Government of the Republic
of Trinidad and Tobago

Trinidad and Tobago Heritage & Stabilisation Fund

ANNUAL REPORT 2015

TRINIDAD AND TOBAGO
HERITAGE AND STABILISATION FUND

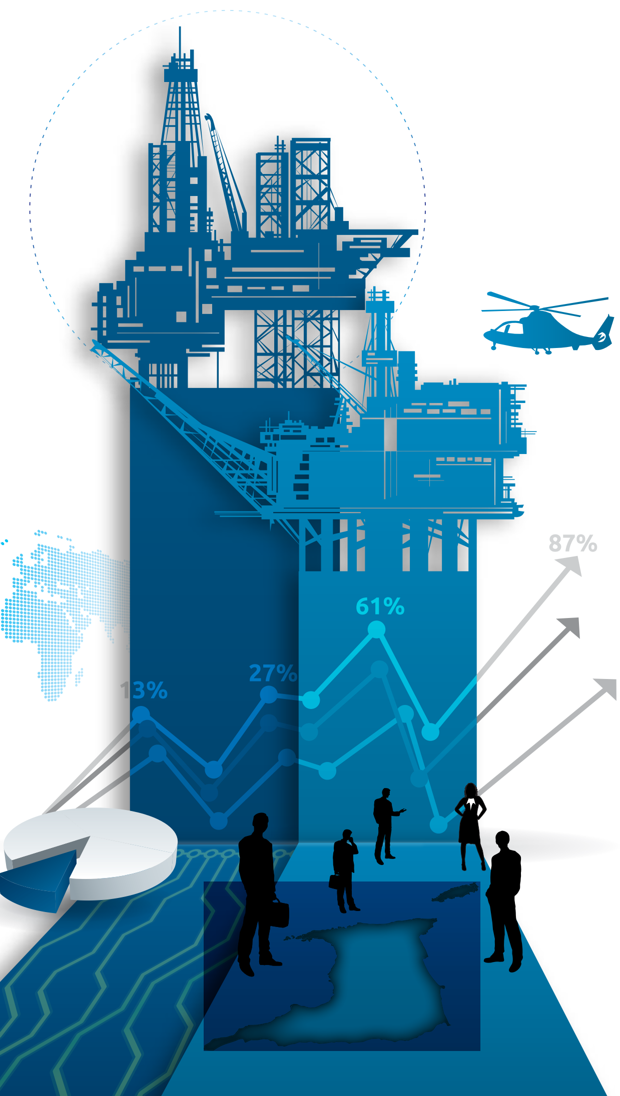
PURPOSE

The Heritage and Stabilisation Act, No. 6 of 2007 (hereinafter called "the Act") established the Heritage and Stabilisation Fund (hereinafter called "the Fund") with effect from March 15, 2007, for the purpose of saving and investing surplus petroleum revenues derived from production business in order to:

(a) Cushion the impact on or sustain public expenditure capacity during periods of revenue downturn whether caused by a fall in prices of crude oil or natural gas;

(b) Generate an alternate stream of income so as to support public expenditure capacity as a result of revenue downturn caused by the depletion of non-renewal petroleum resources; and

(c) Provide a heritage for future generations of citizens of Trinidad and Tobago from savings and investment income derived from the excess petroleum revenues.



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CHAIRMAN'S FOREWORD

On behalf of the Board of Governors, I am pleased to present the Annual Report of the Trinidad and Tobago Heritage and Stabilisation Fund for the year ending September 2015.

On behalf of the Board of Governors, I am pleased to present the Annual Report of the Trinidad and Tobago Heritage and Stabilisation Fund (HSF) for the year ending September 30, 2015.

A growing consciousness among the population of the reliance of the Government on the oil and energy sector as a significant source of revenue did focus public attention on the performance of the Heritage and Stabilisation Fund over the year.

Accretions to the Heritage and Stabilisation Fund derive from two sources:

- The excess of actual revenue over projected revenue, based on the oil and energy prices set in the Budget of the Government for the period, and
- Returns on the investments from the Fund.

In September 2014, the Minister of Finance based the expected revenues of the Government for the fiscal year 2014/2015 on a projected oil price of US $80.00 per barrel. The country was to witness the start of an inexorable decline in energy prices during the course of the year, as Saudi Arabia sought to restore itself to a position of price-setter among the OPEC countries and in the energy markets generally, and to undermine the emerging players in shale oil in the United States. in the sequel, energy prices never reached a level requiring placements by the Government to the HSF.

Notwithstanding the inability of the Government to make deposits to the Fund, there was growth in the asset. The Fund, which was valued at US $5,533.4m, at October 1, 2014, increased modestly to US$5,655.4m at September 30, 2015, registering an increase of 2.47 percent. This was much below the performance of the Fund over the period October, 1, 2013 to September 30, 2014, when the Fund grew by 7.65 percent.

Behind this lower return, there was an underlying volatility in the market place. Indeed, the asset valuation of the Fund increased over the first two quarters of the financial year, and stood at US$5,779.4m at the end of March 2015, but declined over the next two quarters. Significantly, throughout the entire year, the Fund outperformed its composite benchmark, and, even in decline, performed better by registering decreases lower than the benchmark.

CHAIRMAN'S FOREWORD (CONTINUED)

During the year, the Board committed to meeting more regularly than statutorily required to receive reports on the performance of the Fund and to provide its recommendations to the Bank on adjustments within the parameters set in the regulations for the management of the Fund.

During the period, three major issues engaged the attention of fund-managers:

- The date at which the Federal Reserve Bank of the United States would implement a change in its policy of quantitative easing, and in triggering an increase in interest rates;
- The fiscal crisis of Greek Government and the treatment of its debt within the European Union; and
- The weak performance in the European economies, the United Kingdom excepted, and the slowing of economic growth in China and among the other BRICs, in the global trading system.

This is quite apart from the geo-politics of the widening impact of the Syrian Civil War and the conflict between the Ukraine and Russia. In this crisis riddled environment, US equities performed well, up until the middle of the calendar year, as the United States economy resumed on a path of lead economy in the world. The Fund was well placed to take advantage of the positives and to be shielded from the worst effects of the negatives.

In keeping with its commitment to improve national capacity in the management of funds held externally, the Board hosted a lecture/presentation by international experts in fund management. Attendees included members of the Board itself, managers of the Fund drawn from the Central Bank as well as personnel from a number of agencies of the Government of Trinidad and Tobago which make placements of funds on the international financial market.

The Board was represented at the World Investment Forum of UNCTAD held in Geneva in October 2014, at which the issue of investment of Sovereign Wealth Funds in a widening group of countries was examined and discussed. As a country of the South, Trinidad and Tobago has an abiding interest in the development of such countries, including among its neighbours in the Caribbean. The Board also hosted a visit by representatives of the Central Bank of Uganda, which has established a sovereign wealth fund, and is seeking to learn from the experience of Trinidad and Tobago.

The Board registers its appreciation of the work of the Central Bank of Trinidad and Tobago in the management of the Fund, and recognises, in the discharge of its remit, the cooperation of the Ministers who have held the portfolios of Minister of Finance during the course of the financial year.

In my capacity as Chairman, I wish to thank most sincerely all of the other members of the Board whose term of office ended in September 2015, and who provided sterling service in their oversight of the Fund in a year that was, by no means, uneventful.

Dr. Ralph Henry
Chairman
December 2015

BOARD OF GOVERNORS

Board Secretariat:

Dr. Ralph Henry	–	Chairman
Mr. Vishnu Dhanpaul	–	Member
Mr. Jwala Rambarran	–	Member
Mr. Ramcharan Kalicharan	–	Member
Mr. Michael L. Raymond	–	Economic Policy Analyst performing the functions of Corporate Secretary to the Board

GOVERNANCE

The Board of Governors

- The Heritage and Stabilisation Fund Act provides that the Fund be governed by a Board of Governors who under Section 9, has the responsibility for the management of the Fund. Section 10, however, provides for the Board to delegate its management responsibility to the Central Bank of Trinidad and Tobago.
- The Board decides on the investment objectives, and approves the manner in which the funds are to be invested by the Central Bank.
- The Board submits to the Minister of Finance, quarterly and annual investment reports on the operation and performance of the Fund.

The Minister of Finance

- The Minister of Finance advises the President on the appointment of the Board in accordance with the Act, and is responsible for approving deposits and withdrawals from the Fund in accordance with the provisions of the Act.

The Trinidad and Tobago Parliament

- Parliament passed the enabling legislation and continues to have ultimate oversight of the Fund, which is exercised through the review of annual reports and audited financial statements, no later than four months following the end of the financial year.
- This reporting requirement gives the people of Trinidad and Tobago an opportunity to assess the Fund's performance, thereby fostering transparency and accountability, and ensuring effective ownership of the Fund by the population.

The Management of the Fund

- The Central Bank is responsible for the day-to-day management of the Fund (to meet Investment Objectives of the Board) and reports quarterly and annually to the Board.
- The Schedule to the Act details the responsibilities of the Central Bank.

GOVERNANCE (CONTINUED)

Deposits and Withdrawals

The Act outlines the deposit and withdrawal rules which the Ministry of Finance must apply regarding the Fund.

Deposits

Sections 13 and 14 of the Act detail the conditions under which excess revenues must be deposited in the Fund.

Quantum:

- A minimum of sixty per cent of the total excess (difference between estimated and actual) revenues must be deposited to the Fund during a financial year.
- Estimated petroleum revenues are calculated based on defined international sources.

Timing:

- Deposits to the Fund are to be made quarterly, no later than one month following the end of the quarter in which the deposit was calculated. Quarter under the Act refers to the three-month period ending December, March, June and September of each year.

Withdrawals

Section 15 of the Act outlines the conditions under which revenues may be withdrawn from the Fund.

Quantum:

- Where the petroleum revenues collected in any financial year fall below the estimated petroleum revenues for that financial year by at least ten per cent, withdrawals may be made from the Fund.

Limitations on Withdrawals:

- The withdrawal is limited to sixty per cent of the amount of the shortfall of petroleum revenues for the relevant year; or
- Twenty five per cent of the balance of the Fund at the beginning of that year, whichever is the lesser amount.
- The Act precludes any withdrawal where the balance standing to the credit of the Fund would fall below one billion US dollars if such withdrawal were to be made.

OVERVIEW OF ACTIVITIES

Reports to the Parliament

The Annual Report 2014 and the Audited Financial Statements for the period ending September 30, 2014 were presented to the Parliament in February 2015.

Deposits to the Fund

There were no deposits to or withdrawals from the Fund during the financial year 2014/2015.

HSF Review

The Board completed its policy proposal on the review of the Fund and communicated with the Ministry of Finance at the end of the calendar year 2014. The Government has proposed to treat with all policy related to the Fund in the new Parliamentary session.

Governance

The Board of Governors of the HSF met all legal and statutory requirements in the discharge of its functions and maintained its governance oversight as required by law during the review period. As prescribed by legislation, the Board held seven ordinary meetings during the financial year 2013/2014.

INVESTMENT REPORT

Executive Summary

The Heritage and Stabilisation Fund (HSF) generated positive portfolio performance for the financial year 2015, albeit at a smaller magnitude relative to prior years. The Fund's performance was attributed primarily to the performance of fixed income markets globally, as yields for sovereign bonds declined over the 12 month period. Actual and anticipated policy decisions from the major Central banks were a main contributor to falling yields as the European Central Bank (ECB) and the Bank of Japan (BoJ) maintained an accommodative stance whilst the Federal Reserve (the Fed) ended its bond buying program but kept its policy rate low. Investors' expectation as to the timing of the first increase in the Federal Funds rate since June 2006 also impacted bond yields. Furthermore, the economic slowdown in China weighed on investment performance.

Equity market volatility spiked significantly in the last quarter of the financial year, when China's financial market and currency issues dominated global headlines. During this quarter, major global equity indices plunged into negative territory, resulting in the worst quarterly performance for the asset class for the financial year.

Economic activity was mixed among the advanced economies as the US and UK exhibited relatively robust growth, while growth in the Euro zone and Japan remained subdued. Japan entered a technical recession at the end of the financial year as global demand waned.

For the financial year 2014/2015, the Fund returned 2.5 per cent, compared with gains of 1.1 per cent for the strategic asset allocation (SAA) benchmark. The equity portion of the Fund contributed approximately 1.0 per cent to the total return, while the fixed income portion added 1.5 per cent to total return. The strongest performing mandate was the US Core Equity mandate, which generated an absolute return of 3.5 per cent. The US Core Fixed Income portfolio also posted a relatively solid gain of 2.7 per cent.

