Trinidad and Tobago

Heritage & Stabilization Fund

Quarterly Investment Report

October - December 2012

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EXECUTIVE SUMMARY

Uncertainty in the global economy remained elevated during the fourth quarter of 2012 as political and fiscal concerns greatly impacted market sentiments. GDP growth continued to be uneven across advanced and emerging market countries. Towards the end of the quarter, downside risks to growth increased as the fiscal impasse in the **United States** (US) remained unresolved. However, on January 01 2013, the US House of Representatives passed legislation averting the "fiscal cliff", thereby avoiding the full effect of automatic spending cuts and tax increases. The most recent data indicated that economic activity in the United States expanded at an annualised rate of 3.1 per cent in the third quarter of 2012, compared with 1.3 per cent in the previous quarter. The manufacturing sector continued to expand in December 2012 as the Purchasing Managers' Index measured 50.7, compared with 51.5 three months earlier. On the policy side, the Federal Open Market Committee (FOMC) at its December 2012 meeting linked its policy on interest rates explicitly to threshold levels of unemployment and inflation. The Committee indicated that its benchmark interest rate "*…will stay within the range of 0 to 0.25 per cent as long as the unemployment rate remains above 6.5 per cent, projected inflation one and two years ahead does not exceed 2.5 per cent, and long-term inflation expectations continue to be well anchored.*" The policy statement also reiterated the accommodative monetary stance taken by the Federal Reserve since 2007.

Meanwhile, the **Euro zone** economy remained fragile as it experienced another contraction in growth in the third quarter of 2012. Economic indicators, including industrial production and manufacturing activity showed disappointing results. Moreover, labour market conditions worsened during the fourth quarter as the unemployment rate rose to record levels, reaching 11.8 per cent in December 2012, up from 11.6 per cent three months earlier. During the review period, finance ministers from the European Union's 27 countries agreed to give authority to the European Central Bank (ECB) to supervise the region's biggest banks and intervene in smaller banks at the first sign of trouble. The measure will take effect from March 2014. The Eurogroup also announced that it had formally approved the disbursement of approximately EUR 49 billion for Greece. Despite the gloomy economic outlook for the region, these agreements improved investor sentiment and fuelled robust performance in the bond and equity markets in Europe.

In the **United Kingdom (UK),** preliminary GDP data indicated that the economy contracted by 0.3 per cent in the fourth quarter of 2012, compared with growth of 0.9 per cent in the prior three months. The largest contribution to this outturn came from the production sector which declined 1.8 per cent over the three months to December 2012.

In **Japan**, real GDP contracted by 0.9 per cent in the third quarter of 2012, compared with a flat performance in the previous quarter. The recently elected Prime Minister, Mr. Shinzo Abe, stated that his government intends to bring an end to the economic contraction. In early January 2013, the government approved emergency stimulus spending as part of its aggressive plan to stimulate growth.

In general, financial markets experienced increased volatility over the review period given the concerns regarding elections in the US, resolution of the "fiscal cliff" debate, the debt situation in some Euro zone nations and the general outlook for the global economy. In the US, the Standard and Poor's (S&P) 500 index declined by 1 per cent for the quarter while other developed market equities, as measured by the MSCI EAFE index, increased 6.2 per cent. In the global fixed income markets including the US, UK and Japan, bond yields rose while those in the Euro zone declined over the three months to December 2012.

The HSF investment portfolio generated a return of 1.5 per cent for the quarter ended December 2012, compared with a return of 1.4 per cent for the Strategic Asset Allocation (SAA) benchmark. Approximately eighty per cent of the portfolio's return was attributed to the performance of the Non-US International Core Equity mandate.

As at end of December 2012, the **net asset value of the HSF was US$4,780.1 million**, an increase from US$4,712.4 million at the end of September 2012.

Contribution to Quarterly Return,
For the period October 2012 – December 2012
/per cent/

	SAA Weights	Portfolio Weights as at 31-Dec- 2012	Weighted Return HSF	Weighted Return Benchmark
Composite Portfolio	100.00	100.00	1.49	1.44
US Core Domestic Fixed Income	40.00	39.14	0.19	0.09
US Core Domestic Equity	17.50	18.57	0.03	0.10
Non US Core International Equity	17.50	18.20	1.25	1.25
US Short Duration Fixed Income	25.00	24.09	0.02	0.01

NB: Differences in totals are due to rounding.

