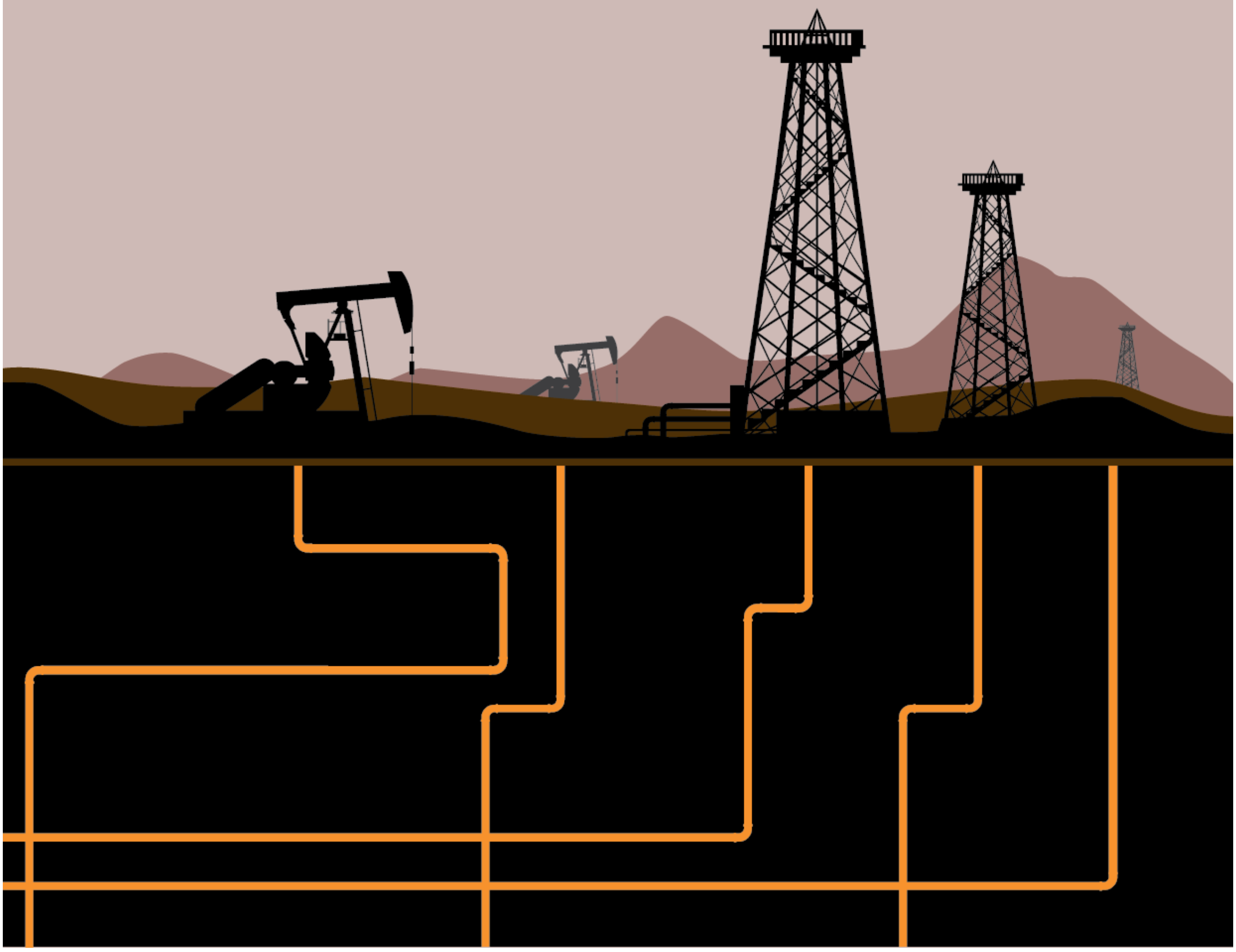
Trinidad and Tobago

Heritage & Stabilisation Fund

QUARTERLY REPORT
JANUARY - MARCH 2012



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EXECUTIVE SUMMARY

During the first quarter of 2012, the global economy showed signs of improving as economic indicators in the United States were generally better than expected and important policy measures were implemented in the Euro area**.** The current outlook is for a weak recovery in the major advanced economies while activity should remain relatively solid in emerging market economies.

In the United States (US), preliminary GDP data for the first quarter of 2012 suggested that the economy grew at an annualised rate of 2.2 per cent compared with 3 per cent in the fourth quarter of 2011. Other economic indicators for the first quarter pointed towards modest improvements in manufacturing activity, consumer confidence and labour market conditions. The IMF's recent World Economic Outlook projects that the economy will grow by 2.1 per cent in 2012.

In response to heightened concerns about the sovereign debt crisis in the **Euro zone**, the authorities introduced some key policy measures. These included the decisions to enhance the region's "safety net" by combining the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM), the injection of additional liquidity through the second round of the Long Term Refinancing Option (LTRO), fiscal and structural reforms as well as a commitment by Euro Zone leaders to strengthen Europe's financial firewall.

In the UK, preliminary GDP data for the first quarter of 2012 indicated that the economy returned to recession as growth contracted for the second consecutive quarter. Output declined by 0.3 per cent in the last quarter of 2011 and 0.2 per cent in the first quarter of 2012. However, the Purchasing Managers' Index (PMI) an indicator of financial activity reflecting purchasing managers' acquisition of goods and services, sentiment indicators and the labour market numbers showed improvements during the first quarter of 2012.

Meanwhile**,** economic activity **in Japan** appeared to have picked up slightly as vehicle production, machine orders and bank lending increased. Also improving was industrial production which rose 1.5 per cent on a year-on-year basis to February 2012, up from a contraction of 3 per cent in December 2011. The Bank of Japan (BOJ) however, expects growth to remain flat in the first half of 2012 before returning to a moderate recovery path.

Global financial markets sentiments improved in the first quarter of 2012, as fears of an escalation of the euro area crisis subsided following the Greek debt restructuring as well as the policy measures implemented in the Euro Area. These caused investors to increase their demand for relatively riskier assets such as equities and corporate bonds while US Treasury securities sold off. **Global equities** as measured by the MSCI World index exhibited a strong performance in the first quarter of 2012, returning 10.9 per cent. This marked the best quarterly performance for the index since September 2010. Among the major equity markets, the Japanese Nikkei 225 Index stood out as the best performer returning 19.26 per cent, closely followed by the German DAX 30 Index which returned 17.78 per cent over the quarter. Meanwhile equity indices in the US, namely the Russell 3000 and the S&P 500 also posted quarterly returns of 12.32 per cent and 12 per cent, respectively.

In the bond market, the movement in sovereign yields was mixed with those in the US and UK increasing while those in the Euro zone generally declined as the European Central Bank provided much needed liquidity to the market. European banks made use of the cheap funding and purchased European sovereign bonds which contributed to a reduction in those sovereign yields. One notable exception was Spain where the cost of government borrowing rose.