As at the end of September 2015, the Fund's Net Asset Value stood at US$5,655.1 million, up from US$5,533.4 million as at the end of September 2014. During the financial year, there were no contributions made to the Fund.

INVESTMENT REPORT (CONTINUED)

1. Macroeconomic Environment

Over the financial year 2014/2015, global financial markets exhibited elevated levels of volatility mainly as a result of concerns surrounding Greece, the slowdown in economic activity in China and uncertainty about the timing of the US Federal Reserve's (Fed) first interest rate increase since June 2006. These factors contributed to investors' increased demand for US government debt. US Treasuries gained 3.8 per cent over the period and was the best performing fixed income sector according to the Barclays US Aggregate Index.

China's economic woes came to the fore during the month of August, as the People's Bank of China (PBoC) opted to amend its method of pegging the yuan against the US dollar, which precipitated a selloff in the yuan, an outflow of capital and spillover effects to Chinese equity markets and other financial markets.

Global growth, however, remained on a positive trajectory, albeit at a moderate pace and uneven across regions. Downside risks to growth rose during the review period, particularly for emerging market economies amidst declining commodity prices, reduced capital flows, the ongoing economic adjustment in China and weaker global demand. Meanwhile, inflation settled to near zero per cent across advanced economies, particularly in the US and UK and output gaps narrowed, as evidenced by improvements in labour markets.

In the United States (US), the economy expanded at a measured pace over the course of the financial year at 2.1 per cent, despite the negative impact of a stronger US dollar on the export and manufacturing sectors. Even though the housing market strengthened and personal expenditures increased, financial markets were disappointed that economic activity was not more robust. Nonetheless, investors remained optimistic regarding domestic consumption given improved household balance sheets. In the labour market, job prospects improved over the period as the unemployment rate fell to 5.1 per cent in September 2015 from 6.1 per cent a year ago. Lower energy prices, as oil hovered around $40-$50 per barrel, contributed to a subdued inflation environment.

While the Fed concluded its asset purchases program in October 2014, the central bank maintained its target range for the Federal Funds rate at 0 to ¼ per cent. Global financial markets were rife with expectations of an imminent rate hike in the US. In fact this expectation together with concerns in Europe and the energy market increased volatility in bond markets. For most of the year the Federal Open Market Committee (FOMC) tried to calm the market, stressing that any move would be data driven and gradual.

Current economic data in the world's largest economy points to steady growth and stable prices. In the jobs market, the unemployment rate continues to decline, hitting multi-year lows, while non-farm payrolls increase at a significant pace. The Fed in its October meeting noted the improvement in the US economy and signaled the possibility of the much anticipated rate hike in December 2015.

INVESTMENT REPORT (CONTINUED)

Growth in the Euro zone remained low at 1.6 per cent during the twelve months ended September 2015, which reflected an improvement over the prior financial year's reading. A weaker euro and declining energy prices throughout the financial year, helped to buoy growth in the currency union. However, across member states GDP growth remained uneven as evidenced by economic expansions in peripheral states like Ireland, Spain and Italy compared to lower growth in the traditional drivers of the region, Germany and France, which continued to face significant headwinds.

Over the financial year, the threat of deflation was a main concern for the Euro zone, as prices declined to its lowest level in five years in December 2014. Meanwhile, unemployment, although structural in nature, improved during the 12 months to September 2015, dropping just below 11 per cent at the end of the period.

The ECB launched its Quantitative Easing (QE) program in March 2015, after implementing several measures to ease financial market and economic conditions, including its Targeted Long-Term Refinancing Options (TLTRO). The ECB's Asset Purchase Program (APP), which consists of monthly purchases of public and private sector securities amounting to €60 billion, is expected to be carried out until September 2016 or until the ECB sees a sustained adjustment to inflation consistent with its aim of achieving inflation rates below, but close to, 2 per cent in the medium term.

Greece's credit conditions remained a concern for both domestic and global financial markets, as the sovereign nation defaulted on its debt payment to the IMF during the month of June and Greek citizens rejected additional austerity measures in a July 5th national referendum. After intense talks, the Greek government and its creditors agreed on a third bailout package in the amount of €7 billion, which brought a temporary calm to financial markets at the end of July.

Whilst the inflation rate in the Euro zone increased in October, it still remains below the ECB's target of 2 per cent. Unemployment, although high in some countries in the currency bloc, continues to decline in the region as a whole and economic growth looks promising, as both the manufacturing and services sectors improved in October.

Over the financial year, economic growth slowed to 2.1 per cent in the United Kingdom (UK) economy, although other economic fundamentals improved. Labour market conditions continued to progress steadily as unemployment ended the period at 5.3 per cent, its lowest level since the 2008 crisis and well below 7 per cent, which was widely believed to be the Bank of England (BoE) trigger for increasing its benchmark interest rate.

Like the Euro zone, inflation in the UK declined further during the year, reaching negative territory for the first time since 2009 and remained well below the BoE's 2 per cent inflation target.

The BoE kept its policy rate and the size of its asset purchase programme unchanged. As the year progressed, BoE Governor, Mark Carney, signaled that the time for a rate rise was nearing, but maintained that any action would depend on economic data. Moreover, UK policymakers expressed concerns about the increasing downside risks to global growth

INVESTMENT REPORT (CONTINUED)

and inflation, including the spillover effects from China.

The inflation rate in the UK remains in negative territory, based on readings to October 2015. However, there are signs of improvement in other economic fundamentals with increases in the manufacturing and services Purchasing Manager Indices (PMI) and a further reduction in the unemployment rate.

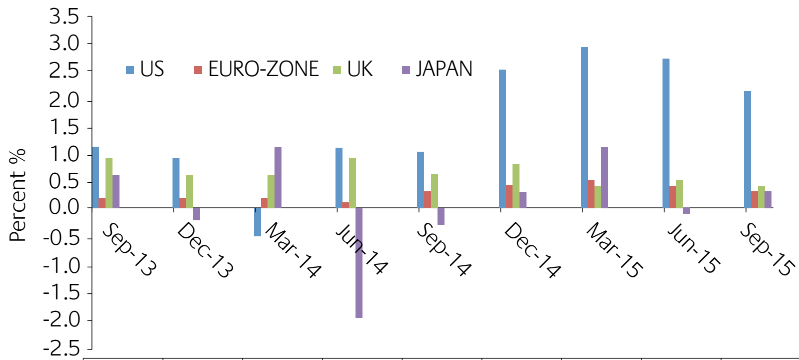
Japan emerged from a technical recession in the first quarter of the 2014/2015 financial year, but the economy struggled to maintain a positive growth trajectory over the 12 month period. Despite continued progress in the labour market and the government's decision to delay the second increase in the consumption tax, household spending has yet to recover following the April 2014 sales tax hike. Moreover, the weaker yen failed to materially boost exports, as the uncertainty stemming from the Greek debt crisis and China's slower growth outlook dampened global demand. As a result, the economy re-entered a recession during the fourth quarter of the financial year.

The Bank of Japan (BoJ) surprised markets in November 2014 by expanding its stimulus program from an annual pace of 60-70 trillion yen to 80 trillion yen in an attempt to bolster inflation and economic growth. Nonetheless, consumer prices declined over the financial year and the BoJ extended the timeline for reaching its 2.0 per cent inflation target by six months to March 2017.

Consumer prices, however, has improved so far for the current financial year, rising to 0.5 per cent in October 2015 from a flat reading in September 2015. The labour market continues to progress with the unemployment rate hitting a 12 month low of 3.1 per cent in October 2015 and the jobs-to-applicants ratio remaining constant. Furthermore, activity in the manufacturing and services sectors improved, signaling that Japan may exit a technical recession in this first quarter of the current financial year.

INVESTMENT REPORT (CONTINUED)

CHART 1: GDP GROWTH: SELECTED DEVELOPED ECONOMIES QUARTER OVER QUARTER



	M09-13	M12-13	M03-14	M06-14	M09-14	M12-14	M03-15	M06-15	M09-15
US	1.1	0.9	-0.5	1.1	1.0	2.5	2.9	2.7	2.1
EURO-ZONE	0.2	0.2	0.2	0.1	0.3	0.4	0.5	0.4	0.3
UK	0.9	0.6	0.6	0.9	0.6	0.8	0.4	0.5	0.4
JAPAN	0.6	-0.2	1.1	-2.0	-0.3	0.3	1.1	-0.1	0.3

Source: Bloomberg.
September 2015 data are preliminary and may be subject to revisions. US data is annualised.

CHART 2: UNEMPLOYMENT RATES: SELECTED DEVELOPED ECONOMIES

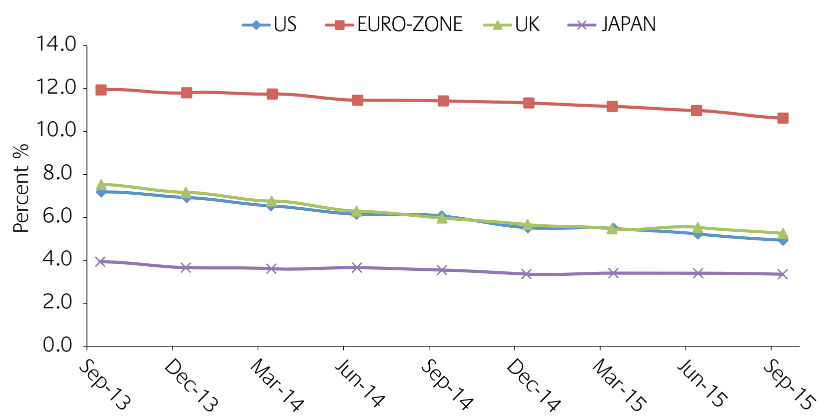
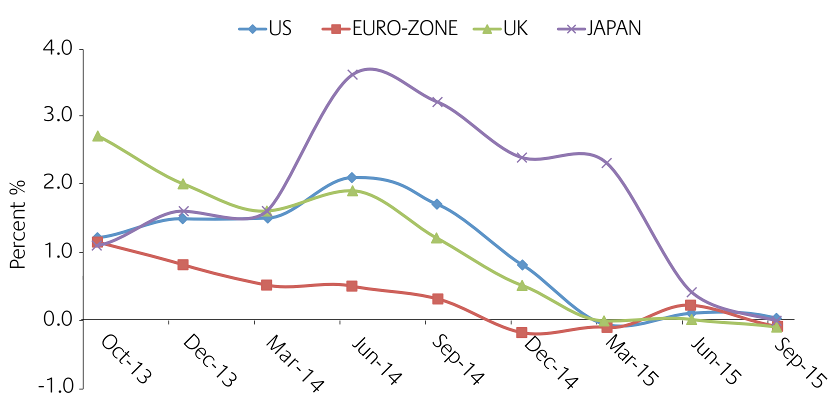


CHART 3: INFLATION RATES: SELECTED DEVELOPED ECONOMIES YEAR-ON-YEAR



Source: Bloomberg.

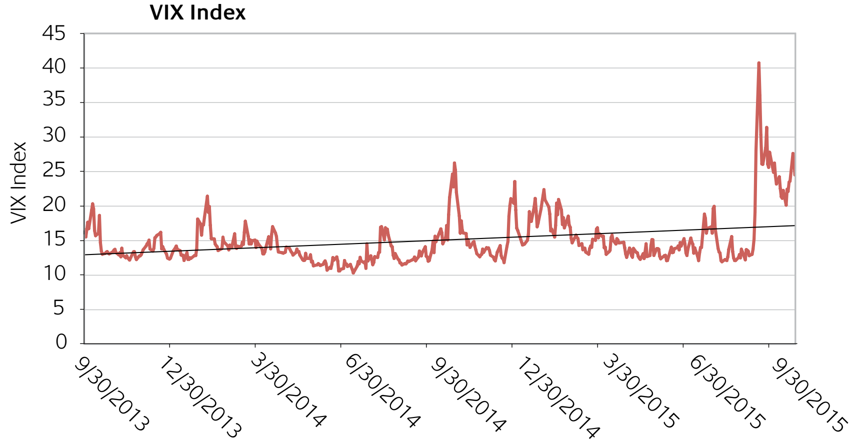
2. Financial Market Review

During the financial year ended September 30, 2015 fixed income investors benefitted from falling benchmark 10-year yields in many G-10 countries. Chinese currency and financial market volatility, improving economic conditions in the US and UK, growth concerns in China, Japan and the Euro zone, in addition to further accommodative monetary policies in Japan and Euro zone, impacted markets. During the review period fixed income asset classes generally enjoyed positive returns for most of the year, while equity markets rallied to new highs despite a difficult final quarter.

