a range of $1,115 to $1,560 (note the chart reveals the downward trend of equities for the 2001 and 2002). The fixed income benchmark, Lehman Bros. Gov/Credit Bond index, cumulatively grew to $666. Based upon our targeted asset allocation of approximately 65% to equities and 35% to fixed-income (effective July 2006), we compare very favorably to the market performances. We can never perform up to the level of the S&P 500 as this index is based upon 100% investment in equities. Our income distribution target to the Commonwealth General Fund and American Memorial Park do not permit us to invest solely in equities.



The accompanying Chart 2 provides an overview of the Trust=s historical returns on investment since its inception. For each year, the positive and negative rates of annual rate of return are shown. For years 1984 through 1987 (and portion of 1988), the returns were for interest only as we were not permitted to invest in anything other than U. S. Treasury obligations. The average annual rate of return for these years was 11.6%; the average annual return rate for the years 1988 through 2008 was 9.3%; a rate which is slightly above the average of the Median Total Balanced Database return for the same period. This is indicative of our money managers performing to the level expected in our Investment Policy Statement that states our expected nominal return shall be 7.1%.

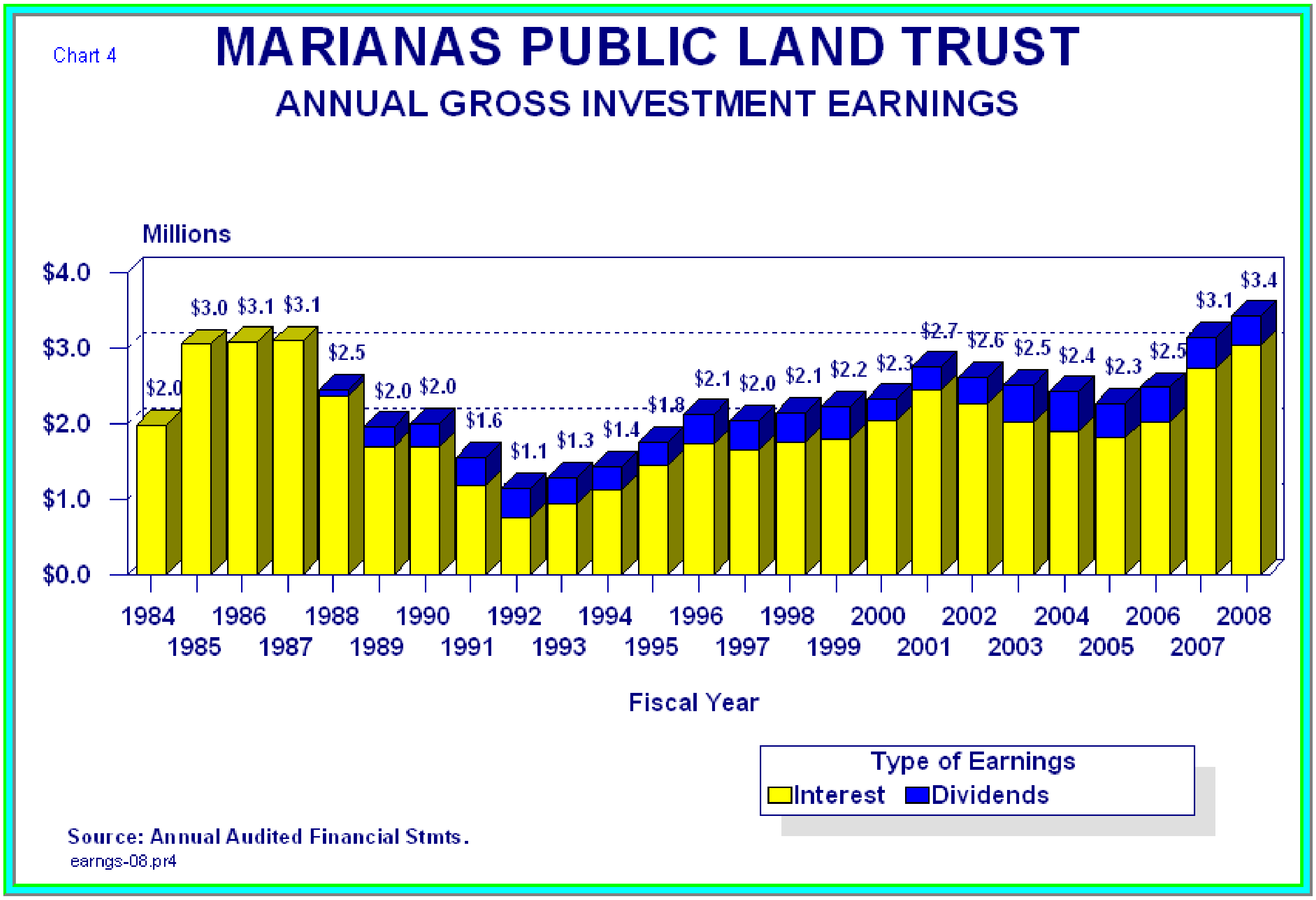
While our money managers have been successful in meeting the returns of the Median Total Balanced Database, they have also been able through the equity portfolio to add value and increase the principal fund since 1988. During the intervening years, we have added $44.5 million to the principal contributions received from MPLC for a 220% gain. This is more than doubling of the principal fund has been accomplished during the last twenty-one years. This net gain of principal has occurred even with the sharp loss of investment value occurring in years 2001 and 2002.