In the context of the above economic and financial conditions, **the HSF investment portfolio generated a return of 5.04 per cent in the three months to March 2012** compared with 4.46 per cent for its SAA benchmark and 2.74 per cent during the fourth quarter of 2011. The strong performance of the equity portion of the Fund continued to be the main driver of total returns, contributing 4.71 per cent, while the fixed income portion added the remaining 0.33 per cent. All the portfolios outperformed their respective benchmarks.

Contribution to Quarterly Return,
For the period January 2012 – March 2012
/per cent/

Composite Portfolio and Mandates	Portfolio Weights as at 31-Mar- 2012	Absolute Return HSF	Weighted Return HSF	Weighted Return Benchmark
Composite Portfolio	**100.00**	**5.04**	**5.04**	**4.46**
US Core Domestic Fixed Income	38.83	0.75	0.31	0.12
US Core Domestic Equity	19.72	15.22	2.71	2.36
Non US Core International Equity	17.75	11.66	1.94	1.98
US Short Duration Fixed Income	23.70	0.03	0.01	-0.05

NB: Differences in totals are due to rounding.

The net asset value of the HSF was US$4,397.3 million at the end of March 2012, up from US$4,191.2 million at the end of December 2011. A deposit of approximately US$26.2 million was made to the Fund in April 2012. This was consistent with the HSF Act where deposits are to be made no later than one month after the respective quarter's end.

SECTION 1 – INTERNATIONAL ECONOMIC ENVIRONMENT

United States

According to the US Commerce Department, preliminary GDP data for the first quarter of 2012 slowed to an annualised annual rate of 2.2 per cent compared with growth of 3 per cent in the fourth quarter of 2011. This slowdown largely reflected a deceleration in business investment and a contraction in government expenditure, in particular defense spending. On the positive side, consumer expenditure and exports grew at a faster pace relative to the previous quarter. The Institute of Supply Management's Purchasing Managers Index[1] (PMI), which gauges the level of activity in the manufacturing sector, increased marginally to 53.4 in March 2012 from 53.1 in December 2011. This marked the 32nd consecutive month of expansion for the manufacturing sector. The IMF's recent World Economic Outlook projects that the economy will grow by 2.1 per cent in 2012.

Other economic indicators for the first quarter pointed towards modest improvements in consumer confidence and labour market conditions. Over the quarter, the Conference Board Consumer Confidence Index rose to 69.5 per cent in March 2012 from 64.8 in December 2011. Market analysts are expecting consumer sentiment to wane somewhat in the coming months as lower stock prices in April may adversely impact consumers' expectations for the quarter ahead.

In the labour market, nonfarm payroll employment rose by a monthly average of 210,000 during the quarter compared with 164,000 in the prior three months. Most of the additional jobs were in manufacturing, health care and the business services industry.

[1] An index value in excess of 50 per cent indicates an expansion in activities in the manufacturing sector, while a posting below 50 per cent represents a contraction.

This improvement resulted in a decline in the unemployment rate to 8.2 per cent in March 2012, from 8.5 per cent in December 2011.

Meanwhile, developments in the housing market were not as encouraging since new and existing homes sales declined during the period. In addition, the S&P/Case-Schiller (20-City) Composite Index indicated that home prices in the major cities continued to decline on a year-on-year basis by 3.9 per cent in January 2012 and 3.5 per cent in February 2012. The bright spot for this market however, was the modest increase in building permits for the quarter which averaged 715,000 compared to 665,000 in the previous three months.

The Federal Open Market Committee at its March 12, 2012 meeting acknowledged that the economic conditions have generally shown some improvement and despite the increases in oil and gasoline prices, inflation has remained relatively subdued. As such, the Committee decided to keep the target range for the Federal Funds rate unchanged at 0.00 to 0.25 per cent and reiterated that the economic conditions are likely to warrant exceptionally low interest rate levels until late 2014.

Euro zone

In the Euro zone, the latest real GDP data revealed that output contracted by 0.3 per cent in the fourth quarter of 2011 compared with growth of 0.1 per cent three months earlier. This along with heightened uncertainty about the sovereign debt crisis, led to renewed fears of another recession in the region. Investor confidence at the start of the first quarter of 2012 was very fragile in spite of the liquidity provided by the European Central Bank (ECB) through its first Long term Refinancing Option (LTRO) in December 2011. In light of the numerous challenges facing the region, the IMF projected that growth in the Euro zone will contract by 0.3 per cent in 2012.

In other developments, S&P lowered the credit rating of the Economic Financial Stability Facility (EFSF), the region's "safety net," following downgrades to nine euro zone countries in January. However, Greece was able to secure a second bail-out package amounting to EUR 130 billion and was able to restructure its debt through the use of collective-action clauses. Nevertheless, the debt restructuring constituted a default event and triggered payouts on credit default swaps.

During the quarter, various policy measures were used to bring stability to market conditions. These included the injection of additional liquidity through the second round of the LTRO, fiscal and structural reforms, particularly in Spain and Italy and a commitment by Euro Zone leaders to strengthen Europe's financial firewall aimed at preventing debt problems in one country from spreading to others. With market conditions being relatively calmer, investor confidence recovered but this was short-lived as economic indicators continued to disappoint.

Unemployment in the Euro zone rose to 10.8 per cent in February 2012, from 10.6 per cent in December 2011. Among the member states, the highest unemployment rate was recorded in Spain where it measured 23.6 per cent. Meanwhile, the year-on-year inflation rate remained unchanged at 2.7 per cent in March, the same rate recorded in December 2011.

Given the present risks to growth, the Governing Council of the ECB at its April 2012 meeting decided to keep its benchmark rate unchanged at 1.00 per cent.

United Kingdom

Preliminary GDP data for the first quarter of 2012 indicated that the UK economy is in a "technical" recession as growth contracted for the second consecutive quarter. Output declined by 0.2 per cent in the first quarter compared with 0.3 per cent in the prior quarter. This fall-off in growth reflected a 3 per cent contraction in construction and a 0.4 per cent decline in industrial production. This outturn was somewhat surprising as the manufacturing PMI, sentiment indicators and labour market data showed improvements during the quarter. Some analysts believe that these indicators give a more accurate gauge of the underlying trends. As such, it is likely that the preliminary GDP estimate will be revised upwards when more information becomes available.

According to the UK manufacturing PMI, the manufacturing sector expanded in the first quarter of 2012 as the index read 52.1, up from 49.7 in December. This reading was the highest since April 2011 and was supported by increases in new orders by firms and new exports. Meanwhile, the unemployment rate declined to 8.3 per cent in February 2012 from 8.4 per cent in December while the growth in consumer prices slowed to 3.5 per cent in the twelve months to March 2012 from 4.2 per cent three months earlier.

At its meeting in April, 2012 the monetary policy committee voted to keep the official Bank rate paid on commercial bank reserves at 0.5 per cent and to maintain the size of its programme of asset purchases at GBP 325 billion, having increased it by GBP 50 billion in February 2012.