In the US, the Standard and Poor's (S&P) 500 index declined over the year ended September 2015, despite forging new record highs during the period, while equity markets in other developed economies also posted lower returns, with the exception of the Japanese Nikkei 225. Despite a slowdown in economic activity in Japan, the equity market outperformed its global counterparts as the Nikkei 225 index advanced by 9.42 per cent. The Japanese index was buoyed by the depreciating yen over the year, which helped the exporting companies.

The Chicago Board Options Exchange Volatility Index (VIX), a widely used measure of market risk, often referred to as the "investor fear gauge", pointed to a slightly elevated overall level of volatility on average in the US during the 12 months to September 2015, when compared to the previous year. Concerns over Greece and China, combined with anxiety over the Fed's policy normalisation scheme impacted investor confidence. Over the period, the index averaged 16.43 points, reaching a high of 40.74 points at the end of August, as the price of West Texas Intermediate (WTI) crude oil plunged below the US $50 mark, alongside weak economic data from China and Chinese financial market instability. US equity markets also experienced elevated levels of volatility in October 2014, December 2014 and then again in June 2015.

CHART 4: STOCK MARKET VOLATILITY
VIX Index



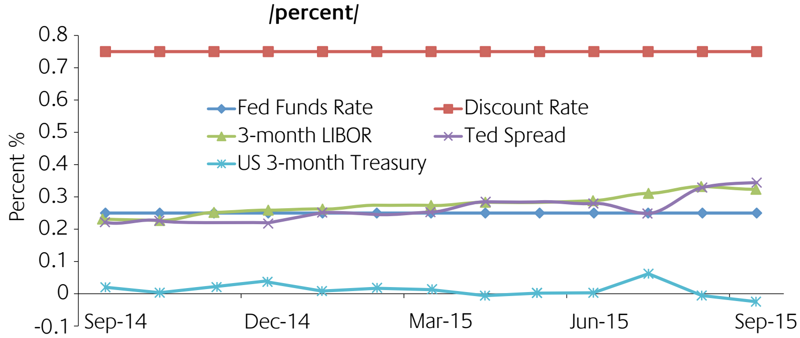
Source: Bloomberg.

INVESTMENT REPORT (CONTINUED)

(a) Money Market

Persistently low yields continued to characterise money markets over the financial year ended September 2015 as the central banks in advanced economies maintained their accommodative monetary policy stance. The Federal Funds rate remained in the range of 0 to 0.25 per cent for the twelve-month period, while short-term rates fluctuated somewhat during the year, but remained low. The US 3-month London Inter-Bank Offered Rate (LIBOR) rose slightly to 0.33 per cent in September 2015, from 0.24 per cent in September 2014, while the US 3-month Treasury bill rate declined to -0.02 per cent, its lowest rate since October 2011. Accordingly, the spread between the 3-month US Treasury bill rate and the 3-month LIBOR rate, narrowed to 34.53 basis points from 21.99 basis points over the financial year (Chart 5 below refers).

CHART 5: SELECTED MONEY MARKET RATES IN THE US
/percent/



Source: Bloomberg.

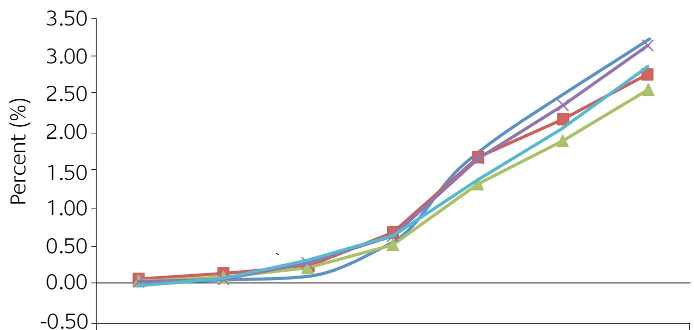
INVESTMENT REPORT (CONTINUED)

(b) Fixed Income Market

Over the financial year 2014/2015, the US Treasury market was dominated by discussions around the exact timing of the US Federal Reserve's (Fed) first interest rate increase. Expectations for the first rate hike were continually mired throughout the period due to a mix of domestic as well as external factors. Moreover, the US Treasury market experienced bouts of volatility due to a myriad of factors which spurred safe haven demand and broadly weighed on yields. Concerns around geopolitical tensions, the Greek debt crisis as well as increasing evidence of a slowdown in the Chinese economy prompted investors to seek the safety of US Treasuries. In addition, the diverging monetary policies among central banks increased the appeal of US Treasuries relative to other developed market sovereign bonds.

The US treasury curve flattened and the spread between the 2-10 year portion of the curve fell 51.4 basis points over the year to 140.7 basis points. The 2-year yield rose modestly given the Fed's indications that it would most likely be appropriate to raise rates in 2015. However, falling commodity prices and the subdued inflation outlook helped to push rates lower at the longer-end of the curve. The 10-year ended the 12 month period 45.2 basis points lower at 2.04 per cent.

CHART 6: US Treasury Yield Curve



	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
September 30, 2014	0.02	0.03	0.10	0.57	1.76	2.49	3.20
December 31, 2014	0.04	0.12	0.21	0.66	1.65	2.17	2.75
March 31, 2015	0.02	0.09	0.21	0.52	1.31	1.88	2.55
June 30, 2015	0.01	0.11	0.26	0.64	1.65	2.35	3.12
September 30, 2015	-0.02	0.07	0.31	0.63	1.36	2.04	2.85

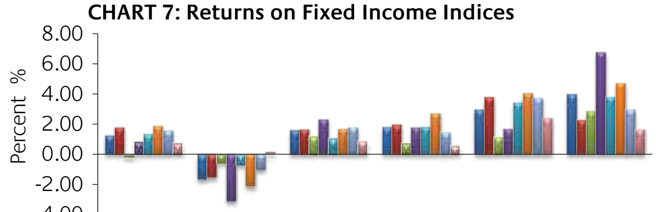
INVESTMENT REPORT (CONTINUED)

The broader US Fixed income market as measured by the Barclays US Aggregate Index generated a total return of 2.94 per cent for the year ended September 30, 2015. The index delivered positive returns for most of the financial year, except for the three months to June, when improving economic fundamentals brought forward expectations for the Fed's first interest rate increase.

Spread product performance was somewhat mixed but generally underperformed similar-duration treasuries as credit spreads widened modestly, given the appeal of U.S. Treasuries following periods of risk aversion. The U.S. Investment grade corporate sector was also hurt by greater supply, whereas Puerto Rico's struggle to raise cash and eventual default negatively impacted market sentiment.

However, the Asset Backed Sector outperformed similar duration treasuries despite the uncertainty surrounding the rating of a large number of bonds in the student loan Federal Family Education Loan Program (FFELP) Asset Backed Securities (ABS) market, which were placed on downgrade watch by Moody's and Fitch.

CHART 7: Returns on Fixed Income Indices



	QTR ended Sept-15	QTR ended Jun-15	QTR ended Mar-15	QTR ended Dec-14	FY 14/15	FY 13/14
Barclays U.S. Aggregate	1.23	-1.68	1.61	1.79	2.94	3.96
U.S. Treasuries	1.76	-1.58	1.64	1.93	3.76	2.28
U.S. Agencies	-0.22	-0.59	1.21	0.71	1.10	2.85
U.S. Corporate	0.83	-3.16	2.32	1.77	1.66	6.77
U.S. MBS	1.30	-0.74	1.06	1.79	3.43	3.78
G-7 Global Bonds (Hedged)	1.85	-2.17	1.66	2.69	4.03	4.73
CMBS Index	1.54	-1.06	1.77	1.45	3.72	2.93
ABS Index	0.74	0.17	0.90	0.55	2.38	1.65

The sovereign bond yields of the G7 countries generally fell over the year, except for an increase in the third quarter of the financial year when oil prices temporarily rebounded and the appreciation in the US dollar began to slow. In the fourth quarter of the financial year, there was a significant flight to quality trade, which was positive for global sovereign bonds, as China's currency was devalued and Chinese equity market volatility spiked significantly. Furthermore, the Fed's decision not to hike rates and its citing of developments abroad as the reason for its decision, heightened market fears that the slowdown in China and falling commodity prices will pull global growth lower.

The 10-year Canadian sovereign bond yield declined the most among the G-7 nations over the financial year, falling by 71 basis points to close the year at 1.43 per cent. The 10-year German sovereign bond yield remained at depressed levels ending the year at 0.59 per cent falling 36 basis points over the year, while French sovereign bond yields fell by 30 basis

INVESTMENT REPORT (CONTINUED)

points to close the year at 0.98 per cent. UK Gilt yields fell by 66 basis points to 1.76 per cent at the end of September 2015, as broader global macro concerns weighed on yields and inflation remained subdued. Meanwhile, yields on 10-year Japanese government bonds (JGBs) fell by 18 basis points to end the period at 0.35 per cent, as the Bank of Japan continued its accommodative monetary policy.

(c) Equity Market

US and non-US developed equity markets declined over the financial year ended September 2015, compared to the year ended September 2014, as investor risk appetite waned due to widespread concern over heightened downside risks to global growth, inflation and economic and geopolitical stability. Divergent monetary policy of developed central banks also continued to create volatility in markets over the period, especially as the Federal Reserve prepared to tighten while the ECB and BoJ expanded their reflationary monetary policies. Macro events in China also weighed on investor sentiment as the People's Bank of China (PBoC) executed policies aimed at stabilising its financial markets and stemming the devaluation of the Chinese renminbi, both of which actually served to create even more market volatility.

For the year ended September 2015, US markets posted negative returns as economic headwinds, the decline in the energy sector and the strong dollar hurt performance. Returns in the US markets peaked in the first quarter as optimism over the Greek debt negotiations supported equity markets but faded thereafter, as renewed uncertainty over Greece, geopolitical concerns, increasing anxiety over the Fed's first rate hike and declining commodity prices weighed on investors' risk appetite.

During the financial year, global equity markets outperformed its US counterparts, with the exception of the energy heavy FTSE 100. The strongest non-US market was Japan, as equities were supported by the coordinated efforts of the Bank of Japan's expansionary monetary policies and deepened allocation to equities in the Japanese Government Pension Fund. Moreover, as the effects of the April 2014 consumption tax hike had dissipated and despite a somewhat fragile pace of economic recovery, fundamentals were still encouraging enough to boost consumer confidence throughout the year. After almost a year-long rally, Japanese stocks fell over the final quarter of the financial year with a decline of 13.42 per cent, as China's economy and heightened anxiety over a Fed hike weighed on markets.

Equity markets in the Euro zone posted positive returns, with the exception of London's FTSE 100. German and French equity markets continued to be supported by further accommodative policies announced by the ECB in October 2014, especially as growth faltered in Germany and France.

For the twelve month period, the Dow Jones Industrial Average (DJIA) led the decline in US markets with a loss of 2.10 per cent, while the S&P 500 and Russell 3000 declined 0.62 per cent and 0.49 per cent, respectively. This was a reversal of the returns posted in the prior financial year, as market participants opted to take gains on their investments due to an uncertain Fed policy rate hike path, declines in the energy sector and economic concerns in Europe and China. In non-US developed markets, Japan's Nikkei 225 outperformed other non-US markets during the

INVESTMENT REPORT (CONTINUED)

period, with a relatively stellar 9.42 per cent return. In the Euro zone, the French CAC index added 4.13 per cent, whilst Germany's DAX 30 index advanced 1.96 per cent. Overall performance of non-US developed markets, as measured by the MSCI EAFE, declined 8.26 per cent for the financial year ended September 2015, primarily pulled down by European equity markets and the impact of a strong dollar. (see Chart 8).