Chart 3 illustrates the increasing investment base derived from capital gains, which are allocable to principal and are not subject to distribution. The red portion of the chart represents the original principal contributions received from MPLC while the blue portion is the value added (appreciation) to the portfolio due to the investment policy instituted in 1988 and the resulting active money management. A further review of this chart reveals the dramatic loss of value occurring in years 2001, 2002 and 2008. It also demonstrates the recovery occurring in years 2003 through 2005 where the losses have been fully recovered. This is a testament to our



investment policy and asset allocation to equities. Without an equity allocation, the Trust would not have been able to achieve this growth. It also shows that by reducing the equity allocation in favor of current income we will not be able to sustain this rate of growth.

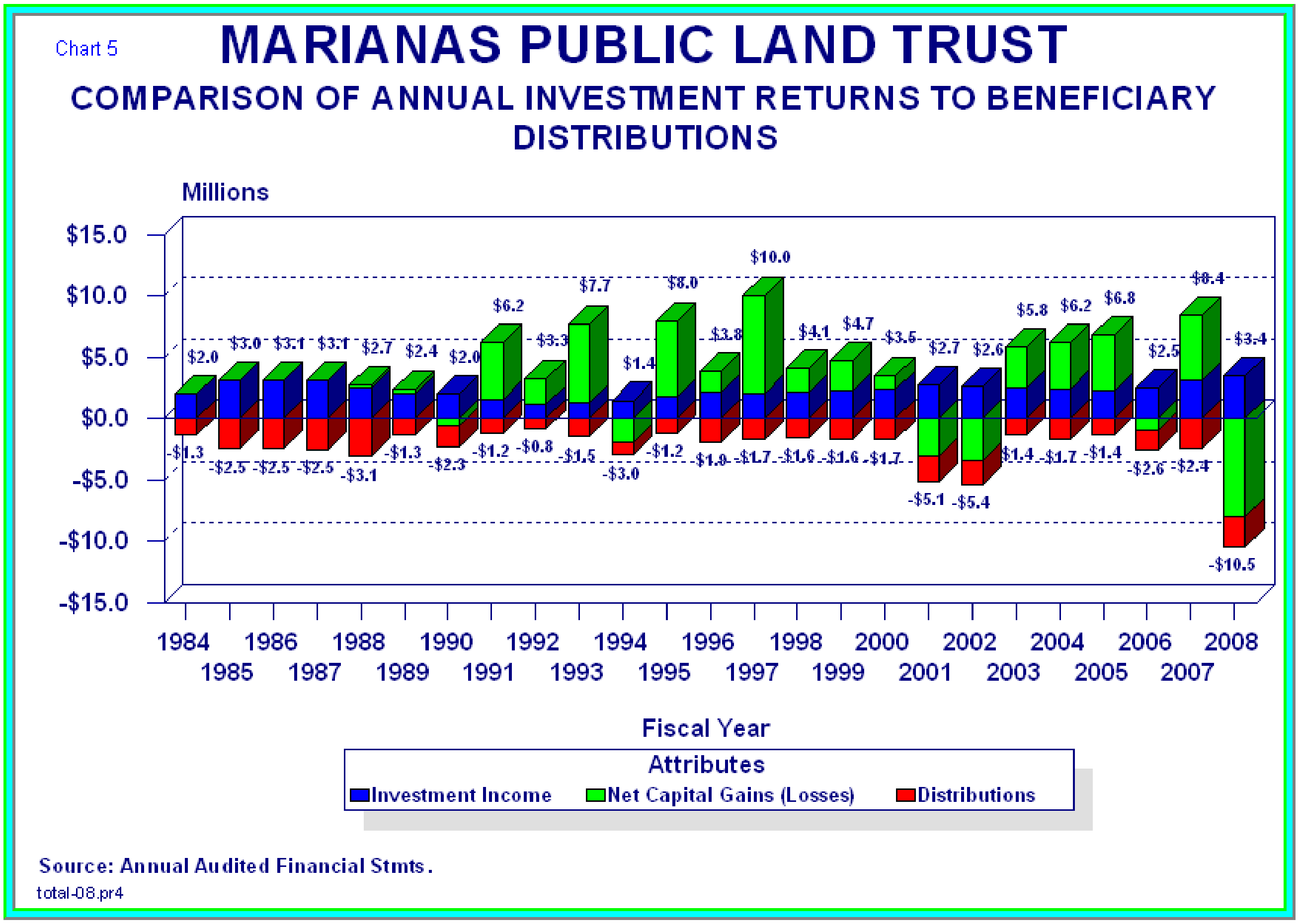
There are trade-offs between capital appreciation and investment earnings. As Chart 4 indicates when we started to enjoy larger annual rates of return and increased capital growth,



our investment earnings declined. This is to be expected and to properly analyze performance all the components of annual return must be considered (investment earnings, i.e., interest and dividends, as well as realized capital gains (losses) and investment appreciation).