Japan

The latest GDP data revealed that the Japanese economy contracted by 0.2 per cent during the fourth quarter of 2011 compared with growth of 1.7 per cent in the prior quarter. Since then, economic activity appeared to have picked up slightly as vehicle production, machine orders and bank lending increased. Also improving was industrial production which rose 1.5 per cent on a year-on-year basis to February 2012, up from a contraction of 3 per cent in December 2011. The Bank of Japan (BOJ) however, expects growth to remain flat in the coming quarters before returning to a moderate recovery path.

On February 14, 2012 the BOJ increased the size of its asset purchase programme by JPY10 trillion (US$128 billion) through the purchases of Japanese government bonds, taking the total programme to JPY65 trillion. The Bank also communicated its price stability goals of price inflation of 2 per cent or below over the medium-to-long-term and a 1 per cent annual change in consumer prices in the interim. Japan's annual inflation rate rose to 0.3 per cent in February from -0.2 per cent in December 2011. In April 2012, the Policy Board of the BOJ decided to keep its benchmark interest rate unchanged at the range of 0 to 0.1 per cent and to further expand its asset purchase programme by JPY5 trillion.

SECTION 2 – CAPITAL AND MONEY MARKET REVIEW

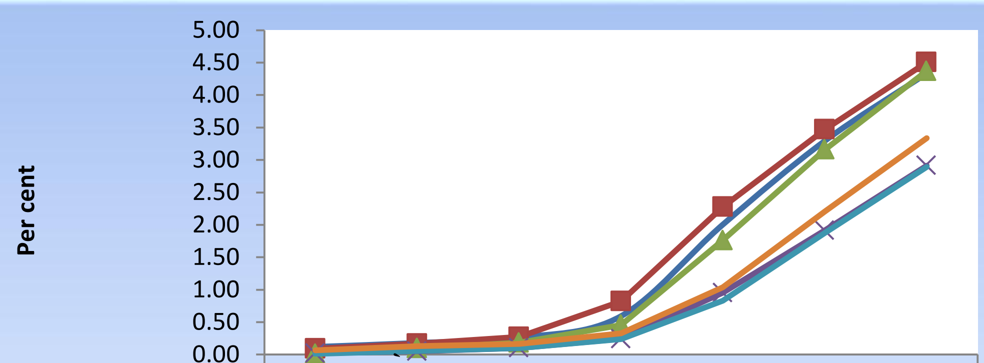
Sentiments in global financial markets improved in the first quarter of 2012, as fears of an escalation of the euro area crisis subsided following the Greek debt restructuring, the implementation of ECB's second LTRO and the decision to strengthen the euro area firewall. These developments along with the improving economic data in the world's largest economy boosted investor optimism. As a result, investors increased their demand for relatively riskier assets such as equities and corporate bonds while Treasury securities sold off. Global equities as measured by the MSCI World index exhibited a strong performance in the first quarter of 2012, returning 10.9 per cent. This marked the best quarterly performance for the index since September 2010. Most of the developed markets recorded double-digit gains with the Nikkei index leading the way, increasing 19.72 per cent over the quarter. Meanwhile, the US S&P 500 index rose by 12 per cent as nine of the ten sectors generated positive returns. The Chicago Board Options Exchange Volatility Index (VIX), which is a widely used measure of market risk and is often referred to as the "investor fear gauge", indicated that volatility trended downwards in the US over the quarter, reaching 15.5 points at the end of March 2012 compared with 23.4 points at the close of December 2011.

In the fixed income markets, the movement in sovereign bond yields in the first quarter of 2012 was mixed, with those in the US increasing as the Federal Reserve Bank upgraded its assessment of the economy. Meanwhile, the liquidity provided to the financial sector by the ECB in December 2011 and February 2012 depressed yields in most of the Euro Area.

Fixed Income

During the first quarter of 2012, the movement in US Treasury yields made a directional change after exhibiting a downward trend for three consecutive quarters to December 2011. The 10-year benchmark Treasury yield increased to 2.21 per cent at the end of March 2012 from 1.88 per cent in December 2011, but it still remained lower than the yield of 3.47 per cent for the corresponding period in 2011. (Figure 1 refers). The higher yield reflected investors increased optimism about the economy which led to the selling off of Treasury securities. This improved optimism was reinforced by the FOMC comments that the declining rate of unemployment, increased business investment and consumer spending were positive signs for the US economy.

Figure 1
US Treasury Yield Curve
/per cent /

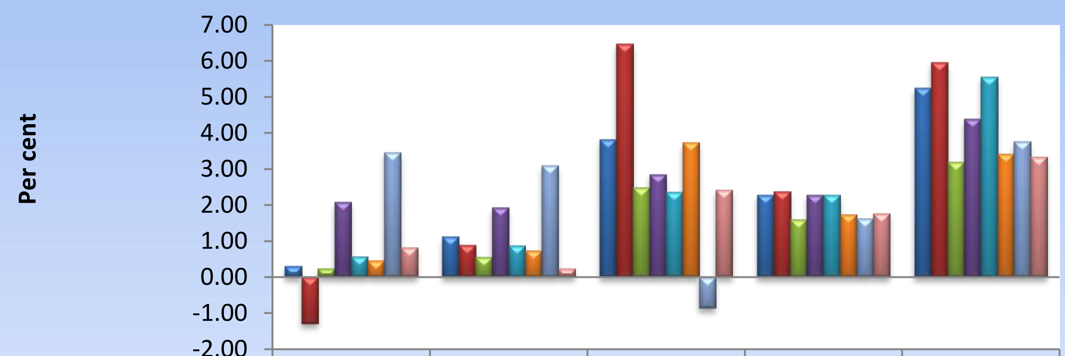


	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
December 31, 2010	0.12	0.18	0.26	0.59	2.01	3.29	4.33
March 31, 2011	0.09	0.17	0.27	0.82	2.28	3.47	4.51
June 30, 2011	0.01	0.10	0.18	0.46	1.76	3.16	4.37
September 30, 2011	0.02	0.05	0.10	0.24	0.95	1.92	2.91
December 31, 2011	0.01	0.06	0.10	0.24	0.83	1.88	2.89
March 31, 2012	0.07	0.13	0.17	0.33	1.04	2.21	3.34

Source: Bloomberg.

In the broader US bond market, Commercial Mortgage Backed Securities (CMBS) returned 3.46 per cent to record another solid quarterly performance. Meanwhile, the Investment Grade Corporate sector also had a strong performance as these bonds gained 2.08 per cent in the quarter ended March 2012. These returns were in contrast to that of the US Treasury sector which lost 1.29 per cent and was the worst performing sector in the Barclays Capital US Aggregate Bond index. For the first quarter of 2012, the Barclays index returned 0.30 per cent, compared with 1.12 per cent in the prior quarter (See Figure 2).