SECTION 1 – INTERNATIONAL ECONOMIC ENVIRONMENT

United States

Revised real GDP data indicated that the US economy expanded at an annualised rate of 3.1 per cent during the third quarter of 2012, up from the previous estimate of 2.7 per cent, and from 1.3 per cent in the second quarter of 2012. According to the US Bureau of Economic Analysis, the acceleration in real GDP in the third quarter primarily reflected upturns in private inventory investment, residential fixed investment, state and local government spending, federal government spending and a downturn in imports. Meanwhile, industrial production expanded by 2.3 per cent in the twelve months to December 2012, compared with 3 per cent in the twelve months to September 2012. This slower rate of increase in production reflected, in part, the damages inflicted by Hurricane Sandy in October 2012.

The latest data on the US manufacturing sector revealed that activity increased in December 2012 as the Purchasing Managers' Index[1] (PMI) measured 50.7, up from the 49.5 index points posted one month earlier. This expansion was driven by improvements in supplier deliveries, employment, exports and imports sub-components of the overall index. However, the expansion was at a slightly slower pace when compared with September's reading of 51.5.

On the labour market front, nonfarm payroll employment increased on average by 151,000 in the fourth quarter of 2012, compared with a gain of 168,000 in the previous quarter. Most of the employment gains occurred in the health care, food services, construction, and

[1] A reading above 50 indicates that the manufacturing economy is generally expanding; below 50 indicates that it is generally contracting.

manufacturing industries. Despite the smaller increase in employment, the unemployment rate remained unchanged at 7.8 per cent in December 2012. Meanwhile, the increase in consumer prices slowed to 1.7 per cent in the twelve months to December 2012, from 2 per cent in September 2012. This deceleration occurred mainly on account of lower gasoline prices which offset the higher food prices.

In an unprecedented move, the Federal Open Market Committee (FOMC) at its December 2012 meeting linked its policy on interest rates explicitly to threshold levels of unemployment and inflation. In keeping with its dual mandate, the US Federal Reserve indicated that the target range for the Federal fund rate will be appropriate as long as the unemployment rate remains above 6.5 per cent and projected inflation one and two years ahead is no more than half a percentage point above its 2 per cent longer-run target. The FOMC also provided further monetary easing by ending the sale of short term securities under "Operation Twist" and by continuing the purchase of long term securities. These purchases would be on an open-ended basis, and at a rate of $45 billion per month. This action, together with September's decision, to initiate the purchases of mortgage backed securities at a rate of $40 billion per month, suggests that the Fed's balance sheet would increase at a rate of $85 billion per month from January 2013.

In other developments, the US House of Representatives passed legislation on January 01, 2012 averting the "fiscal cliff" but no agreement was reached on raising the debt limit which is likely to remain in the headlines over the next two months. Standard and Poor's warned in December 2012 that the US could face another downgrade by 2014, or sooner, if Congress does not have a clear plan to reduce the national debt.

Euro zone

Recent economic indicators suggest that activity in the region continued to be weak after slipping back into a recession in the third quarter of 2012, when the economy contracted for the second consecutive quarter by 0.1 per cent. According to Markit's Euro zone PMI Composite Output index, the economy contracted in the fourth quarter of 2012 as the index averaged 46.5 points, compared with 46.3 points three months earlier. Output fell in both the manufacturing and service sectors, with the former contracting due to weak demand from domestic and export markets.

Industrial production also declined in the Euro zone, falling by 3.7 per cent year-on- year to November 2012, compared with declines of 3.3 per cent in the previous month and 2.7 per cent in September 2012. November's reading represented the sharpest fall-off in production in three years and provided further indication that the wider economy may contract for a third consecutive quarter in the final three months of 2012. Contributing to this outturn was the fall-off in production of intermediate and capital goods, which experienced its steepest decline since 2009.

Conditions in the labour market worsened in November 2012, as the unemployment rate rose to record levels reaching 11.8 per cent, up from 11.6 per cent in the September 2012 and from 10.6 per cent one year earlier. Among the member states, Spain and Greece continued to register the highest rates of 26.2 per cent and 26 per cent, respectively, while the lowest rates were recorded in Austria (4.5 per cent) and Luxembourg (5.1 per cent).

However, consumer prices remained relatively subdued in the Euro zone as the inflation rate decelerated to 2.2 per cent in the twelve months to November 2012, down from 2.6 per cent in September 2012. Given the recent trend in consumer prices and the weak state of economic activity, the Governing Council of the European Central Bank left its benchmark interest rate unchanged at 0.75 per cent.

United Kingdom

Preliminary reading for the fourth quarter of 2012 suggests that real GDP in the United Kingdom contacted by 0.3 per cent, compared with growth of 0.9 per cent in the previous quarter. The largest contributor to this outturn was the production sector which declined by 1.8 per cent between October and December 2012. On a year-on-year basis to November 2012, industrial production contracted at a slower pace, falling by 2.4 per cent, compared with a decline of 3.2 per cent three months earlier. Meanwhile, Markit's Manufacturing Purchasing Managers' Index (PMI) rose to a 15-month high of 51.4 in December 2012, from 48.1 in September 2012. This increase was far stronger than analysts' expectations and was largely driven by higher domestic demand.