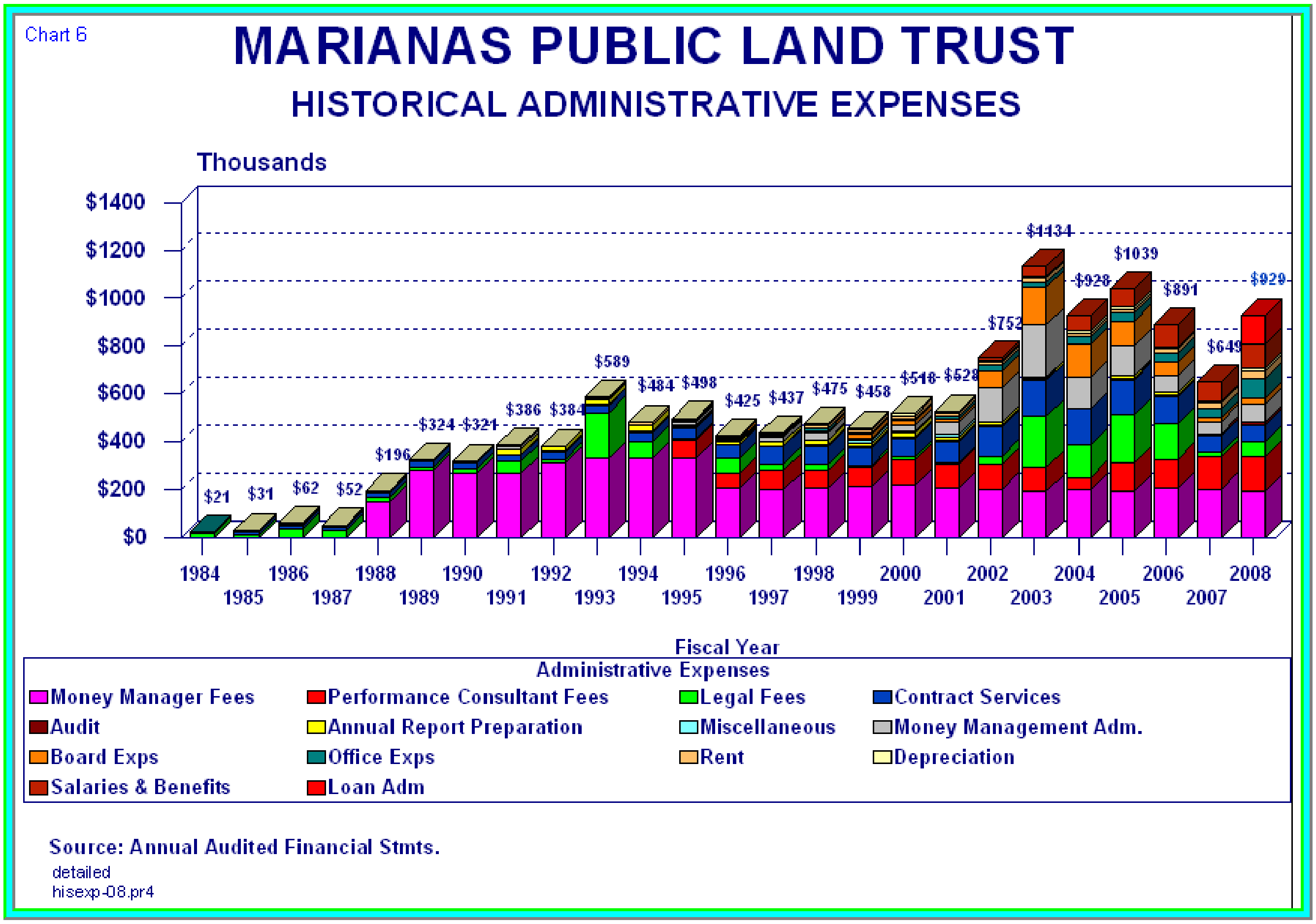
Accordingly, Chart 5 illustrates the total annual investment receipts as compared to the annual distributions to beneficiaries (includes the capital losses for years 1990, 1994, 2001, 2002, 2006 and 2008). Overall, investment returns for the period of active money management has performed at substantial multiples more than the annual average earnings for the years when the portfolio was not actively managed. This illustrates the value of professional active money management over the twenty-five years the Trust has been in existence. Even in down years such as years 1990, 1994, 2001, 2002, 2006 and 2008, the active management approach, given a long time horizon, will provide more income and capital growth than an investment of solely U.S. obligations.

In order to achieve high rates of return and meet the ***Auniform prudent investor@*** standards, the Trust employs money managers who are experts in their fields of investment



focus. Money managers are typically specialists in equities (core, growth, value, small cap., international, etc.) or fixed income. Currently, we have three equity money managers who are characterized as large cap. core and international value and growth managers and a fixed income core manager.