Figure 2
Returns on Fixed Income Indices
/per cent/



	QTR ended Mar-12	QTR ended Dec-11	QTR ended Sep-11	QTR ended Jun-11	FY 10/11
Barclays U.S. Aggregate	0.30	1.12	3.82	2.29	5.26
U.S. Treasuries	-1.29	0.89	6.48	2.39	5.97
U.S. Agencies	0.24	0.55	2.48	1.60	3.20
U.S. Corporate	2.08	1.93	2.85	2.28	4.40
U.S. MBS	0.57	0.88	2.36	2.28	5.56
G-7 Global Bonds (Hedged)	0.46	0.74	3.75	1.74	3.42
CMBS Index	3.46	3.11	-0.86	1.63	3.76
ABS Index	0.83	0.23	2.42	1.77	3.34

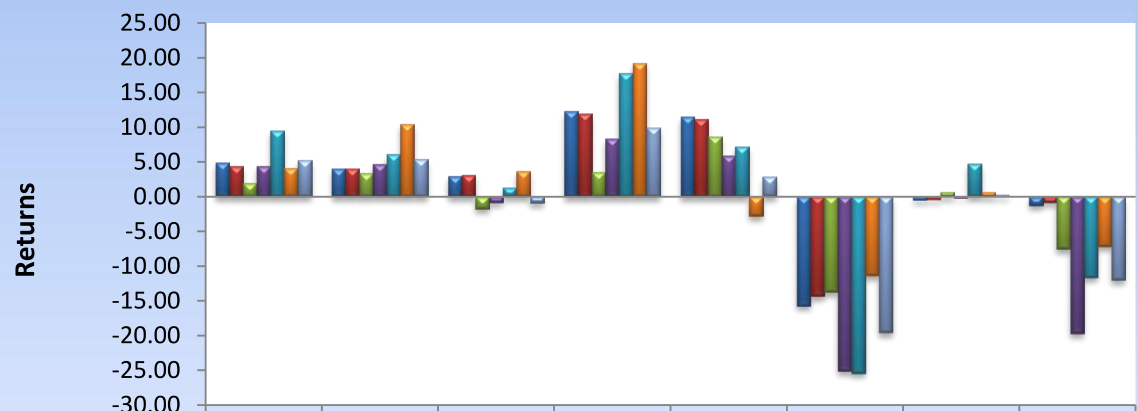
Source: Barclays Capital.

Meanwhile in Europe, government bond yields generally declined over the quarter as the European Central Bank provided the much needed liquidity to the market. European banks made use of the cheap funding and purchased European sovereign bonds which contributed to a reduction in the yields of these sovereigns bonds. One notable exception was Spain where bond yields rose despite the initial impact of the LTRO which had temporarily lowered the cost of government borrowing. The yield on the Italian Government ten-year bond declined to 5.12 per cent in March 2012 from 7.11 per cent at the end of December 2011. Over the same period, the yield on the France's Government bond fell to 2.89 per cent from 3.15 per cent, while the Government ten-year bond yield in Germany moved to 1.79 per cent in March from 1.83 per cent at the end of December 2011.

Equity Markets

In the three months to March 2012, most equity markets posted strong gains. The general increase in risk appetite was largely driven by the accommodative monetary policy stance by Central Banks, better-than expected economic data, especially the United States and signs that the crisis situation in the Euro zone was abating. These factors overshadowed the concerns about China's slower pace of growth and the rising price of oil. Among the major equity markets, the Japanese Nikkei 225 Index was the best performer returning 19.26 per cent, closely followed by the German DAX 30 Index which returned 17.78 per cent over the quarter. Meanwhile equity indices in the US, namely the Russell 3000 and the S&P 500 posted quarterly returns of 12.32 per cent and 12.00 per cent, respectively. In the case of the US, the returns made over the last six months were more than sufficient to recoup the losses made in the September 2011 quarter. This however, was not the case in most of the other developed markets where the robust performances still were unable to fully recover the heavy losses these markets had experienced.

Figure 3
Returns on Equity Indices
/Per cent/



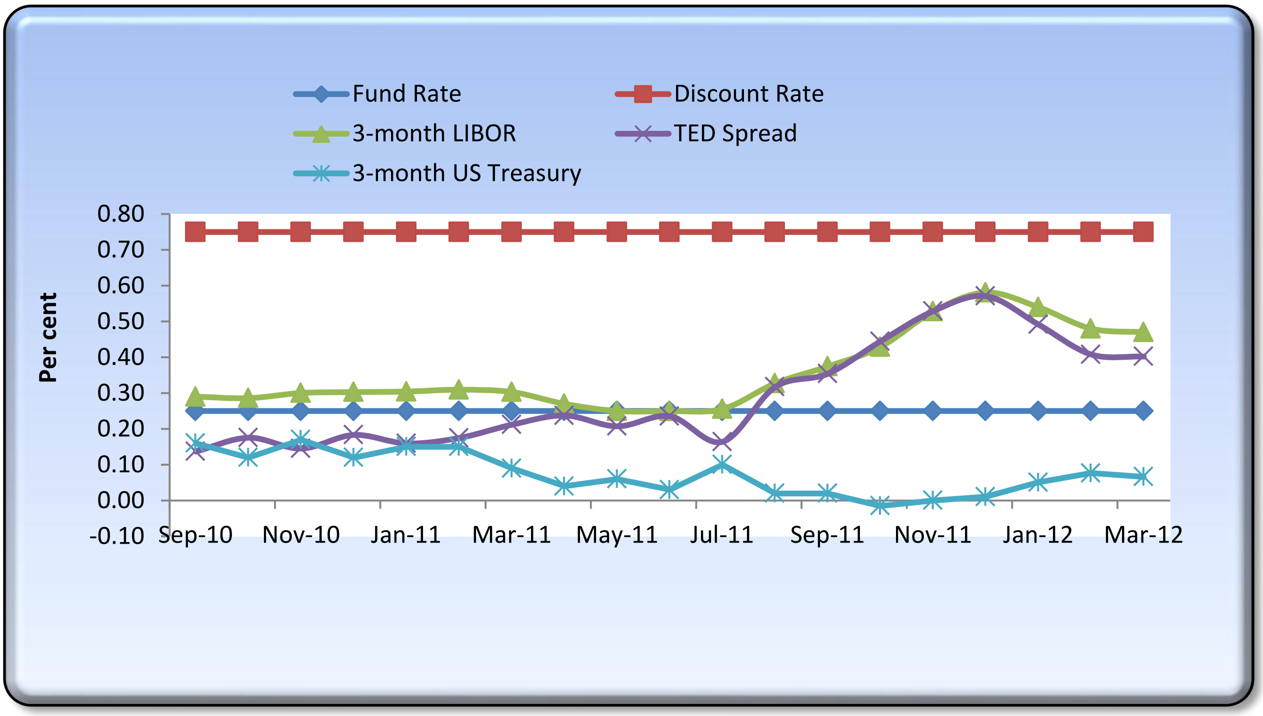
	Jan-12	Feb-12	Mar-12	QTR ended Mar-12	QTR ended Dec-11	QTR ended Sep-11	QTR ended Jun-11	FY 10/11
Russell 3000	4.93	4.00	2.93	12.32	11.50	-15.70	-0.48	-1.30
S&P 500	4.36	4.06	3.13	12.00	11.15	-14.33	-0.39	-0.86
FTSE 100 - UK	1.96	3.34	-1.76	3.52	8.65	-13.74	0.63	-7.57
CAC 40 - France	4.39	4.67	-0.83	8.35	5.96	-25.12	-0.17	-19.74
DAX 30 - Germany	9.50	6.15	1.32	17.78	7.20	-25.41	4.76	-11.67
Nikkei 225 - Japan	4.11	10.46	3.71	19.26	-2.82	-11.37	0.63	-7.14
MSCI EAFE	5.25	5.44	-0.91	9.98	2.86	-19.60	0.32	-12.02

Source: Bloomberg.