Labour market conditions remained relatively unchanged during the fourth quarter of 2012 as the latest unemployment rate in November 2012 measured 7.7 per cent, a marginal decline from the 7.8 per cent recorded in September 2012. On the other hand, inflationary pressures increased somewhat as the year-on-year rate to December 2012 measured 2.7 per cent, compared with 2.2 per cent in September 2012. The categories of items that placed the largest upward pressures on the annual inflation rate included food and non-alcoholic beverages, as well as housing and household services, in particular, domestic gas and electricity. These were offset by the downward pressures from the motor fuels, and the furniture and household equipment sub-indices.

At its meeting on January 10, 2013, the Bank of England's Monetary Policy Committee decided to keep the official Bank Rate at 0.5 per cent, and to maintain the size of its asset purchase programme at GBP 375 billion.

Japan

The final posting for Japan's real GDP confirmed that the economy contracted by 0.9 per cent in the third quarter of 2012, compared with a flat performance in the previous quarter. The recently elected Prime Minister, Mr. Shinzo Abe, indicated that his government intends to bring an end to the economic contraction and aims to build a stronger economy where earnings and incomes can grow. Prime Minister Abe added that "*the government must first take the initiative to create demand, and boost the entire economy*." In early January 2013, the Japanese government approved emergency stimulus spending as part of its aggressive plan to stimulate growth. Under the plan, the government will spend about 10.3 trillion yen on public works and disaster mitigation projects, subsidies for companies that invest in new technology and financial aid to small businesses. This spending is expected to increase real economic growth by 2 percentage points and to create approximately 600,000 jobs. However, concerns have been raised about the likely effect of this spending on the level of the country's public debt.

Following the Prime Minister's call in December 2012 for the Bank of Japan to make a firmer commitment to ending deflation, the Bank announced further aggressive monetary easing -by expanding its asset-buying and lending programme by 10 trillion yen. The Bank also decided to keep the uncollaterised overnight call rate unchanged at 0 to 0.1 per cent. Moreover, in January 2012 the Bank of Japan announced that it would switch to an open-ended commitment to buying assets and double its inflation target to 2 per cent.