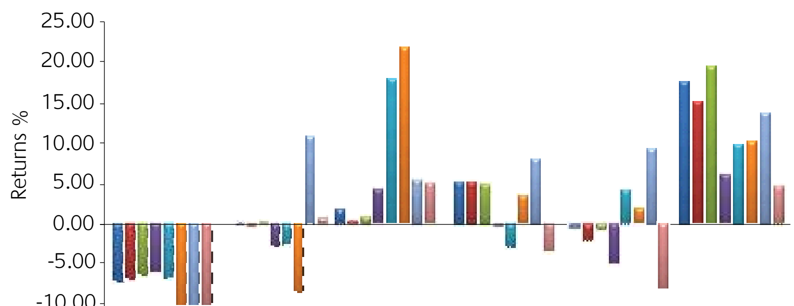
(d) Currency Market

Over the 2014/2015 financial year, the US dollar continued its upward trend as the United States economy strengthened albeit at a slower pace. The US trade weighted broad dollar index rose 13.91 per cent driven by diverging monetary policies as the Fed moved closer to increasing its target rate, while the European Central Bank and Bank of Japan announced additional easing during the financial year in an effort to achieve their inflation mandates.

The euro weakened significantly during the first two quarters of the financial year as the ECB alluded to and finally engaged in full scale quantitative easing. The euro fell to a low of 1.0496 in March 2015 but recovered somewhat as risk aversion in the market prompted traders to cover their short euro positions. In addition, the euro found some support as Greece was finally able to secure its third bailout package and there were some signs that the economy was improving and that there was low but positive price inflation. Nonetheless, the euro depreciated over the period, falling 11.51 per cent as risks to the region remained to the downside.

The pound depreciated 6.69 per cent over the period. Most of the decline occurred in the first two quarters, as concerns around May 8th general elections in the UK, as well as the stalling recovery in the Euro zone highlighted the downside risks to the

CHART 8: Returns on Equity Indices



	QTR ended Sept-15	QTR ended Jun-15	QTR ended Mar-15	QTR ended Dec-14	FY 14/15	FY 13/14
Russell 3000	-7.24	0.14	1.80	5.23	-0.49	17.73
Dow Jones	-6.96	-0.29	0.32	5.19	-2.10	15.25
S&P 500	-6.43	0.28	0.95	4.92	-0.62	19.69
FTSE 100 - UK	-6.11	-2.80	4.25	-0.25	-5.09	6.09
CAC 40 - France	-6.80	-2.59	18.04	-2.83	4.13	9.92
DAX 30 - Germany	-11.74	-8.53	22.03	3.50	1.96	10.24
Nikkei 225 - Japan	-13.42	10.92	5.45	8.05	9.42	13.76
MSCIEAFE	-10.16	0.75	5.03	-3.50	-8.26	4.63

Equity returns in previous Annual Reports were price returns. December 2014 – June 2015 and financial year 2014 returns have been re-stated to reflect the total returns of these indices.

INVESTMENT REPORT (CONTINUED)

UK economy. The pound gained some traction as the political uncertainty abated and the outlook for the Euro zone stabilised. However, pricing pressures weakened over the 12 months and the growing likelihood that the Federal Reserve would tighten ahead of the Bank of England weighed on the pound.

The Yen fell 8.53 per cent with most of the decline captured during the fourth quarter of 2014, when the Bank of Japan surprised markets at its November meeting by expanding the annual target for its monetary base to 80 trillion yen from 60 to 70 trillion yen. Moreover, slowing economic growth and waning price inflation supported a weaker Yen. However, periods of risk aversion and the global stock market rout during the third quarter of 2015 helped to stem further Yen weakness.

3. Strategic Asset Allocation

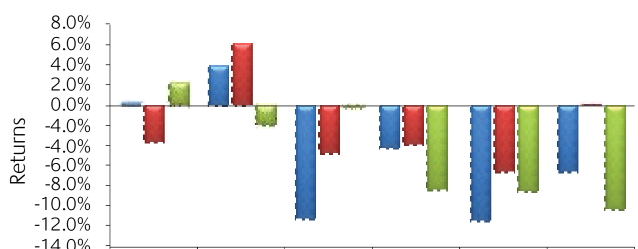
a) Portfolio Desired Allocation

In 2008, the Board of Governors approved the Strategic Asset Allocation (SAA)[2] for the Fund. Given the onset of the financial crisis, the three-year implementation of the SAA was delayed until August 2009. By January 2011, the Fund's investment portfolio[3] was fully invested in the four major asset classes shown in Chart 10 at right.

2 The approved Strategic Asset Allocation (SAA) is considered to be the optimal mix of assets that is expected to meet the long term investment objective of the Fund, both in terms of risk and return.

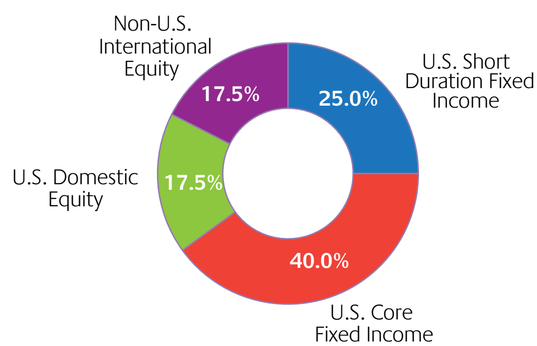
3 Section 4 of the HSF Operational and Investment Policy states that the Central Bank may hold cash and cash equivalent in order to cover day-to-day liquidity needs and the remaining portion called the Investment Portfolio would be invested in accordance with the strategic asset allocation (SAA) approved by the Board.

CHART 9: FOREIGN EXCHANGE RETURNS: MAJOR CURRENCIES VIS-À-VIS THE US DOLLAR /per cent/



	QTR ended Sept-15	QTR ended Jun-15	QTR ended Mar-15	QTR ended Dec-14	FY 14/15	FY 13/14
EUR	0.27%	3.88%	-11.30%	-4.22%	-11.51%	-6.62%
GBP	-3.72%	6.03%	-4.87%	-3.92%	-6.69%	0.17%
JPY	2.19%	-1.93%	-0.29%	-8.46%	-8.53%	-10.38%

CHART 10: The Fund's Strategic Allocation



INVESTMENT REPORT (CONTINUED)

c) Portfolio Composition

During the financial year ended September 2015, the asset classes of the Fund deviated from their Strategic Asset Allocation (SAA) and at certain times these deviations were outside the allowable range (+/- 5 per cent) stipulated in the investment policy statement. Such deviations occurred as a result of changes in assets' market values. Throughout the financial year, the Fund had an overweight allocation to US Core Domestic Equities and Non-US Core International Equities.

The specific months in which the deviations outside the allowable range occurred were as follows:

- February 2015: US Core Domestic Equity Mandate deviated from its SAA allocation by +5.15 per cent.
- May 2015: US Core Domestic Equity Mandate deviated from its SAA allocation by +5.13 per cent.
- June 2015: US Core Domestic Equity Mandate deviated from its SAA allocations by +5.08 per cent respectively.

During the month of July 2015, the portfolio was re-balanced to within the permitted SAA range for each of the mandates. A total of US$407.6 million was withdrawn from the two equity mandates and deposited with the two fixed income mandates by the end of July 2015.

As at September 30, 2015, the underweight allocations to the US Core Domestic Equities and Non-US Core International Equities were 0.92 per cent and 1.34 per cent respectively. Conversely, the fixed income asset classes carried allocations above their target weights, specifically 1.32 per cent for US Core Fixed Income and 0.94 per cent for US Short Duration Fixed Income.

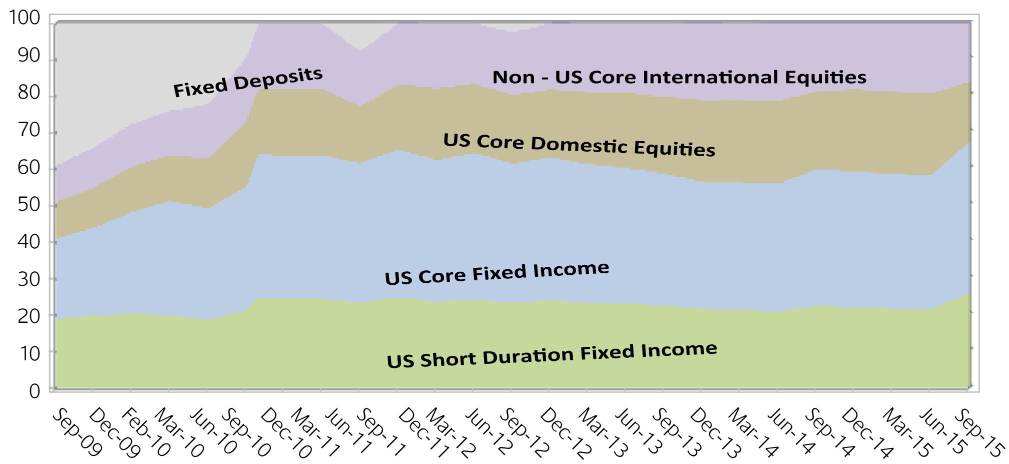
The Fund's SAA and the portfolio composition over the 2014/2015 financial year are shown below (Table 1, refers).

Table 1: PORTFOLIO COMPOSITION RELATIVE TO THE APPROVED SAA /per cent/

	Asset Class		Dec-14	Mar-15	Jun-15	Sep-15
		Target Weight SAA	Actual % of Fund	Actual % of Fund	Actual % of Fund	Actual % of Fund
Portfolio Weights	Cash	0.00	0.00	0.00	0.00	0.00
	US Short Duration Fixed Income	25.00	22.06	21.74	21.75	25.94
	US Core Domestic Fixed Income	40.00	37.26	37.08	36.53	41.32
	US Core Domestic Equity	17.50	22.50	22.48	22.58	16.58
	Non-US Core International Equity	17.50	18.17	18.70	19.13	16.16

INVESTMENT REPORT (CONTINUED)

CHART 11: ASSET COMPOSITION OF THE HSF PORTFOLIO
/percent/



d) Fund Value

As at September 30 2015, the Fund's Net Asset Value stood at US$5,655.1 million, compared with US$5,533.4 million as at the end of September 2014. The increase in the value of the Fund reflected positive investment returns.

4. Portfolio Performance

Over the financial year ended September 2015, the Fund's investment portfolio gained 2.5 per cent, compared with returns of 1.1 per cent for the SAA benchmark. The modest performance of US equity markets on a total return[4] basis helped the US Core Domestic equity mandate to be the main driver of the overall portfolio return. The fixed income portion also added 1.5 per cent to the overall portfolio performance.

4 Total return includes interest income, capital gains (price gains), dividends and distributions realised over a period.

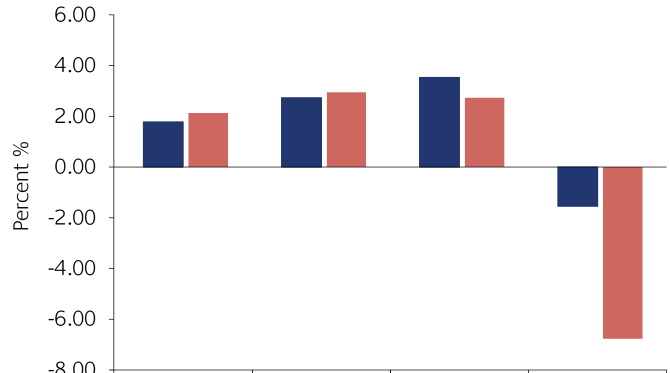
Table 2: CONTRIBUTION TO ANNUAL RETURN FY 2014/2015 /per cent/

	Percentage of Portfolio as at Sep 30, 2015	Portfolio Weighted Return	Benchmark
COMPOSITE PORTFOLIO	100.00	2.47	1.13
FIXED INCOME:			
• US Short Duration Fixed Income	25.94	0.41	0.53
• US Core Fixed Income	41.32	1.05	1.18
EQUITY:			
• US Core Domestic Equity	16.58	1.13	0.56
• Non US Core International Equity	16.16	-0.11	-1.11

** Portfolio and Benchmark returns may not sum to the Composite Return as they geometrically-linked.

INVESTMENT REPORT (CONTINUED)

CHART 12: ABSOLUTE RETURNS BY ASSET CLASS FY 2014/2015 /per cent/



	US Short Duration	US Core Fixed Income	US Core Domestic Equities	Non US Core International Equities
Composite Portfolio Return	1.77	2.72	3.53	-1.54
SAA Benchmark Return	2.13	2.95	2.73	-6.77

Mandate

The **Equity portion** of the Fund posted yet another positive period of performance over the financial year ended September 2015, albeit significantly smaller in magnitude relative to the prior financial year. There was a divergence within developed market equity returns over the financial year, as US equities rallied over the period, while non-US developed equities declined, even though both regions were affected by macro events in China, Greece and the Federal Reserve posturing. As at September 30, 2015, the net asset value of the equity holdings were US$1,851.1 million, compared with a value of US$2,213.2 million one year earlier. This change in value reflected in part, the rebalancing process which occurred in July 2015, in which $407.6 million was transferred from these mandates to the fixed income mandates.