Money Market

Money market yields declined during the quarter as the ECB injected its second round of liquidity into the market through the LTRO. This made it easier for European banks to access funds on the inter-bank market. Also contributing to the fall in money market rates was the Federal Reserve reiteration that the federal funds rate is likely to remain low until late 2014. The 3-month London Inter-Bank Rate (LIBOR) declined by 11 basis points to 47 basis points at the end of March 2012 compared with 58 basis points three months earlier. Conversely, the 3-month US Treasury bill rose to 6 basis points in March, up from 1 basis point at the end of December 2011. Accordingly, the TED spread, which represents the difference between the 3-month Treasury bill rate and 3-month LIBOR, tightened by 17 basis points to 40 basis points in March 2012 compared with 57 basis points three months earlier.

Figure 4
US Money Market Rates
/per cent/

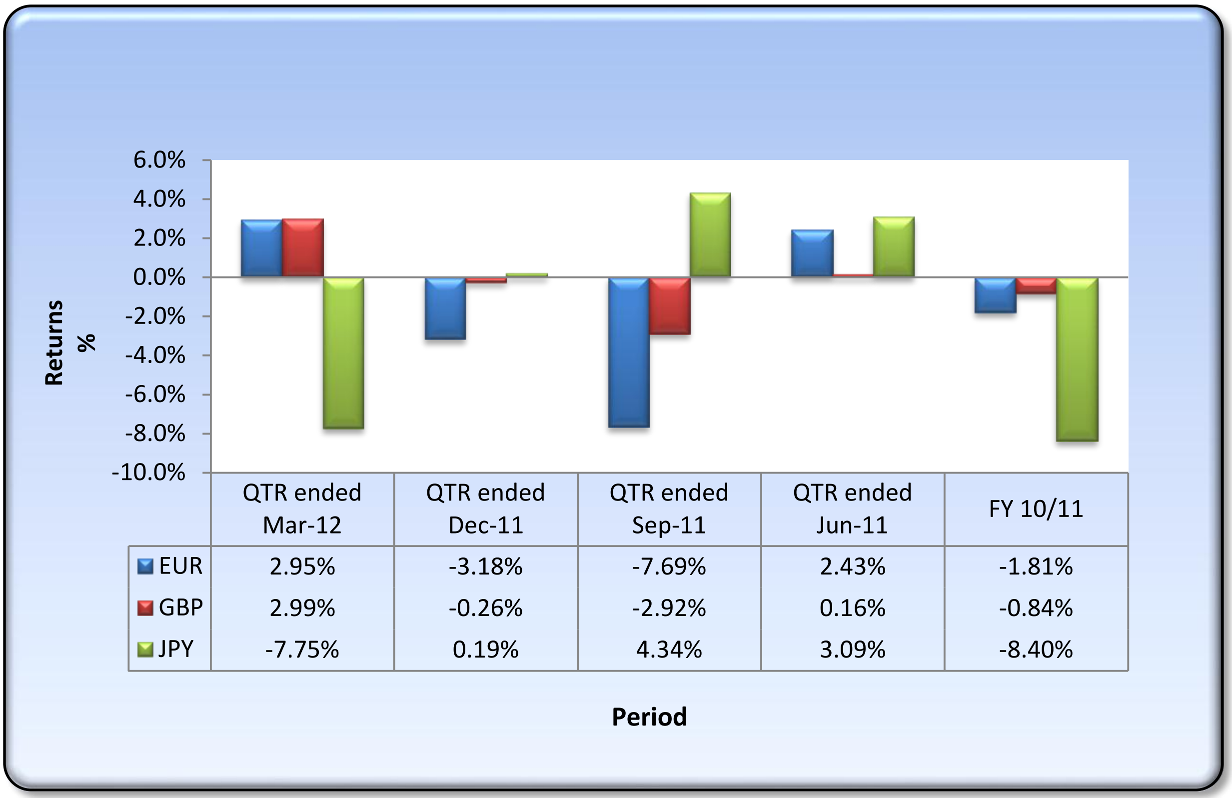


Source: Bloomberg.

Currency Markets

The currency market continued to exhibit high levels of volatility during the first quarter of 2012 amid numerous developments in the global economy. The US dollar depreciated against most of the major currencies with the exception of the Japanese yen. In February 2012, Bank of Japan extended its bond purchase programme by an additional JPY10 trillion ($US128.5 billion) which helped to weaken the currency. Meanwhile, the Euro and the Pound Sterling (GBP) both strengthened vis-à-vis the US Dollar by almost 3 per cent. At the close of March 2012, the Euro traded at EUR 1.3347 and the Pound Sterling was GBP 1.6008 versus the US dollar. Other currencies that appreciated against the US dollar included the Canadian dollar, New Zealand dollar, Australian dollar and the Norwegian Krone.

Figure 5
Foreign Exchange Returns for Major Currencies vis-à-vis the US Dollar
/per cent/



Source: Bloomberg.

SECTION 3 – PORTFOLIO PERFORMANCE

Strategic Asset Allocation

At the end of the first quarter of 2012, the equity portion of the Fund was overweight relative to the Strategic Asset Allocation (SAA), accounting for 37.47 per cent of the investment portfolio versus 35 per cent in the SAA. Meanwhile, the fixed income portion was underweight by 2.47 per cent, accounting for the remaining 62.53 per cent. (Table 1 below refers). The deviations of the asset classes from their target SAA weights were all within the range (+/- 5 per cent) in which they are allowed to vary. The approved SAA for the HSF investment portfolio is as follows:

i.	***US Short Duration Fixed Income Mandate***	*25.0%*
ii.	***US Core Domestic Fixed Income Mandate***	*40.0%*
iii.	***US Core Domestic Equity Mandate***	*17.5%*
iv.	***Non US Core International Equity Mandate***	*17.5%*