An analysis of Chart 6 reveals our historical administrative expenses since inception. The increase in expenses in 1988 corresponds to the hiring of professional money managers. FY 1993 administrative expenses were unusually high due to very complicated legal expenses which spilled-over into FY 1994. The money management expenses for the years 1992 through 1995 were at the same approximate level, but commencing in 1995 we hired a professional investment performance consultant to study, among other matters, how we could reduce money management expenses. Starting in 1996 his efforts began to be realized as money management expenses were reduced significantly even when including his fees. Overall money



management fees have been relatively stable since 1996 and are not expected to decrease in future years and may increase proportionately as the value of our investments rise. Our expenses for legal and board consultant=s contract have also remained fairly stable since 1994, except for 2003, 2004 and 2005 when our legal fees rose due to litigation issues with MPLA. Since many legal issues have been resolved and the consultant's contract amount fixed, the legal and contract fees declined in 2006 by 26% from the amount in 2005. This trend continued for 2007 as there were no major legal issues. Performance consultant fee increased in 2007 as the value of the portfolio increased. This fee is also based upon a percentage of the value of the managed portfolio and will increase as the value of the portfolio increases. The remaining expenses of board expenses, salaries, office, and rent decreased in 2007 and remained about the same for 2008. The major increase to administration expenses for 2008 was due to additional costs of managing the NMHC loan portfolio.

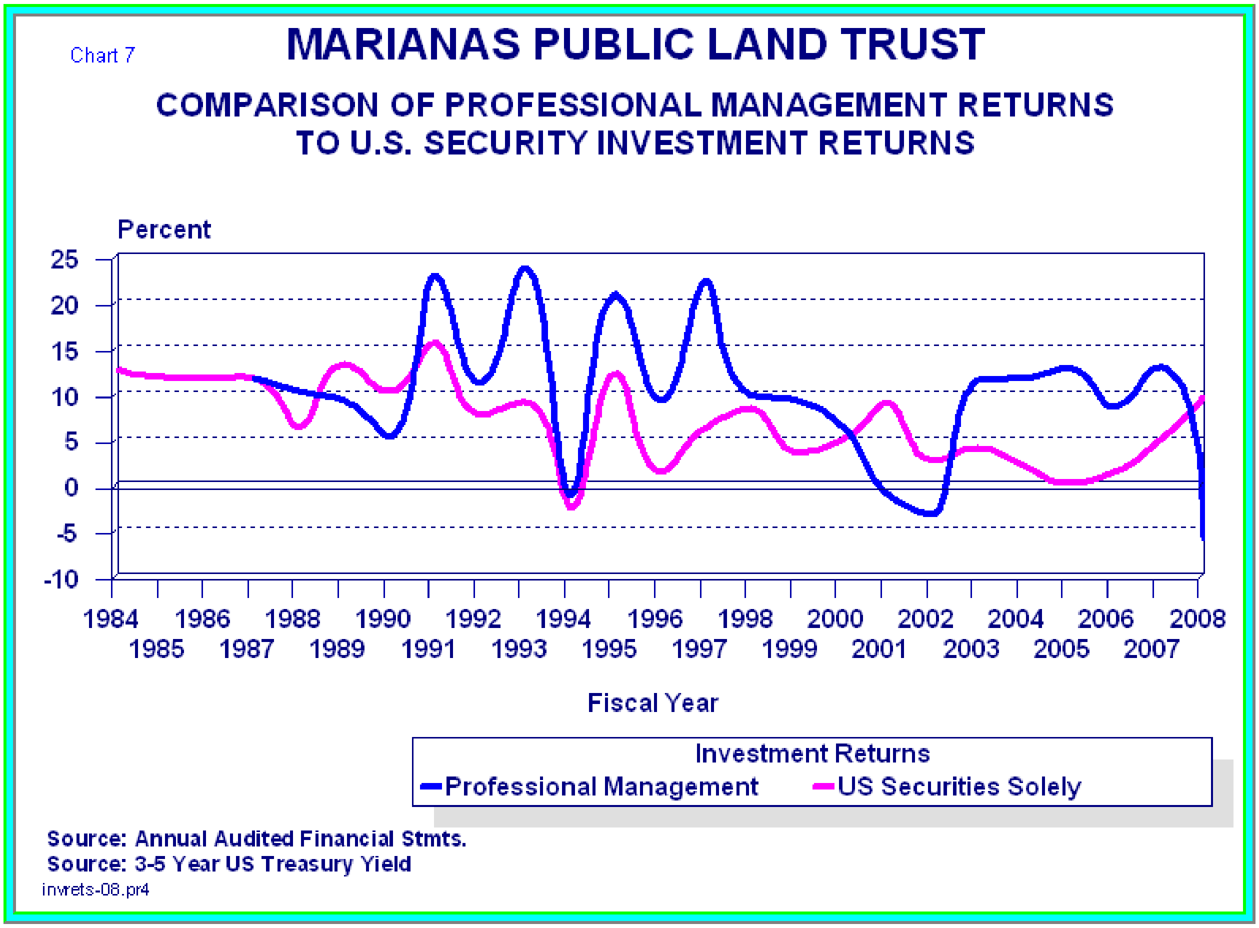
Due to the technical nature of professional investing, the Board of Trustees' and staff must maintain a level of proficiency in the technical concepts of investing and money management.