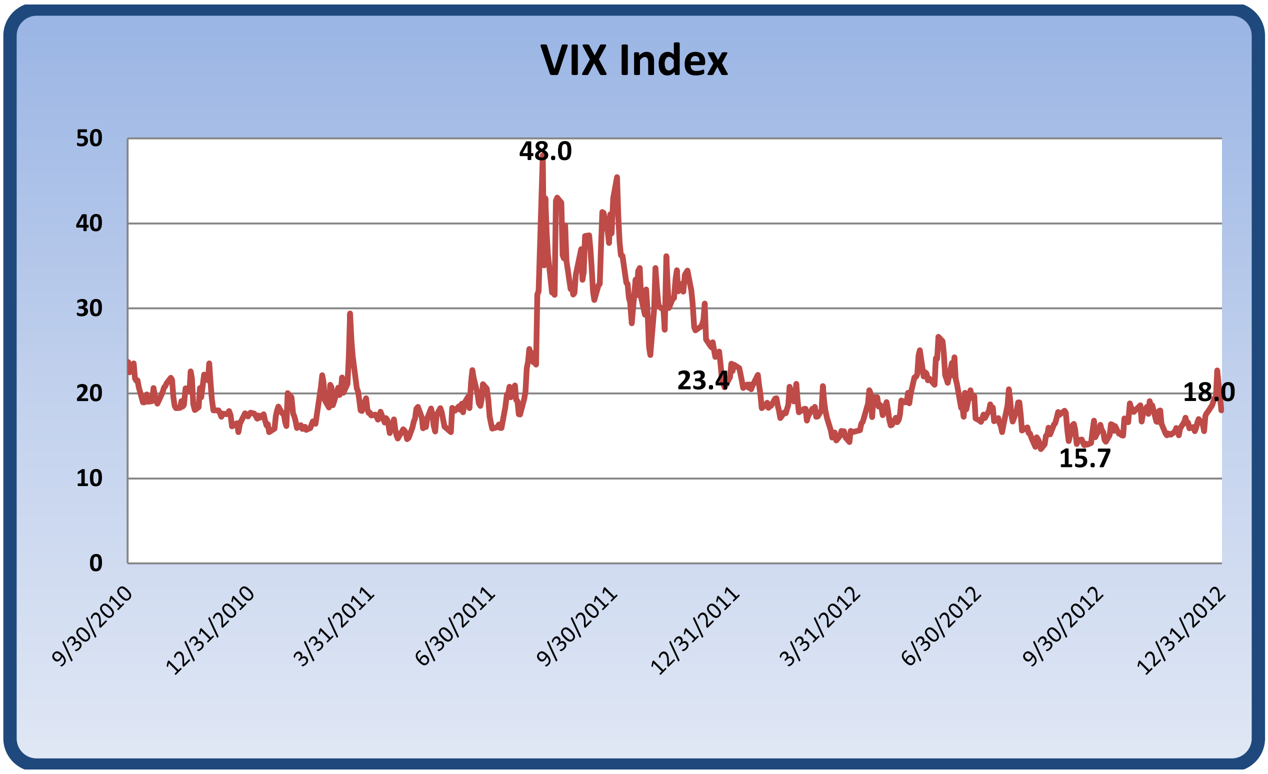
SECTION 2 – CAPITAL AND MONEY MARKET REVIEW

Sentiments in financial markets were mixed during the fourth quarter of 2012 amid concerns regarding elections in the US and Japan, resolution of the US "fiscal cliff" debate and the outlook for the global economy. However, investor anxiety was tempered by better-than-expected economic data for the US and China, continued optimism about the ECB's bond-buying programme -which reduced borrowing costs for the most distressed Euro zone countries- and the agreement among EU leaders on the framework for a single supervisory mechanism.

Market volatility in the US, as measured by the Chicago Board Options Exchange Volatility Index (VIX), rose during the fourth quarter of 2012. The VIX averaged about 16.7 points, compared with 16.2 points in the previous quarter. Notable increases in the index occurred during the days immediately following the November elections in the US, but this trend was short-lived. Towards the end of December 2012, the index rose to a high of 21.8 points as investors became increasingly anxious about the prospect that the Congress would not agree on legislation to avert tax increases and spending cuts, which were set to take effect in early 2013. The VIX closed the quarter on 18 points, up from 15.7 points at the end of September 2012.

In equity markets, the US Standard and Poor's (S&P) 500 index lost 1 per cent in the fourth quarter of 2012, compared with a gain of 5.8 per cent over the prior three months. Non-US Developed markets outperformed their US counterpart, posting robust returns for the quarter. The MSCI EAFE index, which gauges the performance of non-US Developed equity markets, advanced by 6.2 per cent in the three months to December 2012 following a gain of 6.1 per cent in the previous quarter. In the fixed income market, ten-year treasury yields rose in the US, UK and Japan, but declined in Euro zone countries.

Figure 1
Market Volatility in the US
/points /

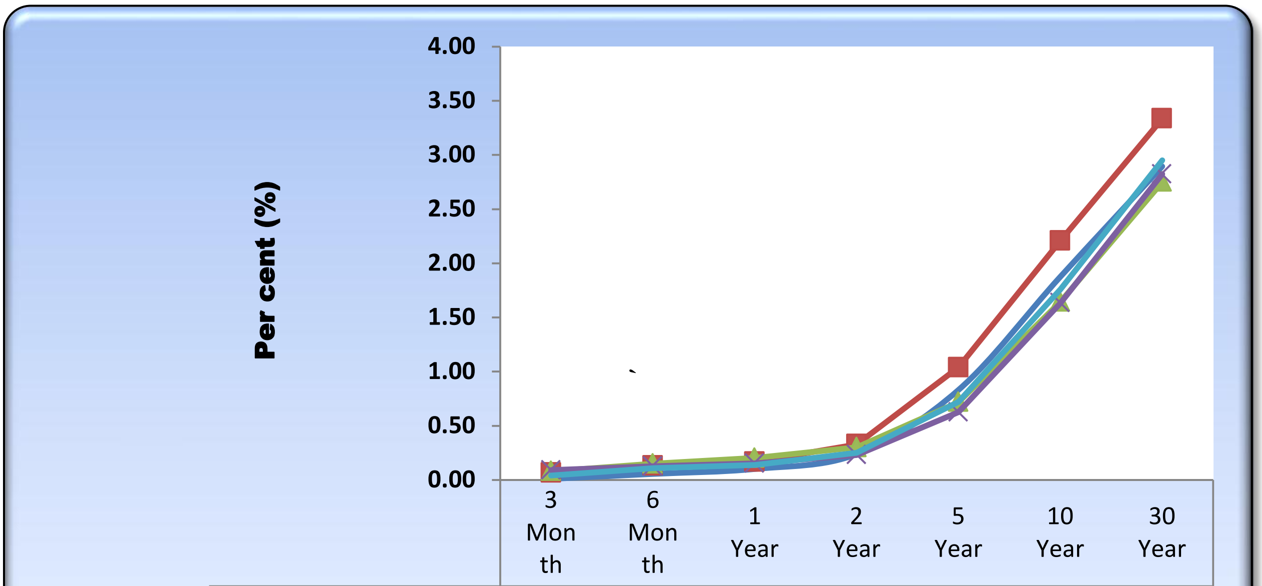


Source: Bloomberg.