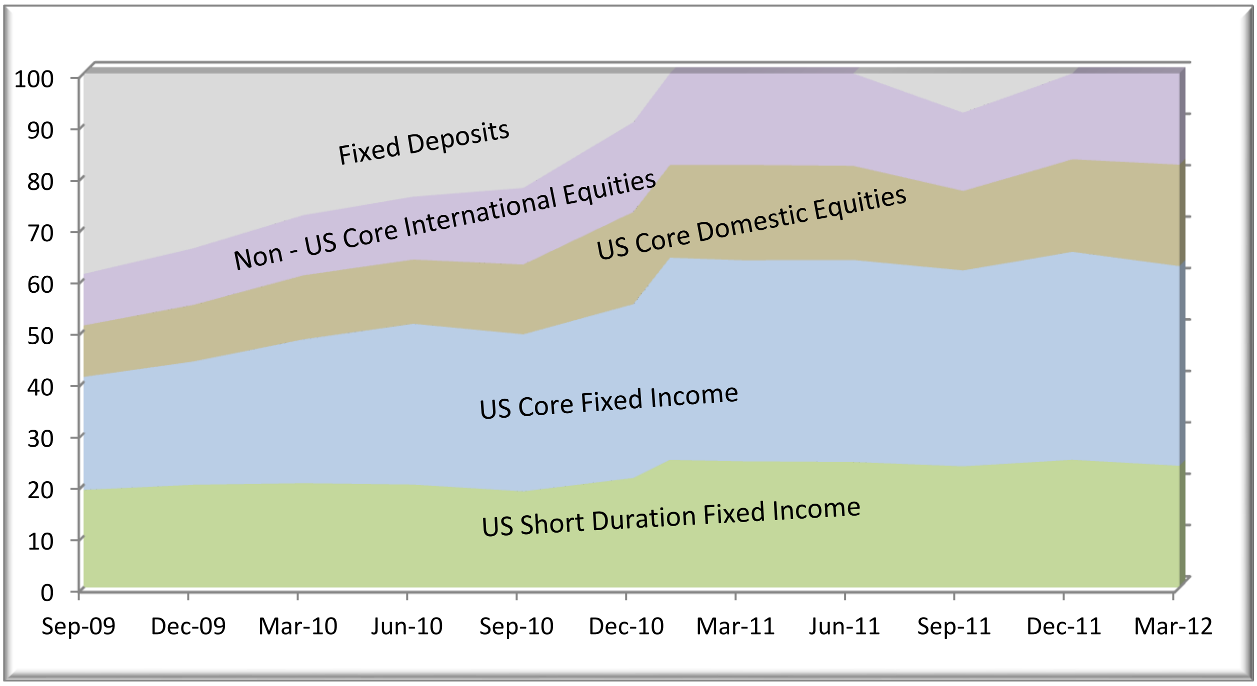
The net asset value of the Fund at the end of March 2012 was US$4,397.3 million, compared with US$4,191.2 million at the end of December 2011. Of this total, the investment portfolio value was US$4,395.9 million while the remaining portion was held in cash to meet the day-to-day expenses that arise from the management of the Fund. During the quarter under review, the Government made no cash contribution to the Fund. The Fund's portfolio weighting relative to its strategic asset allocation is shown below in Table 1 and Figure 6.

Table 1
Portfolio Composition relative to the Approved SAA
/per cent/

	Asset Class		Sep-11	Dec-11	Mar-12
		Target Weight SAA	*Actual % of Fund*	*Actual % of Fund*	*Actual % of Fund*
Portfolio Weights	US Deposits	0.00	7.63*	0.00	0.00
	US Short Duration Fixed Income	25.00	23.59	24.86	23.70
	US Core Domestic Fixed Income	40.00	38.11	40.46	38.83
	US Core Domestic Equity	17.50	15.45	17.98	19.72
	Non-US Core International Equity	17.50	15.22	16.70	17.75

*These deposits represent the cash contribution made by the Government on September 30, 2011.

Figure 6
Asset Composition of the HSF Portfolio
/per cent/



Performance of the Investment Portfolio

Following a solid performance of 2.74 per cent in the fourth quarter of calendar year 2011, the HSF investment portfolio generated a return of 5.04 per cent in the first quarter of 2012. This marked the second highest quarterly return since the inception of the Fund in March 2007. The improvement in market sentiments contributed significantly to the strong performance of equity markets which in turn benefitted the investment portfolio which had an overweight allocation to equities. This portion of the Fund was the main driver of total return, contributing 4.71 per cent while the fixed income portion added the remaining 0.33 per cent. In relative terms, the performance of the investment portfolio (5.04 per cent) compared favourably with that of the SAA benchmark[2] which gained 4.46 per cent over the quarter. Likewise, all the mandates outperformed their respective benchmarks.

Despite the increase in Treasury yields over the quarter, the **US Short Duration Fixed Income** portfolio returned 0.03 per cent, compared with a loss of 0.19 per cent for the benchmark, the Bank of America Merrill Lynch US Treasury 1-5 Year index. This outperformance was attributed to the mandate's overweight exposure to agency mortgages, foreign government bonds and US government-guaranteed bonds. The spread on these bonds versus duration-like Treasuries tightened over the quarter. For the financial year to March 2012, this mandate gained 0.36 per cent compared with 0.23 per cent for the benchmark. The mandate's net asset value as at March 31 2012 was **US$1,041.7 million**, roughly unchanged from the value at the end of December 2011.

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[2] The SAA benchmark is a blended benchmark which comprises, Bank of America/Merrill Lynch US Treasury 1-5 Years Index (25%), Barclays US Aggregate Bond Index (40%), Russell 3000 ex Energy Index (17.5%), and MSCI EAFE ex Energy Index (17.5%).

During the quarter, the **US Core Fixed Income** mandate returned 0.75 per cent compared with 0.30 per cent for the benchmark, the Barclays Capital US Aggregate bond index. Similar to the previous quarter, the mandate's outperformance mainly reflected an overweight allocation to investment grade corporate bonds, in particular those of the industrial sector. Also contributing to excess returns were the overweight exposures to covered bonds and agency mortgage-backed securities. Corporate bonds performed relatively well over the quarter as risky assets rallied, companies registered high profit margins and their balance sheets showed healthy cash positions. For the financial year to March 2012, this mandate gained 2.02 per cent compared with 1.43 per cent for the benchmark. The net asset value of this mandate as at March 31 2012 was **US$1,706.9 million**, compared with US$1,694.8 million at the end of December 2011.

The general increase in investors' risk appetite over the first three months of 2012 benefitted the equity portion of the Fund. The **US Core Domestic Equity** mandate gained a robust 15.22 per cent for the quarter, outperforming its benchmark, the Russell 3000 ex Energy index which returned 13.98 per cent. This better performance was attributed to favourable stock selection decisions which generated greater gains than those in the benchmark. The stocks that contributed the most to total returns were in the technology, financials and health care sectors. For the financial year to March 2012, this mandate returned 28.22 per cent compared with 26.92 per cent for the benchmark. The net asset value of this mandate as at March 31 2012 was **US$867 million**, compared with US$753.2 million at the end of December 2011.