The following are the money management activities and seminars attended in 2008:

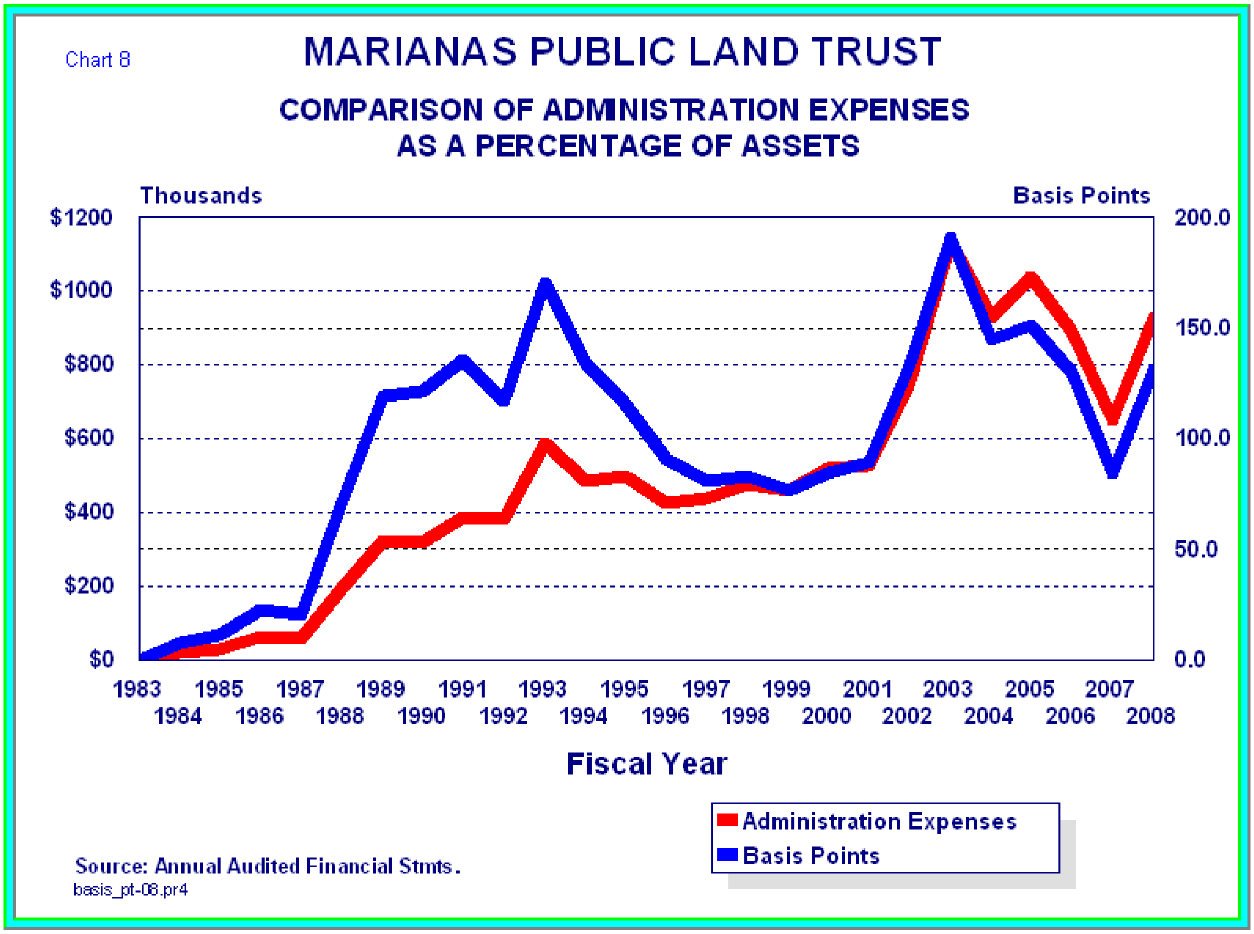
Dates	Conference	Location
Aug. 25-27, 2008	IFEBP International Investment & Emerging Markets	San Francisco, CA
July 28, 2008	AIF Capstone Program	San Francisco, CA
April 14-16, 2008	IFEBP Investment Institute	San Francisco, CA
Jan. 8-10, 2007	Laserfiche Institute Conference	Los Angeles, CA
October 18-19, 2007	APAFS Annual Investment Conference	Makati, PI
October 8-9, 2007	DOI Island Business Opportunities Conference	Guam