Fixed Income

Yields in the 2-year to 30-year portion of the US Treasury curve trended upwards over the quarter, but declined on the front end of the curve for maturities up to one year. The general upward movement reflected the fall-off in investor demand for low-risk assets as the Federal Reserve's commitment to low-rates caused them to seek higher yielding bonds. In addition, healthy corporate fundamentals encouraged investors to increase their demand for relatively riskier securities. As a consequence, the 10-year benchmark US treasury yield rose to 1.8 per cent by the end of December 2012, from 1.6 per cent three months earlier.

Figure 2
US Treasury Yield Curve
/per cent /

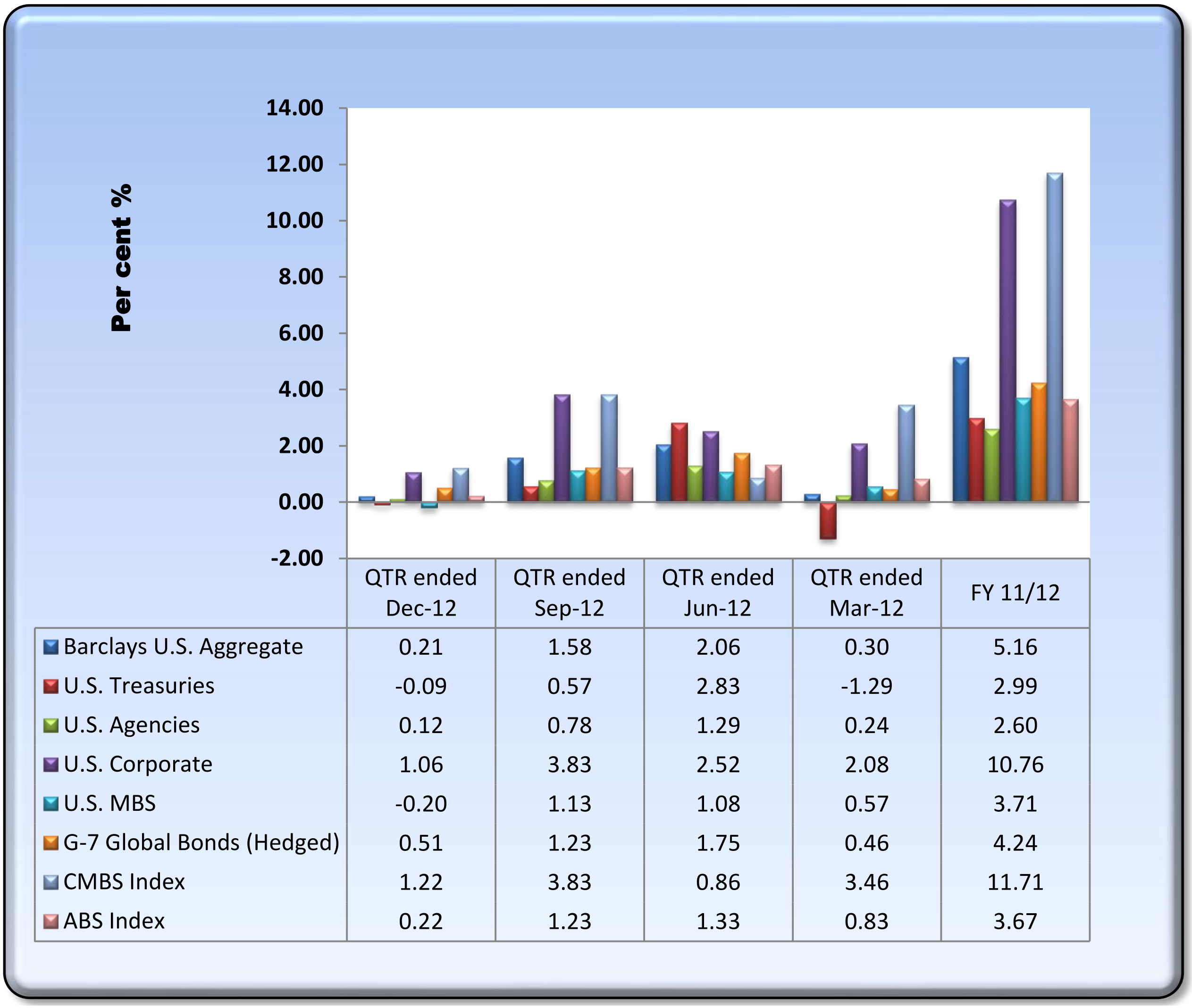


	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
December 31, 2011	0.01	0.06	0.10	0.24	0.83	1.88	2.89
March 31, 2012	0.07	0.13	0.17	0.33	1.04	2.21	3.34
June 30, 2012	0.08	0.15	0.20	0.30	0.72	1.64	2.75
September 30, 2012	0.09	0.13	0.15	0.23	0.63	1.63	2.82
December 31, 2012	0.04	0.11	0.14	0.25	0.72	1.76	2.95

Source: Bloomberg.