The **US Core Domestic Equity portfolio** gained 3.5 per cent, compared with a total return of 2.7 per cent for its benchmark, the Russell 3000 ex Energy Index. During the financial year, the Russell 3000 index fell 0.5 per cent, while the Russell 3000 ex Energy index increased 2.7 per cent. This variance is due to the steep fall in energy prices during the year. The outperformance of the portfolio relative to its benchmark was as a result of both stock selection and sector allocation decisions. Allocations to the Technology and Consumer Discretionary sectors proved beneficial to overall portfolio returns.

The other equity mandate, the **Non-US International Equity portfolio**, declined 1.5 per cent to outperform the MSCI EAFE ex Energy Index, which fell 6.8 per cent in total return terms. For the 12 months to September 2015, the MSCI EAFE index fell 8.1 per cent, while the MSCI EAFE ex Energy index fell 6.8 per cent as a result of the steep fall in energy prices during the year. The excess returns of the portfolio can mainly be attributed to favourable stock selection decisions and currency hedged country allocations over the financial year. Country allocations to Ireland, Denmark and Israel were especially beneficial to the portfolio. Additionally, security selection in Europe and Japan also helped outperformance.

The **Fixed Income portion** of the Fund continued its two-year trend of positive returns although

INVESTMENT REPORT (CONTINUED)

both mandates underperformed their respective benchmarks. Government bond yields generally declined over the financial year, however, spreads widened as uncertainty and volatility returned to the fixed income market especially in the latter months of the year. The US treasury curve flattened over the financial year as longer term yields fell, including the US 10 year yield which declined 45 basis points. As at the end of September 2015, the net asset value of the two fixed income mandates totaled US$3,803.8 million, up from US$3,318.8 million one year earlier. This increase in value reflected in part, the rebalancing process which occurred in July 2015, when $407.6 million was transferred to this mandate from the equity mandates.

The **US Short Duration Fixed Income** mandate returned 1.8 per cent, compared with a gain of 2.1 per cent for its benchmark, the Bank of America Merrill Lynch 1- 5 year US Treasury Index. The under-performance of the portfolio relative to its benchmark was attributed to the portfolio's interest rate strategy particularly with respect to a short positioning on the 10-year sector of the curve. Exposure to breakeven inflation products also benefitted performance as spreads between real and nominal yields declined.

The other fixed income mandate, the **US Core Domestic Fixed Income portfolio**, gained 2.7 per cent over the financial year ended September 2015. The portfolio lagged behind its benchmark, the Barclays Capital US Aggregate Bond index, which returned 3.0 per cent. The portfolio's exposure to corporate bonds as spreads widened, was a significant detractor to performance. More specifically, corporate bonds in the Industrials and Utilities sectors hurt performance. Finally, the portfolio's tactical duration positioning over the period also detracted from performance, as the Fed held off on its decision to hike rates over the financial year, while the portfolio was positioned to take advantage of a rate hike (i.e. a short duration positioning relative to the benchmark).

The Fund received no cash contributions during the financial year. The cash balance held to meet the day-to-day expenses arising from the management of the Fund, amounted to US$0.7 million as at September 30, 2015.

5. Portfolio Risks

The main risks for the HSF portfolio are Credit, Concentration, Interest rate, and Currency risks. The exposition below indicates how these risks are mitigated.

(a) Credit Risk

For the **money market portion** of the Fund, credit risk is minimised 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 5.0 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. Over the financial year, the average credit

INVESTMENT REPORT (CONTINUED)

quality was "AA+" and "AA" for the US Short Duration and US Core Fixed Income Portfolios, respectively.

(b) 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. The Asset classes in which the Fund invests react differently under a given market condition.

As such, it is likely that 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. In addition, Concentration Risk is minimised within asset groups. For the **equity portfolios**, this Risk is managed by imposing a maximum percentage holding of 3.0 per cent of any security's outstanding shares, as well as a maximum sector deviation relative to the benchmark of 5.0 per cent.

(c) 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 benchmarks. Table 3 shows the weighted average duration for the **US Short Duration** and **US Core Domestic Fixed Income portfolios** as at September 30, 2015.

Table 3: WEIGHTED AVERAGE DURATION/Years/

Mandate	Portfolio	Benchmark
US Short duration	2.43	2.68
US Core Domestic Fixed Income	5.51	5.39

(d) Currency Risk

Currency risk is managed by containing and managing the exposure to non-US dollar instruments. The Fund is invested in twelve currencies in addition to the US dollar. These currencies include the Euro, Japanese Yen, Pound Sterling, Australian dollar, Swiss Franc dollar and Swedish Krona. 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.

INVESTMENT REPORT (CONTINUED)

Table 4: PORTFOLIO CURRENCY EXPOSURE

CURRENCY	Per Cent
US DOLLAR	84.54
EURO CURRENCY	5.22
JAPANESE YEN	4.47
POUND STERLING	2.59
DANISH KRONE	0.91
SWISS FRANC	0.71
SWEDISH KRONA	0.54
AUSTRALIAN DOLLAR	0.39
HONG KONG DOLLAR	0.28
NEW ISRAELI SHEQEL	0.18
SINGAPORE DOLLAR	0.09
NORWEGIAN KRONE	0.06
NEW ZEALAND DOLLAR	0.03
COMPOSITE TOTAL	**100.00**

6. Outlook & Risks to the Portfolio

In the financial year 2015-2016, the HSF investment managers' will employ differing strategies to take advantage of current and expected market conditions and their interpretations of such. For the fixed income managers, the main risks they face over the next year include the tightening policies of the Federal Reserve relative to the accommodative policies of the European Central Bank and the Bank of Japan, headwinds faced by emerging market economies as commodity prices fall and continue to have a knock-on effect on global demand and the potential of a slowdown in China and its spillover effects into global financial markets.

China also continues to be at the forefront of our equity managers' minds, as the potential for a hard landing looms. It is especially vital to monitor Chinese policymaker decisions in relation to the slowdown in growth as it has been observed that industrial companies in China have not been doing as well as technology and consumer companies, recently. Additionally, there are political risks to keep abreast of especially in Europe which include the potential for rising nationalism to affect an integrated Europe, unforeseen obstacles threatening to derail the Greek bailout, a shift in attitude from the U.K. in relation to its European Union membership and tensions resulting from the refugee influx into Europe from Syria.

APPENDICES

Appendix I
HERITAGE AND STABILISATION FUND
FINANCIAL YEAR PORTFOLIO VALUATION
/USD/

Valuation Date	Net Asset Value	Financial Year Total Comprehensive Income	Accumulated Surplus & Unrealised Capital Gains/Losses	Contributions
September 30, 2007	1,766,200,701	41,966,361	41,966,361	321,706,043
September 30, 2008	2,888,421,556	68,412,770	110,379,131	1,054,174,457
September 30, 2009	2,964,686,478	76,248,691	186,755,766	-
September 30, 2010	3,621,984,041	177,645,460	364,361,226	477,344,263
September 30, 2011	4,084,016,158	9,715,841	374,074,067	451,400,519
September 30, 2012	4,712,376,278	420,693,705	794,770,772	207,550,846
September 30, 2013	5,154,027,747	399,007,950	1,193,778,722	42,519,782
September 30, 2014	5,533,425,248	379,167,024	1,572,945,746	-
September 30, 2015	5,655,143,565	120,639,605	1,693,585,351	-

APPENDICES (CONTINUED)

Appendix II
HSF PORTFOLIO
HISTORICAL PERFORMANCE SINCE INCEPTION

Financial Year End	Financial Year Return			Annualised Return Since Inception		
	Portfolio %	Benchmark %	Excess bps	Portfolio %	Benchmark %	Excess bps
September 2007*	2.97	2.95	1.89	5.48	5.44	3.50
September 2008	3.62	3.50	12.12	4.34	4.25	9.37
September 2009	2.80	3.18	-37.81	3.81	3.91	-10.01
September 2010	6.07	5.75	31.93	4.61	4.59	2.29
September 2011	0.79	1.14	-34.89	3.80	3.87	-7.13
September 2012	10.73	10.18	55.01	5.38	5.33	5.20
September 2013	8.63	7.26	137.06	5.40	5.16	24.01
September 2014	7.65	5.60	204.51	5.69	5.22	47.69
September 2015	2.47	1.13	134.06	5.31	4.73	58.12

Note: * These returns are for the period March 2007 to September 2007.

(1) 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.

(2) 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.

(3) 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%).

REPUBLIC OF TRINIDAD AND TOBAGO
AUDITOR GENERAL'S DEPARTMENT

SECOND REPORT OF THE AUDITOR GENERAL

ON THE FINANCIAL STATEMENTS OF THE HERITAGE AND STABILISATION FUND OF THE REPUBLIC OF TRINIDAD AND TOBAGO

FOR THE YEAR ENDED

30 September 2015

SECOND REPORT OF THE AUDITOR GENERAL OF THE REPUBLIC OF TRINIDAD AND TOBAGO ON THE FINANCIAL STATEMENTS OF THE HERITAGE AND STABILISATION FUND OF THE REPUBLIC OF TRINIDAD AND TOBAGO FOR THE YEAR ENDED 30 SEPTEMBER 2015

The First Report of the Auditor General of the Republic of Trinidad and Tobago on the non-receipt of the Financial Statements of the Heritage and Stabilisation Fund (the Fund) for the year ended 30 September 2015 was signed by the Auditor General on 30th November, 2015 and forwarded to the Minister of Finance to be laid in Parliament.

2. The accompanying Financial Statements of the Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago (the Fund) for the year ended 30 September 2015 have been audited. The Statements comprise a Statement of Financial Position as at 30 September 2015, a Statement of Comprehensive Income, a Statement of Changes in Equity and a Statement of Cash Flows for the year ended 30 September 2015 and Notes to the Financial Statements numbered 1 to 14.

MANAGER'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

3. The Central Bank of Trinidad and Tobago as Manager of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

4. The Auditor General's responsibility is to express an opinion on these Financial Statements based on the audit. The audit which was carried out in accordance with section 116 of the Constitution of the Republic of Trinidad and Tobago and section 16 (1) of the Heritage and Stabilisation Fund Act, 2007 (the Act) was conducted in accordance with International Standards on Auditing. Those Standards require that ethical requirements be complied with and that the audit be planned and performed to obtain reasonable assurance about whether the Financial Statements are free from material misstatement.

5. 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. It is my view that the audit evidence obtained is sufficient and appropriate to provide a basis for the audit opinion.

OPINION

7. In my opinion, the Financial Statements present fairly, in all material respects, the financial position of the Heritage and Stabilisation Fund as at 30 September 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

EMPHASIS OF MATTER

8.1 Without qualifying the above opinion, attention is drawn to the following matter which was raised in the Auditor General's Report on the financial statements of the Fund for the year ended 30 September 2008. At paragraph 6 of that Report it was stated as follows:

(i) Section 13 (1) of the Act states:

"*Where petroleum revenues collected in each quarter of any financial year –*

(a) exceed the estimated petroleum revenues for that quarter of the financial year by more than ten per cent, the currency of the United States of America equivalent of the excess revenue shall be withdrawn from the Consolidated Fund and deposited to the Fund in accordance with section 14(1); or

(b) exceed the estimated petroleum revenues for that quarter of a financial year but do not exceed such estimated revenues by at least ten per cent, the Minister may direct that the currency of the United States of America equivalent of all or part of the excess revenue shall be withdrawn from the Consolidated Fund and deposited to the Fund in accordance with section 14(1)."

(ii) Section 14 (1) of the Act states:

"A minimum of sixty per cent of the aggregate of the excess revenues shall be deposited to the Fund during a financial year."

(iii) The above quoted sections of the Act are open to interpretation. It is recommended that suitable amendments be made to the Act to provide for greater clarity with regard to deposits to the Fund.'