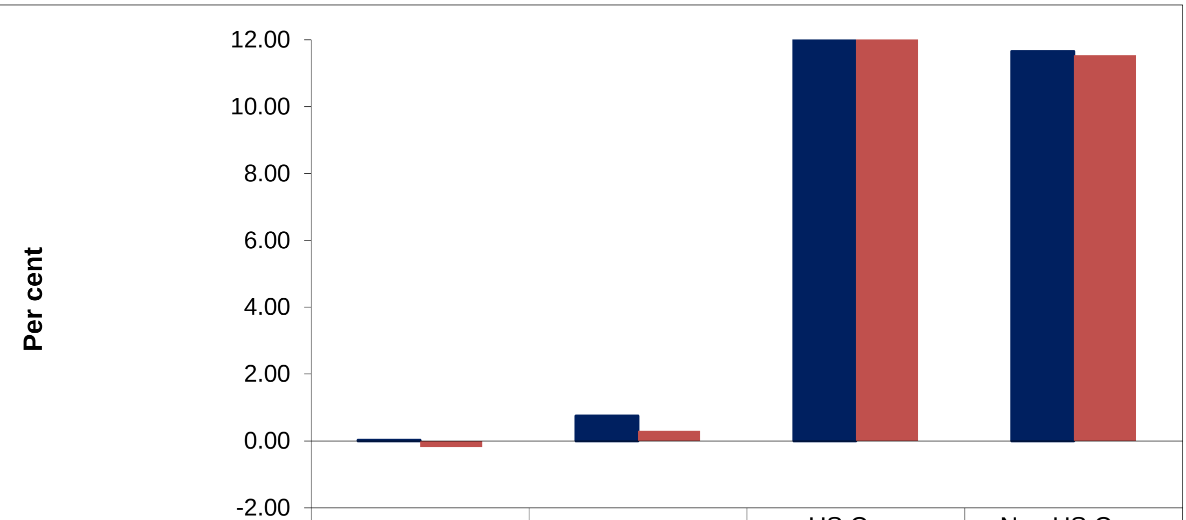
The **Non-US International Equity** mandate also posted double-digit returns, gaining 11.66 per cent to outperform its benchmark, the MSCI EAFE ex Energy index, by 11 basis points. This relatively better performance was mainly attributed to stock selection decisions. On a regional level, the selection of stocks in Europe and the UK contributed the most to performance, but these gains were partially offset by the unfavourable stock selection in Japan. For the financial year to March 2012, this mandate returned 14.18 per cent compared with 14.12 per cent for the benchmark. The net asset value of this mandate as at March 31 2012 was **US$780.3 million**, compared with US$699.7 million at the end of December 2011.

Table 2
Contribution to Quarterly Return,
For the period January 2012 – March 2012
/per cent/

	Portfolio Weights as at 31-Mar- 2012	Weighted Return HSF	Weighted Return Benchmark
Composite Portfolio	100.00	5.04	4.46
US Core Domestic Fixed Income	38.83	0.31	0.12
US Core Domestic Equity	19.72	2.71	2.36
Non US Core International Equity	17.75	1.94	1.98
US Short Duration Fixed Income	23.70	0.01	-0.05

NB: Differences in totals are due to rounding.

Figure 7
Absolute Returns by Asset Class
For the period January 2012 – March 2012
/per cent/



	US Short Duration	US Core Fixed Income	US Core Domestic Equities	Non US Core International Equities
Composite Portfolio Return	0.03	0.75	15.22	11.66
SAA Benchmark Return	-0.19	0.30	13.98	11.55

Mandate

SECTION 4 –COMPLIANCE AND PORTFOLIO RISKS

Compliance

During the quarter ended March 31 2012, there was one breach of the Investment Guidelines involving the use of derivatives securities in excess of the permitted limit. The investment guidelines specified that the gross dollar exposures of the portfolio from physical and derivative securities cannot exceed 200 per cent of the market value of the underlying portfolio. The dollar exposure from the derivatives securities purchased were 30 per cent above the allowable limit. On the following day this transaction was identified by the manager and the securities were sold without any financial cost to the Fund. The manager acknowledged the breach and has put systems in place to avoid similar occurrences in the future.

Portfolio Risks

The main risks for the HSF portfolio are Credit, Concentration, Interest rate, and Currency risks. The following paragraphs give a description of how these risks are mitigated.

Credit Risk

For the **money market portion** of the Fund, Credit risk is minimized by the strict adherence to the following standards: (i) all counterparties must have a minimum credit rating of either A-1 from the Standard and Poor's rating agency or P-1 from Moody's; and (ii) a maximum exposure limit for counterparties of no more than 5.00 per cent of the market value of the portfolio.

For **fixed income instruments**, credit risk is mitigated by the use of credit concentration limits as well as minimum credit quality ratings. Bonds must have an implied investment grade rating as defined by Standard and Poor's, Moody's or Fitch. Should the required ratings on an existing fixed income security fall below the minimum standards, the security must be sold within an agreed upon timeframe. Table 3 below shows the Average Credit Quality of the US Short Duration and US Core Fixed Income Portfolios as at March 31 2012.

Table 3
Average Credit Rating

Mandate	Portfolio	Benchmark
US Short Duration	AA+	AA+
US Core Fixed Income	AA-	AA

For the **equity portfolios**, Credit risk is managed by imposing a maximum percentage holding of 3.00 per cent of any security's outstanding shares, as well as a maximum sector deviation relative to the benchmark of 5.00 per cent. Throughout the quarter, these limits were all adhered to by the external managers.

Concentration Risk

Concentration or diversification risk is minimised by investing across various asset types. The portfolio is currently invested across four asset groupings as follows - US Short Duration Fixed Income, US Core Domestic Fixed Income, US Core Domestic Equity and Non-US Core International Equity. Asset classes in which the Fund invests react differently under a given market condition and when one asset class has strong returns, another may have lower returns. The Fund's investments are also diversified across a number of assets with the aim of securing a positive return under a range of market conditions and to lower the total risk of the portfolio.

Interest Rate Risk

Interest Rate Risk is managed using a weighted average effective duration limit on the respective portfolios, with an allowable range of one (1) year longer or shorter than the weighted average duration of the respective benchmark. Table 4 shows the weighted average duration for the US Short Duration and US Core Domestic Fixed Income portfolios as at March 31, 2012.

Table 4
Weighted Average Duration
/Years/

Mandate	Portfolio	Benchmark
US Short Duration	**2.64**	**2.64**
US Core Domestic Fixed Income	**4.84**	**4.90**

Currency Risk

Currency risk is managed by containing and managing the exposure to non-US dollar instruments. For the Fixed Income and US Core Domestic Equity mandates, no more than 10 per cent of the market value of the portfolio can be invested in securities which are denominated in currencies other than the US Dollar. The Non-US Core International Equity Portfolio is comprised primarily of non-US dollar denominated securities, and the Fund accepts the currency risk inherent in the relevant benchmark. For this mandate, currency hedging is permitted up to 15 per cent of the market value of the portfolio using the US dollar as the base currency. At the end of March 2012, the currency exposure for this portfolio was 98 per cent of its market value. During the quarter, all the portfolios were within their respective limits.