The broader US fixed income market as measured by the Barclays Capital US Aggregate Bond index, recorded a return of 0.2 per cent in the fourth quarter of 2012, compared with 1.6 per cent in the previous three months. The Commercial Mortgage Backed Securities (CMBS) and corporate sectors posted the best performances, gaining 1.2 per cent and 1.1 per cent, respectively. Conversely, the US Treasury and Agency-Backed Residential Mortgage sectors returned losses of 0.1 per cent and 0.2 per cent, respectively during the fourth quarter. The latter was on account of rising prepayments and sales by private investors, which outweighed purchases from the Federal Reserve as part of its quantitative easing programme.

Figure 3
Returns on Fixed Income Indices
/per cent/



	QTR ended Dec-12	QTR ended Sep-12	QTR ended Jun-12	QTR ended Mar-12	FY 11/12
Barclays U.S. Aggregate	0.21	1.58	2.06	0.30	5.16
U.S. Treasuries	-0.09	0.57	2.83	-1.29	2.99
U.S. Agencies	0.12	0.78	1.29	0.24	2.60
U.S. Corporate	1.06	3.83	2.52	2.08	10.76
U.S. MBS	-0.20	1.13	1.08	0.57	3.71
G-7 Global Bonds (Hedged)	0.51	1.23	1.75	0.46	4.24
CMBS Index	1.22	3.83	0.86	3.46	11.71
ABS Index	0.22	1.23	1.33	0.83	3.67

Source: Barclays Capital.

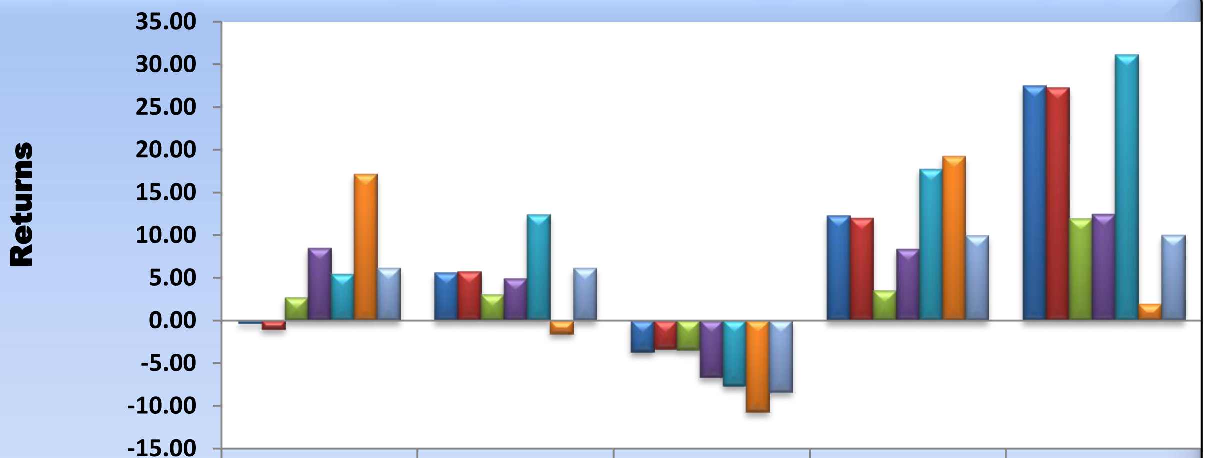
In the non-US developed markets, sovereign bond yields in the Euro zone declined amid the announcement of policymakers' expectation for continued weak economic growth for the region. By the end of December 2012, the ten-year yield on German bunds reached 1.3 per cent, down from 1.4 per cent in September 2012, while the yield on ten-year Greek bonds registered the sharpest decline among the member states, moving to 11.9 per cent, from 19.5 per cent three months earlier. Conversely, ten-year bond yields in the UK and Japan trended upwards over the quarter.

Equity Markets

In the fourth quarter of 2012, the performance of US equity markets was influenced by the presidential election, concerns about the likely impact of the "fiscal cliff" and disappointing corporate revenue reports. Partially offsetting some of the unfavourable developments and boosting equity markets were improving economic data and the Federal Reserve's announcement of further monetary accommodation. While the US markets recorded losses over the quarter, other developed equity markets posted gains, with Japanese stocks returning the strongest performance.