8.2 It was seen that action is being taken with respect to this matter.

16TH JUNE 2016
PORT-OF-SPAIN

MAJEED ALI
AUDITOR GENERAL

SS
20160616

STATEMENT OF FINANCIAL POSITION

As at 30 September, 2015 (expressed in United States Dollars)

	Note	Sep-15 $	Sep-14 $
ASSETS			
Current assets			
Cash and cash equivalents	4	79,608,995	288,665,171
Financial assets	5,6	5,586,879,944	5,308,399,562
Receivables and prepayments	7	450,512,239	285,123,292
TOTAL ASSETS		**6,117,001,178**	**5,882,188,025**
LIABILITIES			
Current liabilities			
Other payables	8	463,940,115	352,132,845
Financial liabilities	9	2,601,645	156,741
Bank overdraft	4	-	78,626
TOTAL LIABILITIES		**466,541,760**	**352,368,212**
NET ASSETS		**5,650,459,418**	**5,529,819,813**
PUBLIC EQUITY			
Contributed capital		3,956,874,067	3,956,874,067
Available-for-sale financial assets revaluation reserve		128,973,010	333,310,281
Accumulated surplus		1,564,612,341	1,239,635,465
TOTAL EQUITY		**5,650,459,418**	**5,529,819,813**

RALPH HENRY
(Chairman)

ALVIN HILAIRE

MAURICE SUITE

BEVAN NARINESINGH

JUDITH MORRAIN-WEBB

The accompanying notes form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the Year ended 30 September, 2015 (expressed in United States Dollars)

	Note	Sep-15 $	Sep-14 $
Income			
Investment income	10	142,113,412	137,989,785
Investment expenses	11	(33,935,897)	(26,220,204)
Gain on sale of financial assets		457,425,572	410,397,864
Loss on sale of financial assets		(235,631,471)	(124,124,129)
Income from investments		**329,971,616**	**398,043,316**
Other income		146,856	116,809
Total income		**330,118,472**	**398,160,125**
Operating expenses			
Management fees		1,718,994	1,631,748
Subscription fees		14,155	13,954
Audit fees		10,376	9,655
Licence fees		4,000	4,751
Total operating expenses		**1,747,525**	**1,660,108**
Net profit for the year before tax		**328,370,947**	**396,500,017**
Withholding tax expense		3,394,071	3,819,496
Net profit for the year after tax		**324,976,876**	**392,680,521**
Other comprehensive income:			
Available-for-sale financial assets			
- Unrealised loss from fair value changes		(204,337,271)	(13,513,497)
Other comprehensive income for the year		**(204,337,271)**	**(13,513,497)**
Total comprehensive income for the year		**120,639,605**	**379,167,024**

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the Year ended 30 September, 2015 (expressed in United States Dollars)

	Contributed Capital	Available-for Sale Financial Assets Revaluation Reserve	Accumulated Surplus	Total
	$	$	$	$
Balance as at 1 October 2013	3,956,874,067	346,823,778	846,954,944	5,150,652,789
Total comprehensive income for the year	-	(13,513,497)	392,680,521	379,167,024
Balance as at 30 September 2014	**3,956,874,067**	**333,310,281**	**1,239,635,465**	**5,529,819,813**
Balance as at 1 October 2014	3,956,874,067	333,310,281	1,239,635,465	5,529,819,813
Total comprehensive income for the year	-	(204,337,271)	324,976,876	120,639,605
Balance as at 30 September 2015	**3,956,874,067**	**128,973,010**	**1,564,612,341**	**5,650,459,418**

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the Year ended 30 September, 2015 (expressed in United States Dollars)

	Note	Sep-15 $	Sep-14 $
Cash flows from operating activities			
Net profit for the year		324,976,876	392,680,521
Adjustments			
Interest income		(86,472,073)	(77,452,757)
Dividend income		(55,641,339)	(59,101,179)
Fair value adjustment on financial assets and liabilities at fair value through profit or loss		2,410,377	(1,435,849)
Net realised gain from the sale of financial assets		(221,794,101)	(286,273,735)
Cash outflows before changes in operating assets and liabilities		**(36,520,260)**	**(31,582,999)**
Changes in operating assets and liabilities			
(Increase) in receivables and prepayments		(162,633,010)	(52,279,273)
Increase in other payables		111,807,270	47,505,258
Net cash used in operating activities		**(87,346,000)**	**(36,357,014)**
Cash flows from investing activities			
Interest received		82,930,776	76,392,394
Dividend received		56,426,699	59,437,638
Net (purchase)/sale of financial assets		(261,032,830)	21,404,596
Net cash flows (used in)/from investing activities		**(121,675,355)**	**157,234,628**
Effects of exchange rate changes on cash and cash equivalents		**43,805**	**(63,091)**
Net (decrease)/increase in cash and cash equivalents		(208,977,550)	120,814,523
Cash and cash equivalents, beginning of year		288,586,545	167,772,022
Cash and cash equivalents, end of year	4	**79,608,995**	**288,586,545**

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 30 September, 2015 (expressed in United States Dollars)

1. Corporate information

The Heritage and Stabilisation Fund Act, 2007 of the Republic of Trinidad and Tobago, (the Act), provides for the establishment and management of the Heritage and Stabilisation Fund (the Fund). This Fund was established on 15 March 2007. It is denominated in the currency of the United States of America.

The President, upon the advice of the Minister of Finance, appoints the Board of Governors of the Fund. This Board comprises five members, who are appointed for a term of three years and are eligible for reappointment. Members are selected from among persons of proven competence in matters of finance, investment, economics, business management or law, including an officer of:-

a) the Central Bank; and

b) the Ministry of Finance.

The Board delegates the responsibility for the management of the Fund to the Central Bank of Trinidad and Tobago (the Bank).

The purpose of the Fund is to save and invest surplus petroleum revenues derived from production business in order to -

a) cushion the impact on or sustain public expenditure capacity during periods of revenue downturn whether caused by a fall in prices of crude oil or natural gas;

b) generate an alternate stream of income so as to support public expenditure capacity as a result of revenue downturn caused by the depletion of non-renewable petroleum resources; and

c) provide a heritage for future generations of citizens of Trinidad and Tobago, from savings and investment income derived from the excess petroleum revenues.

Upon the commencement of this Act, the monies held in the Interim Revenue Stabilisation Fund established under the Exchequer and Audit Act were transferred to the Fund, whereupon the Interim Revenue Stabilisation Fund ceased to exist.

The resources of the Fund consist of:-

a) moneys transferred from the Interim Revenue Stabilisation Fund;

b) petroleum revenues deposited into the Fund in accordance with Section 13; and

c) assets acquired and earned from investments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

2. Accounting policies

a) Basis of preparation

The Financial Statements of the Fund have been prepared in accordance with International Financial Reporting Standards as adopted by the Institute of Chartered Accountants of Trinidad and Tobago. The Financial Statements have been prepared under the Historical Cost Convention as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss.

b) Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand and at bank, bank overdraft, short term investment in money market funds and deposits maturing within three months from the date of the financial statements.

Cash balances held are swept daily for investment purposes based on a projected cash flow. Consequently, there may be instances where the amounts retained on accounts following the sweep, may not be in line with actual cash flows required to execute business transactions for settlement on these accounts resulting in temporary overdrawn cash balances.

c) Foreign currency translation

i. Functional and presentation currency

The financial statements are presented in United States Dollars which is the Fund's functional and presentation currency.

ii. Transactions and balances

The Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the Statement of Financial Position date. Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income.

d) Financial assets

i. Initial recognition

The Fund's financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss or as available-for-sale financial assets, as appropriate.

Regular purchases and sales are recognised on the trade date. Thus, any agreements made before the reporting date, with expectations of settlement thereafter, will give rise to both a financial asset and financial liability, which are recognised in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

2. Accounting policies (continued)

d) Financial assets (continued)

ii. Subsequent measurement

Available-for-sale

Available-for-sale financial assets are those which are intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or to meet the goals of the strategic asset allocation approved by the Board. These financial assets are initially measured at fair value and subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in Other Comprehensive Income (revaluation reserve). When the financial asset is derecognised or is determined to be impaired, the cumulative gain or loss previously reported in the revaluation reserve is included in the income statement as 'Gain or Loss from financial assets'.

Fair value through profit or loss

A derivative is a financial instrument or other contract within the scope of IAS 39 with all three of the following characteristics:

a. its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');

b. it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

c. it is settled at a future date.

Derivatives are initially recognised in the Statement of Financial Position at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Net changes in fair value are presented in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

2. Accounting policies (continued)

d) Financial assets (continued)

ii. Subsequent measurement (continued)

Fair value through profit or loss (continued)

The Fund holds the following derivative instruments (see Notes 5 and 9):

a) Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price. Options held by the Fund are exchange traded. The Fund is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

b) Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts. Interest rate swaps relate to contracts taken out by the Fund with major brokers in which the Fund either receives or pays a floating rate of interest in return for paying or receiving a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other. In a currency swap, the Fund pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are gross–settled.

iii. Fair value measurement/estimation

Fair value is the price at which an asset can be exchanged in an orderly arm's length transaction between knowledgeable and willing market participants. The fair value for financial instruments traded in active markets at the reporting date is based on their quoted current bid prices. For unlisted financial assets and those where the market is not active, the Fund establishes fair value by using valuation techniques. These include the use of recent arm's length market transactions adjusted as necessary and/or reference to the current market value of another transaction that is substantially the same.

Financial assets for which fair value is measured and disclosed in the financial statements are categorised within the three-level fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. The levels are:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

2. Accounting policies (continued)

d) Financial assets (continued)

iii. Fair value measurement/estimation (continued)

Level 1 - unadjusted quoted prices in active markets for identical assets

Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

iv. Impairment of financial assets

At the end of each reporting period, the Fund assesses whether there is any objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are recognised if, and only if there is objective evidence that one or more events occurred after initial recognition of the asset ('loss event') and the loss event's impact on the estimated future cash flows of the financial asset can be reliably estimated.

v. Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Fund has transferred substantially all of the risks and rewards of ownership or where the Fund has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

e) Collateral

The margin used for futures contracts can be in the form of either cash or securities held at a broker. For all balances held at a broker where collateralised securities and/or swap cash collateral are used, these are reported as either a receivable or payable.

f) Premium/discount

A premium arises when a bond or treasury bill price is higher than its par value. This occurs when the interest rate on the security is higher than the prevailing rates in the market, thus making the bond or treasury bill worth more than a security paying the prevailing lower rate.

A discount arises when a bond or treasury bill price is lower than its par value. This occurs when the interest rate rises; newly issued securities have higher coupon rates than existing securities issued when market rates were lower. Thus, coupon rates of securities trading at a discount are generally lower than similar quality, newly issued securities.

The premium/discount is netted off against Investments on the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

2. Accounting policies (continued)

g) Income and dividends

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Interest income is accounted for on the accrual basis.

Dividend income is recognised on the accrual basis when the shareholder's right to receive payment is established.

h) Expenses

Expenses are recognised on the accrual basis, i.e. in the period in which they were incurred.

i) Taxation

The Fund is a public account and by Section 17 of the Act the income is exempt from any tax. The Fund currently incurs withholding taxes attributable to investment income from foreign sources. Such income is recognised on a gross basis stated at the expected realisable value, in the Statement of Comprehensive Income. Withholding taxes are shown as a separate item in the Statement of Comprehensive Income

j) Receivables

Receivables are stated at their expected realisable value.

k) Other payables

Other payables are stated at their expected amounts.

l) Comparative information

When necessary, comparative data has been adjusted to conform with changes in presentation in the current year.

m) Statement of cash flows

- **Operating activities** include all activities other than investing and financing activities. The cash inflows include all receipts from the sources of revenue that support the Fund's operating activities. Cash outflows include payments made to suppliers.
- **Investing activities** are those activities relating to the acquisition and disposal of current and non-current securities and any other non-current assets. Investments include securities not falling within the definition of cash.
- **Financing activities** are those activities relating to changes in equity of the Fund and those activities relating to the cost of servicing the Fund's equity capital.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

2. Accounting policies (continued)

m) Statement of cash flows (continued)

- **Cash** means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Fund invests as part of its day-to-day cash management.

n) Capital contributions

In accordance with Section 14 of the Act:

a) a minimum of sixty per cent of the aggregate of the excess revenues shall be deposited to the Fund during a financial year;

b) all revenues to be deposited into the Fund shall be a charge on the Consolidated Fund.

The deposits are to be made no later than the end of the month following the quarter in respect of which the deposit was calculated.

Capital contributions received under the requirements of the Act are treated as additions to Equity.

o) Critical accounting estimates and judgements

The Fund makes estimates and assumptions that affect the reported amounts of the assets and liabilities within the financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events.