Appendix I
HSF Portfolio
Historical Performance since Inception

Quarter End	Current Returns			Fiscal YTD			Annualised Return Since Inception		
	Portfolio %	Benchmark %	Excess bps	Portfolio %	Benchmark %	Excess bps	Portfolio %	Benchmark %	Excess bps
FY 2009									
December	0.76	0.99	-22.49	0.76	0.99	-22.49	4.19	4.24	-5.25
March	0.08	0.07	0.62	0.84	1.06	-21.88	3.72	3.76	-4.30
June	0.02	0.03	-0.69	0.87	1.09	-22.60	3.33	3.37	-4.15
September	1.92	2.06	-14.62	**2.80**	**3.18**	**-37.81**	**3.81**	**3.91**	**-10.01**
FY 2010									
December	0.96	0.89	6.65	0.96	0.89	6.65	3.85	3.91	-6.58
March	1.61	1.68	-6.20	2.59	2.58	0.49	4.12	4.20	-8.40
June	-1.83	-1.89	6.05	0.71	0.64	6.69	3.18	3.23	-5.55
September	5.33	5.08	24.73	**6.07**	**5.75**	**31.93**	**4.61**	**4.59**	**2.29**
FY 2011									
December	2.29	2.21	8.15	2.29	2.21	8.15	5.01	4.97	4.69
March	1.62	1.54	7.24	3.94	3.79	15.68	5.18	5.11	6.60
June	1.88	1.81	6.68	5.89	5.67	22.91	5.41	5.32	8.21
September	-4.82	-4.28	-53.66	**0.79**	**1.14**	**-34.89**	**3.80**	**3.87**	**-7.13**
FY 2012									
December	2.74	3.03	-28.52	2.74	3.03	-28.52	4.27	4.41	-13.94
March	5.04	4.46	57.50	7.92	7.63	29.29	5.27	5.27	-0.10

Notes:

(1) Differences in totals are due to rounding.

(2) In May 2008, US Treasury instruments were added to the HSF portfolio. As a result, the performance benchmark for the HSF portfolio became a blended benchmark which comprised of 2.5% Merrill Lynch US Treasury 1-5 Years Index and 97.5% US One-month LIBID Index.

(3) In August 2009, International Equities and Fixed Income Securities were added to the HSF portfolio. The performance benchmark for the HSF portfolio became a blended benchmark which comprise, Bank of America/Merrill Lynch US Treasury 1-5 Years Index, US One-month LIBID Index, Barclays US Aggregate, Russell 3000 ex Energy, and MSCI EAFE ex Energy.

(4) In January 2011, the HSF Portfolio achieved its Strategic Asset Allocation where the portfolio was invested in four assets classes. US Short Duration Fixed Income (25%), US Core Fixed Income (40%), US Equity (17.5%) and Non-US International Equity (17.5%).

Appendix II
Heritage and Stabilisation Fund
Quarterly Portfolio Valuation (USD)

Valuation Date	Net Asset Value	Quarterly Income	Accumulated Surplus & Unrealized Capital Gains/Losses	Contributions
March 15, 2007	1,402,178,155	0	0	
March 31, 2007	1,405,448,567	3,270,412	3,270,412	-
June 30, 2007	1,424,094,965	18,646,398	21,916,810	-
September 30, 2007	1,766,200,701	20,301,027	41,966,361	321,706,043
December 31, 2007	1,788,304,749	22,204,785	64,035,501	-
March 31, 2008	1,804,531,743	16,631,853	80,514,798	-
June 30, 2008	1,997,251,772	13,715,988	93,124,304	180,210,617
September 30, 2008	2,888,421,556	15,341,508	110,379,131	873,963,840
December 31, 2008	2,909,717,167	16,296,264	131,638,985	-
March 31, 2009	2,911,075,318	4,492,667	133,066,161	-
June 30,2009	2,912,040,600	3,621,489	133,909,143	-
September 30, 2009	2,964,686,478	11,397,337	186,755,766	-
December 31, 2009	2,992,717,167	19,444,496	214,699,141	-
March 31, 2010	3,038,173,194	17,674,928	259,925,615	-
June 30, 2010	3,083,272,124	23,694,244	199,004,184	103,843,621
September 30, 2010	3,621,984,041	27,568,267	364,361,226	373,500,642
December 31, 2010	3,701,961,347	33,317,910	443,906,745	-
March 31, 2011	3,759,689,344	45,854,060	500,513,925	-
June 30, 2011	3,825,639,556	70,691,561	567,222,023	-
September 30, 2011	4,084,016,158	29,885,267	374,074,067	451,400,519
December 31, 2011	4,191,162,904	10,474,106	481,361,876	-
March 31, 2011	4,397,263,070	42,045,281	687,290,865	-

Appendix III
Summary Characteristics of Composite Benchmarks

Fixed Income Benchmarks

Key Characteristics	Barclays US Aggregate Index	Merrill Lynch 1-5 Index
Total Holdings	7,839	119
Coupon (%)	3.93	2.01
Duration (Years)	4.90	2.64
Average Life (Years)	6.65	2.76
Yield to Maturity (%)	2.12	0.54
Option Adjusted Spread (bps)	61	0
Average Rating (S&P)	AA	AA+
Minimum Rating (S&P)	BBB-	AA+

Equity Benchmarks

Key Characteristics	Russell 3000 (ex energy)	MSCI EAFE (ex energy)
Total Holdings	2,753	873
Earnings Per Share (EPS Growth 3-5y fwd) (%)	11.70	7.83
Price Earnings (P/E fwd)	14.0	12.41
Price / Book (P/B)	2.30	1.39
Market Capitalization (Bn)	$82.9	$46.4

Appendix IV
Summary of the Fund's Net Asset Value by Mandate
/US$ Million/

	June 2011	September 2011	December 2011	March 2012
Total Fund Value	**3,826**	**4,084**	**4,191**	**4,397**
Total Value of Equity	**1,387**	**1,251**	**1,453**	**1,647**
US Core Domestic Equity	700	630	753	867
Non-US Core International Equity	687	621	700	780
Total Value of Fixed Income	**2,437**	**2,519**	**2,736**	**2,749**
US Short Duration Fixed Income	934	963	1,041	1,042
US Core Domestic Fixed Income	1,503	1,556	1,695	1,707
Total Value of Cash or Cash Equivalents	**2**	**314**	**2**	**1**

Appendix V
HSF Portfolio Quarterly Returns
/per cent/

	FY2010 Q2	FY2010 Q3	FY2010 Q4	FY2011 Q1	FY2011 Q2	FY2011 Q3	FY2011 Q4	FY2012 Q1	FY2012 Q2
HSF Portfolio	1.61	-1.83	5.33	2.29	1.62	1.88	-4.82	2.74	5.04
Benchmark	1.67	-1.89	5.08	2.21	1.54	1.81	-4.28	3.03	4.46