In the US, the S&P 500 index lost 1 per cent during the fourth quarter of 2012, compared with a gain of 5.8 per cent in the previous quarter. Among the ten sectors comprising the index, five suffered losses. The largest declines were posted by the Telecommunication services and Information technology sectors which both lost approximately 6 per cent over the quarter. Meanwhile, the Financials sector registered the highest gain. In the Euro zone, the Germany DAX 30 index returned 5.5 per cent, while France's CAC 40 index advanced 8.5 per cent. The Japanese Nikkei 225 index generated a robust return of 17.2 per cent to lead the performances of major stock indices. The sharp decline in value of the yen, vis-à-vis the US dollar, benefitted Japanese stocks as this movement boosted exports. The MSCI EAFE index which measures the performance of developed equity markets in Europe, Australia, New Zealand and Far East Asia rose by 6.2 per cent.

Figure 4
Price Returns on Equity Indices
/Per cent/



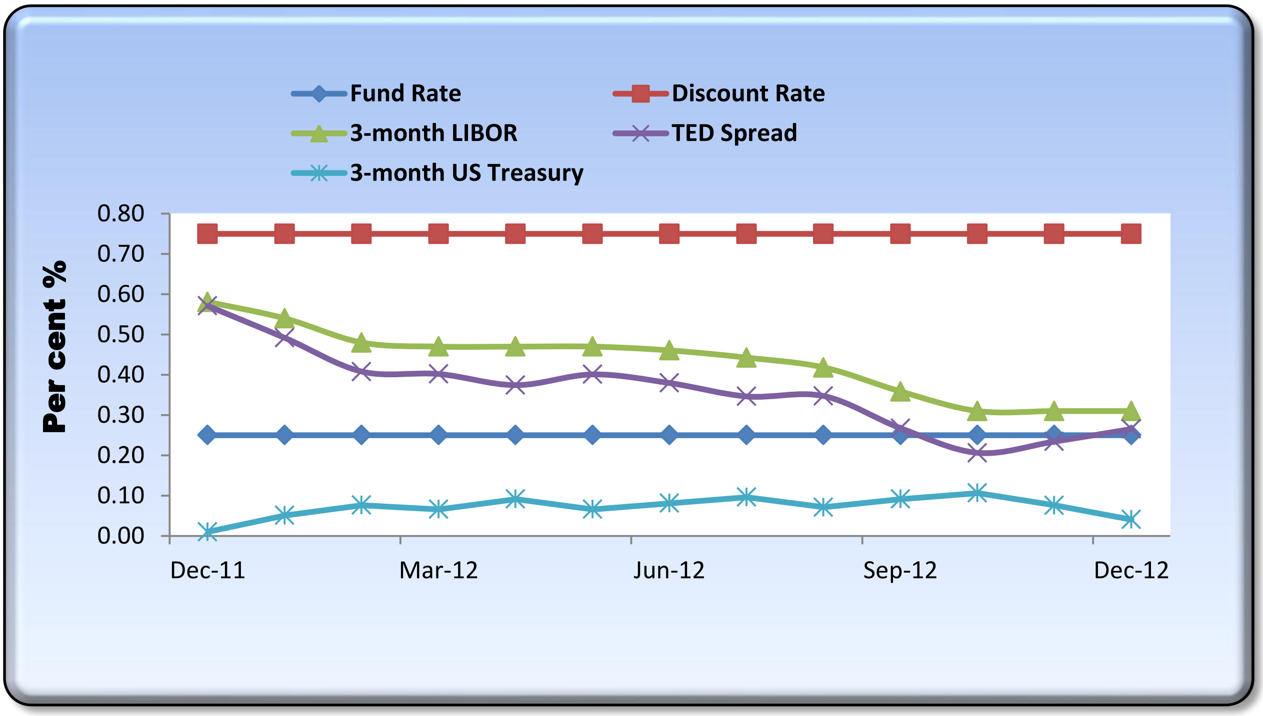
	QTR ended Dec-12	QTR ended Sep-12	QTR ended Jun-12	QTR ended Mar-12	FY 11/12
Russell 3000	-0.34	5.68	-3.65	12.32	27.53
S&P 500	-1.01	5.76	-3.29	12.00	27.33
FTSE 100 - UK	2.71	3.07	-3.42	3.52	11.96
CAC 40 - France	8.53	4.95	-6.63	8.35	12.50
DAX 30 - Germany	5.49	12.47	-7.64	17.78	31.15
Nikkei 225 - Japan	17.19	-1.52	-10.68	19.26	1.95
MSCI EAFE	6.17	6.14	-8.37	9.98	10.01

Source: Bloomberg.