Overall the administrative expenses for the Trust increased by 43% over the amount in 2007. It is expected that the administrative expenses in 2009 will decrease slightly. It is estimated that administrative expenses for 2009 will be in the range of $830,000. The Board of Trustees is cognizant of these costs and will continue to be vigilant in order to control administrative expenses in order to maximize the annual distribution to the Commonwealth General Fund.

To further illustrate the value and necessity of professional money management as compared to managing the money ourselves, as we did from 1983 until 1988, a graph of the rates of return has been prepared showing the returns of investing solely in U. S.



Securities (3 to 5 year U. S. Treasury bonds) compared to MPLT=s actual returns during the period of professional management (1988 through 2008). Chart 7 reveals that, except for 1989, 1990, 2001, 2002 and 2008, the yields returned by professional money managers have consistently outperformed those of our prior investment policy when we were limited to investing solely in U. S. Obligations. An average of the annual returns for each of these two options or approaches reveals that the professional money managers yielded 2.2 times more than an investment plan limited to U. S. Obligations solely. Since we pay our money managers annually from 25 to 50 basis points (100 basis points equals 1%) of the value of the monies they manage, the incremental annual gain is more than justified. To do otherwise would be a breach of our fiduciary duty and would be contradictory to ***modern portfolio theory.***



Another way of looking at the effectiveness of our investment policies is to compare our administrative expenses each year since inception to the total Trust=s assets (using fair market valuation). Chart 8 illustrates the progression and growth of our administrative expenses (red line) over the years, which reached its highest level in 2003. Since this time, administrative expenses have been trending down. The blue line of the chart depicts the annual administrative expenses as a percentage of the Trust=s total assets. This percentage is expressed in basis points (100 bp equals 1%). This line shows that the costs of running the Trust as compared to the growth of our investment program. Currently, this relationship of asset growth and administrative expenses shows that the Trust's total administrative expenses continue to decline at a faster rate than the dollar amounts expended. This is due to the investments performing well and adding value to the portfolio. It is the goal of the Trust to continue this trend to lower the ***rate***

of administrative expenses over the coming years. Over the past nineteen years, the Trust has spent $12,143,075 for administrative expenses to create $39,167,778 of new assets.