The resulting accounting estimates will seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are illustrated below:

- **Fair value of financial instruments**

  Where the fair value of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

3. Financial risk management

The Fund is exposed to a variety of financial risks including credit risk, concentration risk, market risk and liquidity risk. The Fund is also exposed to operational risk, the risk of loss arising from inadequate or failed processes, systems or external events. The management of these risks is undertaken by the Bank along with highly qualified and experienced international asset managers; guided by the operational and investment policies that are approved and reviewed by the Board of Governors.

The Fund's risk management policy seeks to preserve the long-term real value of the Fund whilst constraining the risk of not meeting its performance objectives over rolling 5-year periods. The Fund's policy allows for the use of derivative securities so as to mitigate certain risk exposures such as interest rate and currency risks as well as to enhance the value of the Fund. The use of derivative securities or contracts to create economic leverage is strictly prohibited. Purchasing securities on margin, except for futures or swaps, against which are held a risk equivalent amount of cash or liquid securities is also prohibited.

The Fund's policy allows for the management of risk relative to its Strategic Benchmark as well as from a sector or country or issuer level. These measures are explained below.

a) The strategic benchmark

The Fund's Investment Portfolio is invested in a manner to achieve the objective of preserving its real value measured over 5-year rolling periods. It is invested in accordance with the strategic asset allocation (SAA) approved by the Board of Governors. The SAA for the Fund is as follows:

Asset Class	Allocation
U.S. Equities	17.5%
Non-U.S. Equities	17.5%
U.S. Core Domestic Fixed Income Securities	40.0%
U.S. Government Treasury 1-5 Years Securities	25.0%

This SAA limits the allowable underperformance of the overall portfolio relative to the composite benchmark, to an annual budget of risk of 2.0% measured over rolling one-year periods. In other words, the expected net variation of return of the portfolio and the composite benchmark is 2.0%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

3. Financial risk management (continued)

a) The strategic benchmark (continued)

The benchmarks and the risk budget for each of the asset classes are as follows:

Asset class	Performance Index	Risk Budget
U.S. Equities	Russell 3000 ex-energy Index comprised of the 3,000 largest market capitalisation stocks in the United States and accounts for roughly 97% of the total market capitalisation of that country.	4.00%
Non U.S. Equities	MSCI EAFE ex-energy Index, which comprises the following countries: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.	4.50%
U.S. Government Treasuries 1-5 Years	Merrill Lynch U.S. Treasuries 1-5 Years Index	0.50%
U.S. Core Domestic Fixed Income	Barclays Capital U.S. Aggregate Index	1.00%

The risk budget for each asset class is defined as the target annualised tracking error, measured ex-post, on a monthly rolling three-year basis, versus the Benchmark. The tracking error is defined as the annualised standard deviation of monthly excess returns relative to the Benchmark.

The overall performance of the SAA is evaluated against the composite benchmark return computed as the weighted returns of the benchmarks of the various asset classes with weights equal to the SAA weights.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

3. Financial risk management (continued)

b) Portfolio performance

The portfolio performance for the twelve months ended 30 September, 2015 was as follows:

12 Month Performance			
Portfolio	**Fund**	**Benchmark Return**	**Benchmark Composition**
Composite	2.47%	1.13%	Merrill Lynch US Government Treasury 1-5 Years Index, US 1-month LIBID, Barclays Capital US Aggregate Bond Index, Russell 3000 (Ex Energy), MSCI EAFE (Ex Energy)
US Short Duration Fixed Income	0.41%	0.53%	Merrill Lynch US Government Treasury 1-5 Years Index
US Core Fixed Income	1.05%	1.18%	Barclays Capital US Aggregate Bond Index
US Core Domestic Equity	1.13%	0.56%	Russell 3000 (Ex Energy)
Non-US Core International Equity	-0.11%	-1.11%	MSCI EAFE (Ex Energy)

c) Portfolio risk

The Fund's activities expose it to a variety of financial risks: credit risk, concentration risk, market risk (currency risk, interest rate risk and price risk), and liquidity risk. The Fund is also exposed to operational risk.

Credit risk

This is the risk that a third party will default on its obligation to the Fund, causing the Fund to incur a loss. The main concentration of credit risk arises from the Fund's investments in debt securities. The Fund is also exposed to counterparty credit risk on cash and cash equivalents.

Credit risk is mitigated by the establishment of ratings standards. These standards require U.S. Treasury, Government-Related and Securitised debt securities to have a minimum credit quality of AA-/ Aa3 from at least one of the Nationally Recognised Statistical Rating Organisations, Standard & Poor's or Moody's. Corporate debt should have a minimum credit quality of investment grade, at least Baa3 by Moody's or BBB- by Standard & Poor's. An investment grade corporate bond is considered to have a relatively low risk of default.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Credit risk (continued)

The table below summarises the credit quality of the Fund's debt securities as at September 30, 2015.

Credit Rating	2015	2014
AAA	7.9%	20.9%
AA	67.0%	54.0%
A	7.9%	7.3%
BBB	16.9%	17.5%
Not Rated*	0.3%	0.3%

* Not Rated debt securities refer to securities that are issued or unconditionally guaranteed by the agency of a sovereign government. The rating for each of these investments is implicitly tied to the credit rating of the government of the United States of America or the United Kingdom.

Money-market counterparts should have a minimum credit rating of A1 from Standard & Poor's, or P1 from Moody's. Counterparty credit risk is also managed by limiting the exposure of a single counterparty to 3% of the Fund.

Concentration risk

Concentration risk is the risk of loss attributable to holding investments in a single security or to a limited number of investment styles or asset classes. The Strategic Asset Allocation (SAA) reduces this risk by ensuring the Fund's assets are invested across various asset classes and styles. The Fund is invested in three broad asset classes:- Fixed Income including Government and Government- Related, Supranational, Corporate, and Securitised bonds; Equities including financial, consumer discretionary, healthcare, utilities, information technology, industrials, consumer staples and telecom services; and Cash Equivalents including U.S. Treasury and agency bills, Certificates of deposits and Money Market funds managed by the custodian with an AAAm rating and comprising only of the eligible asset classes defined in the Fund's investment policy.

Each asset class in which the Fund invests, reacts differently under the same market conditions, and usually when one asset class has strong returns another will have lower returns. Diversification across asset classes reduces the total risk of the Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Concentration risk (continued)

Concentration risk is also managed at the portfolio level, relative to the Strategic benchmark. Total net exposure to each of the sub-sectors of the Barclays Capital U.S. Aggregate Bond Index (U.S. Treasury, Government-Related, Corporate and Securitised) cannot exceed plus or minus 20% versus the benchmark. Sector deviations relative to the Russell 3000 (Ex Energy) and MSCI EAFE (Ex Energy) indices are limited to plus or minus 5%. The Fund's policy also prescribes concentration limits for the various asset classes, including no more than 3% of the portfolio to any one corporate issuer and country allocation limited to plus or minus 10% of the MSCI EAFE (Ex Energy) index.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises: currency risk, interest rate risk and price risk.

i. Currency risk

This is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Fund invests in international bonds and equities denominated in currencies other than the United States Dollar, the base currency of the Fund. Currency risk is managed at the portfolio level. For the Fixed Income and U.S. Core Domestic Equity mandates, no more than 10% of the market value of the portfolio can be invested in securities denominated in currencies other than the United States Dollar. For the Non US Core International Equity mandate, currency hedging is allowed for up to 15% of the market value of the portfolio.

A 1% change in the US dollar relative to other currencies (see below) in which the Fund trades would have changed the net assets of the Fund as at 30 September 2015 and 30 September 2014 as follows:

	Sep-15 $	Sep-14 $
Change in net assets	12,736,268	11,954,673

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Market risk (continued)

i. Currency risk (continued)

Foreign currency concentration exposure on financial assets and financial liabilities

	Sep-15	Sep-14
Currency	**% of financial assets**	**% of financial assets**
Australian dollar	0.39	1.11
Canadian dollar	0.00	0.21
Danish krone	0.92	0.74
Euro	5.30	5.71
Hong Kong dollar	0.28	0.38
New Israel sheqel	0.18	0.26
Japanese yen	4.53	4.64
New Zealand dollar	0.03	0.08
Norwegian krone	0.06	0.60
Singapore dollar	0.09	0.08
Swedish krona	0.55	0.75
Swiss franc	0.72	1.23
British pound	2.62	3.10
United States dollar	84.33	81.11
Total	**100.00**	**100.00**

Financial liabilities

	Sep-15	Sep-14
Currency	**% of financial liabilities**	**% of financial liabilities**
Euro	29.73	-
Swedish krona	0.72	-
British pound	10.52	-
United States dollar	59.03	100.00
Total	**100.00**	**100.00**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Market risk (continued)

ii. Interest rate risk

This is the risk that the value of a financial instrument will fluctuate, due to changes in market interest rates.

The Fund invests in fixed and floating rate debt securities that expose it to fair value and cash flow interest rate risk. Interest Rate Risk is managed at the portfolio level whereby the average weighted effective duration of the U.S. Short Duration Fixed Income mandate must not vary from that of the Benchmark by more than plus or minus six (6) months. The weighted average effective duration of the U.S. Core Fixed Income mandate may range between one (1) year longer or shorter than the weighted average duration of the Benchmark.

Portfolio versus Benchmark Duration

			Restated	
	2015		2014	
	Portfolio	Index	Portfolio	Index
US Short Duration Fixed Income	2.43	2.68	2.36	2.70
US Core Fixed Income	5.51	5.39	4.92	5.37

iii. Price risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes other than those arising from interest rate risk or currency risk, whether those changes are caused by factors specific to the individual financial instruments or issuer, or factors affecting all similar financial instruments traded in the market.

Price risk is managed through asset class diversification and selection of securities within the limits approved by the Board of Governors. The Fund's policy limits its holdings of any equity security to no more than 3% of that security's outstanding shares.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Market risk (continued)

iii. Price risk (continued)

The tables below summarise the sector concentrations within the Fund:

US Short Duration Fixed Income - Sector Concentrations

	2015		2014	
Sector	US Short Duration Mandate	Merrill Lynch US Treasury 1-5 Year Index	US Short Duration Mandate	Merrill Lynch US Treasury 1-5 Year Index
US Treasuries	69.9%	100.0%	77.2%	100.0%
Agencies	14.6%	-	9.9%	-
Credits	5.9%	-	5.2%	-
ABS/CMBS	4.8%	-	4.4%	-
Supranationals	2.4%	-	1.5%	-
Local Government Obligations	0.8%	-	0.0%	-
Mortgages	0.7%	-	1.1%	-
Municipals	0.6%	-	0.7%	-
Non-US Government	0.3%	-	0.0%	-
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Market risk (continued)

iii. Price risk (continued)

US Core Fixed Income - Sector Concentrations

	2015		2014	
Sector	US Core Fixed Income Mandate	Barclays US Aggregate Bond Index	US Core Fixed Income Mandate	Barclays US Aggregate Bond Index
Corporates	38.9%	24.0%	37.4%	23.2%
US Treasuries	18.8%	36.4%	17.5%	35.5%
Residential Mortgage Backed Securities	14.2%	0.0%	14.7%	0.0%
Mortgage Backed Securities	13.0%	28.4%	14.0%	28.9%
Asset Backed Securities	5.6%	0.6%	4.2%	0.5%
Commercial Mortgage Backed Securities	5.2%	1.9%	7.2%	2.0%
Government Related Securities	3.6%	8.6%	3.8%	9.7%
Emerging Market Debt	0.5%	0.0%	1.1%	0.0%
Covered Bonds	0.1%	0.1%	0.0%	0.1%
Convertibles	0.1%	0.0%	0.1%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Market risk (continued)

iii. Price risk (continued)

US Core Domestic Equity - Sector Concentrations

	2015		2014	
Sector	US Core Equity Mandate	Russell 3000 Ex-Energy Index	US Core Equity Mandate	Russell 3000 Ex-Energy Index
Financials	21.2%	21.6%	20.2%	20.8%
Technology	18.5%	17.7%	18.9%	18.0%
Consumer Discretionary	17.2%	16.0%	15.6%	15.2%
Health Care	16.1%	15.2%	14.9%	14.8%
Producer Durables	11.4%	11.5%	12.8%	12.5%
Consumer Staples	7.2%	8.3%	8.0%	8.1%
Utilities	5.2%	5.7%	5.2%	5.7%
Materials & Processing	3.2%	4.0%	4.4%	4.9%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Market risk (continued)

iii. Price risk (continued)

Non-US International Equity - Sector Concentrations

	2015		2014	
Sector	Non-US International Equity Mandate	MSCI EAFE EX-Energy Index	Non-US International Equity Mandate	MSCI EAFE EX-Energy Index
Financials	27.8%	27.1%	27.1%	27.6%
Consumer Discretionary	14.7%	13.8%	12.4%	12.5%
Industrials	14.4%	13.1%	12.8%	13.4%
Consumer Staples	11.0%	12.6%	9.3%	11.7%
Health Care	10.8%	12.4%	12.7%	12.1%
Materials	7.5%	6.9%	7.2%	8.3%
Telecommunication Services	6.0%	5.1%	7.5%	5.3%
Information Technology	4.6%	5.0%	6.7%	5.0%
Utilities	3.2%	4.0%	4.4%	4.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The table below summarises the sensitivity of the Fund's net assets attributable to redeemable shares to equity price movements as at 30 September. The analysis is based on the assumption that the share price increased by 1% and decreased by 1%, with all other variables held constant, and that the fair value of the Fund's portfolio of equity securities moved according to their historic correlation with the price.

	Sep-15	Sep-14
	$	$
Effect on net assets attributable to redeemable shares of a 1% increase/decrease in the share price	18,185,345	21,768,975

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Liquidity risk

This is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

One of the strategic objectives of the Fund is the maintenance of sufficient liquidity to cover its obligations at short notice and in accordance with the Act. In order to meet this stated objective, the Fund holds a combination of cash and short term assets such as U.S. Treasury and agencies bills and notes, certificates of deposits and money market funds managed by the custodian with an AAAm rating containing eligible asset classes in accordance with the investment policy. The Fund's investments in aggregate of any fixed income security must not exceed 5% of that security's outstanding par value.

The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

Non-derivative financial liabilities

	Less than 1 month $	1 - 6 months $	6 - 12 months $	Total $
As at 30 September 2015				
Investment purchased	336,815,979	41,347,500	-	378,163,479
Foreign currency purchased	6,054,542	72,791,704	-	78,846,246
Interest payable	-	162,067	-	162,067
Due to money market	-	-	-	-
Due to brokers	2,078,541	-	-	2,078,541
Accrued expenses	1,638,934	2,403,605	647,243	4,689,782
	346,587,996	**116,704,876**	**647,243**	**463,940,115**
As at 30 September 2014				
Investment purchased	193,214,944	78,633,594	-	271,848,538
Foreign currency purchased	6,130,854	68,553,866	-	74,684,720
Interest payable	276,042	167,463	-	443,505
Due to money market	78,626	-	-	78,626
Due to brokers	1,545,022	-	-	1,545,022
Accrued expenses	-	3,601,880	9,180	3,611,060
	201,245,488	**150,956,803**	**9,180**	**352,211,471**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Liquidity risk (continued)

The table below analyses the Fund's derivative financial instruments in a loss position.

	More than 12 months $	Total $
Sep-15		
Derivative financial liabilities		
Credit default swap	65,860	65,860
Interest rate swap	2,535,785	2,535,785
	2,601,645	**2,601,645**
Sep-14		
Derivative financial liabilities		
Credit default swap	156,741	156,741
	156,741	**156,741**

Operational risk

This is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It is managed through organisational policies, procedures and operational frameworks utilised by the Bank for management of the Fund. The internal and external processes for the Fund are similar to those which exist for management of the Official Reserves. These processes are tested and audited annually. The Bank strives to continually comply with international best practice.

4. Cash and cash equivalents

	Sep-15 $	Sep-14 $
Cash at bank	1,313,230	2,168,204
Cash at broker	6,305,157	1,326,734
US Government Money Market	71,994,083	285,217,513
	79,612,470	**288,712,451**
Net effect of exchange rate changes	(3,475)	(47,280)
	79,608,995	**288,665,171**
Bank overdraft	-	78,626
	79,608,995	**288,586,545**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

5. Financial assets

	Sep-15 $	Sep-14 $
Available-for-sale	5,586,714,154	5,306,689,683
Fair value through profit or loss	165,790	1,709,879
	5,586,879,944	**5,308,399,562**
Available-for-sale financial assets		
Cost/amortised cost	5,458,485,014	4,974,651,501
Net appreciation	128,229,140	332,038,182
	5,586,714,154	**5,306,689,683**
Represented by:		
Fixed income investments		
Amortised cost	3,735,915,438	3,099,041,957
Net appreciation in market value	32,264,844	30,749,925
	3,768,180,282	**3,129,791,882**
Equity		
Cost	1,722,569,576	1,875,609,544
Net appreciation in market value	95,964,296	301,288,257
	1,818,533,872	**2,176,897,801**
Total available-for-sale financial assets	**5,586,714,154**	**5,306,689,683**
Financial assets at fair value through profit or loss		
Cost	136,514	422,331
Fair value adjustments	29,276	1,287,548
Total financial assets at fair value through profit or loss	**165,790**	**1,709,879**

6. Fair value of financial assets

(a) Debt and equity securities

	Sep-15		Sep-14	
	Fair value $	% of net assets	Fair value $	% of net assets
Total debt securities	3,768,180,282	66.69	3,129,791,882	56.60
Total equity	1,818,533,872	32.18	2,176,897,801	39.37
Financial assets at fair value through profit or loss	165,790	0.01	1,709,879	0.03
Total financial assets	**5,586,879,944**	**98.88**	**5,308,399,562**	**96.00**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

6. Fair value of financial assets (continued)

(b) Fair value hierarchy

Various methods are used in estimating the fair value of a financial instrument. The Fund classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making measurements.

The fair value of the Fund's investment securities are analysed by the fair valuation hierarchy below:

	Sep-15			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial assets				
Asset backed securities	-	195,330,138	-	195,330,138
Collateralised mortgage-backed securities (CMO)	-	253,941,263	-	253,941,263
Convertible bonds	-	1,115,174	-	1,115,174
Corporate bonds	-	978,196,387	-	978,196,387
Government issues	-	1,744,725,454	-	1,744,725,454
Mortgage-backed securities	-	562,778,754	-	562,778,754
Municipals	-	32,093,112	-	32,093,112
Fixed income	**-**	**3,768,180,282**	**-**	**3,768,180,282**
Common stock	1,734,567,306	25,402	-	1,734,592,708
Depository receipts	43,132,664	-	-	43,132,664
Limited partnership units	183,679	-	-	183,679
Preferred stock	1,919,800	-	-	1,919,800
Real estate investment trust	38,705,021	-	-	38,705,021
Equity	**1,818,508,470**	**25,402**	**-**	**1,818,533,872**
Credit default swap	-	165,790	-	165,790
Financial assets at fair value through profit or loss	**-**	**165,790**	**-**	**165,790**
Total financial assets	**1,818,508,470**	**3,768,371,474**	**-**	**5,586,879,944**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

6. Fair value of financial assets (continued)

(b) Fair value hierarchy (continued)

	Sep-14			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Financial assets				
Asset backed securities	-	128,005,102	-	128,005,102
Collateralised mortgage-backed securities (CMO)	-	249,931,960	-	249,931,960
Convertible bonds	-	2,253,818	-	2,253,818
Corporate bonds	-	773,877,345	-	773,877,345
Government issues	-	1,465,694,779	-	1,465,694,779
Mortgage-backed securities	-	479,156,939	-	479,156,939
Municipals	-	30,871,939	-	30,871,939
Fixed income	**-**	**3,129,791,882**	**-**	**3,129,791,882**
Common stock	2,122,375,499	272,402	-	2,122,647,901
Depository receipts	2,795,550	-	-	12,795,550
Limited partnership units	171,011	-	-	171,011
Preferred stock	1,680,755	-	-	1,680,755
Real estate investment trust	39,602,584	-	-	39,602,584
Equity	**2,176,625,399**	**272,402**	**-**	**2,176,897,801**
Interest rate swap	-	656,086	-	656,086
Options	1,053,793	-	-	1,053,793
Financial assets at fair value through profit or loss	**1 ,053,793**	**656 ,086**	**-**	**1,709 ,879**
Total financial assets	**2,177,679,192**	**3,130,720,370**	**-**	**5,308,399,562**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

6. Fair value of financial assets (continued)

(b) Fair value hierarchy (continued)

Valuation techniques

Investment securities included in Level 1

Exchange listed price or a broker quote in an active market.

Investment securities included in Level 2

Where a security has ceased trading the last trade price or a broker quote in a non-active market is used. Additionally, securities closely related (e.g. when issued, fungible shares) where the security held is not trading but related security is traded.

Investment securities included in Level 3

Security in which no indications or comparables are available and the company's financials/information or other market indicators are used to calculate valuation.

(c) Transfers between fair value hierarchy levels

There were no transfers between the hierarchy levels during the financial year.

(d) Collateral

Securities pledged as collateral were as follows:

	Sep-15	Sep-14
	$	$
Fixed income	2,115,000	2,125,00
Equity	585,000	665,000
	2,700,000	**2,790,00**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

7. Receivables and prepayments

	Sep-15	Sep-14
	$	$
Pending trades	424,665,587	262,580,617
Interest receivable	17,826,980	14,285,683
Dividends receivable	3,316,186	4,101,546
Other receivables	4,703,486	4,155,446
	450,512,239	**285,123,292**

Accounts receivable as at 30 September, 2015 include Pending Trades – Investments, and Foreign Currency Sold in the amounts of USD345,388,156 and USD79,277,431 respectively which will subsequently be settled during the period October – December 2015.

8. Other payables

	Sep-15	Sep-14
	$	$
Pending trades	457,009,725	346,533,258
Accruals	4,689,783	3,611,060
Other payables	2,240,607	1,988,527
	463,940,115	**352,132,845**

As at 30 September, 2015 there were Pending Trades – Investments, and Foreign Currency Purchased of USD378,163,479 and USD78,846,246 respectively. Subsequent settlement will occur during the period October – December 2015.

9. Financial liabilities

	Sep-15	Sep-14
	$	$
(a) Financial liabilities at fair value through profit or loss		
Cost	2,147,531	305,042
Fair Value Adjustments	454,114	(148,301)
Financial liabilities at fair value through profit or loss	**2,601,645**	**156,741**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

9. Financial liabilities (continued)

(b) Fair value of financial liabilities

	Sep-15			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Financial liabilities				
Credit default swap	-	65,860	-	65,860
Interest rate swap	-	2,535,785	-	2,535,785
Financial liabilities at fair value through profit or loss	**-**	**2,601,645**	**-**	**2,601,645**
Total financial liabilities	**-**	**2,601,645**	**-**	**2,601,645**

	Sep-14			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Financial liabilities				
Credit default swap	-	156,741	-	156,741
Financial liabilities at fair value through profit or loss	**-**	**156,741**	**-**	**156,741**
Total financial liabilities	**-**	**156,741**	**-**	**156,741**

Valuation techniques

Refer to Note 6 (b).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

10. Investment income

	Sep-15 $	Sep-14 $
Interest Income		
Cash at bank	97	341
Available-for-sale financial assets	84,404,710	74,673,005
Amortisation of bond discount	2,066,506	2,787,513
Short term securities	760	(8,102)
	86,472,073	**77,452,757**
Dividend income	**55,641,339**	**59,101,179**
Fair value adjustments on financial assets and liabilities at fair value through profit or loss	**-**	**1,435,849**
Total	**142,113,412**	**137,989,785**

11. Investment expenses

	Sep-15 $	Sep-14 $
Amortisation premium	17,163,724	12,196,301
External manager fees	13,290,612	12,978,528
Fair value adjustments on financial assets and liabilities at fair value through profit or loss	2,410,377	-
Custodian fees	900,498	883,846
External manager expenses	170,686	161,529
Total	**33,935,897**	**26,220,204**

12. Asset management agreements

Under Section 10(1) of the Act, the Bank as Manager of the Fund is responsible for the management of the assets and other resources of the Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2015 (expressed in United States Dollars)

13. Board and other expenses

Under Section 4(6) of the Act, the members of the Board shall be paid such remuneration and allowances as may be determined by the Minister of Finance. These expenses, along with other operating expenses of the Fund's Secretariat are met from the Consolidated Fund, and thus do not form a part of the Financial Statements of the Fund.

14. Capital contributions

Capital contributions are calculated based on criteria set out under Sections 13(1) and 14 of the Act, (see Note 2 (n)). During the current financial year ended 30 September, 2015, no capital contributions were made given the level of petroleum revenues collected.

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