Money Market

Short-term interest rates remained at relatively low levels as the major central banks continued their accommodative monetary policy stance. The announcement by the US Federal Reserve in December led to a further decline in the 3-month US Treasury bill rate, which reached 4 basis points at the end of December 2012, down from 9 basis points in September 2012. Meanwhile, the 3-month London Inter-Bank Offered Rate (LIBOR) fell to 31 basis points at the end of December 2012, compared with 36 basis points three months earlier.

Figure 5
US Money Market Rates
/per cent/

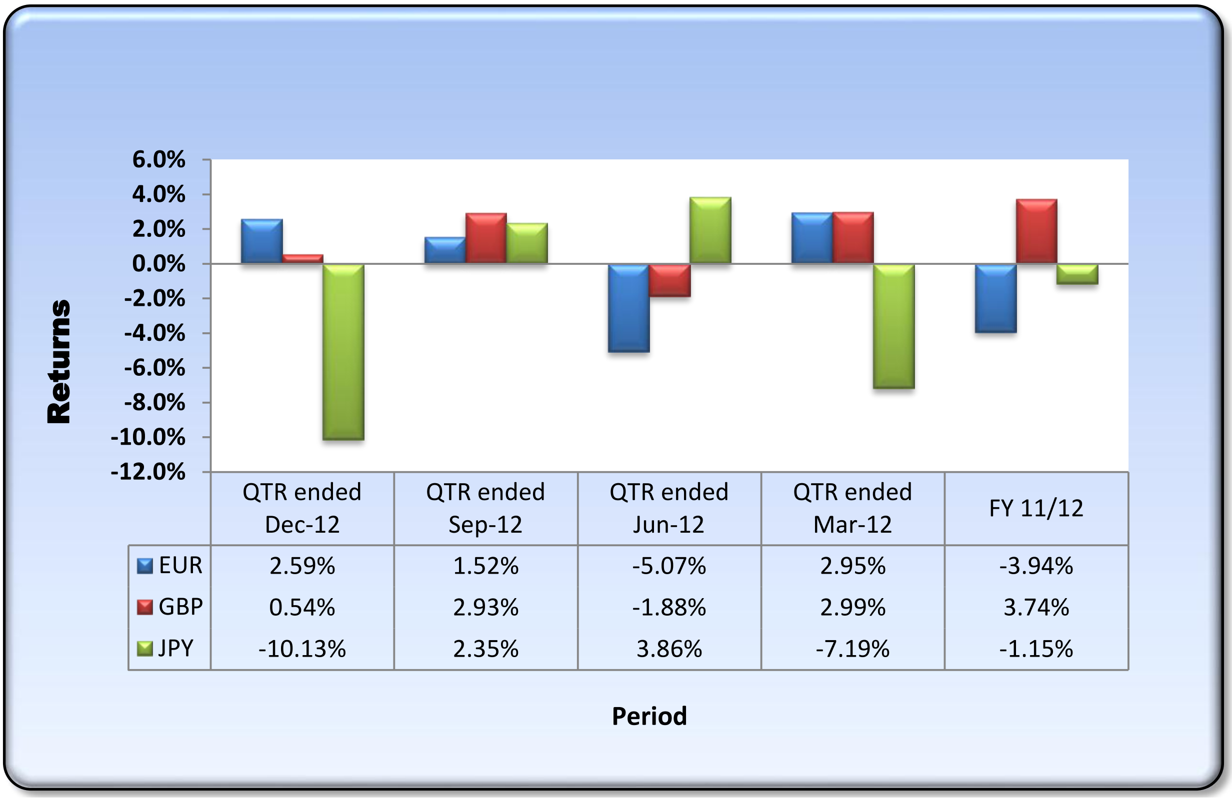


Source: Bloomberg.

Currency Markets

The US dollar weakened against most of the major currencies during the fourth quarter of 2012, amid the Federal Reserve's commitment to expand its balance sheet to boost employment. Despite the weak state of the Euro zone, the currency benefitted from continued optimism about the ECB's bond-buying programme and the agreement among finance ministers on a banking union. The Japanese Yen on the other hand, depreciated sharply against the US dollar, after the country's policymakers called for aggressive monetary stimulus to weaken the currency. Over the quarter ended December 2012, the Euro and Pound appreciated by 2.6 per cent and 0.5 per cent, respectively vis-à-vis the US dollar, while the Yen weakened by 10.1 per cent to end December 2012 at JPY 86.8, the lowest value in over two years. The US dollar index, which indicates the international value of the US dollar against other major currencies, declined marginally to close December 2012 at 79.7, from 79.9 in September 2012.

Figure 6
Foreign Exchange Returns for Major Currencies vis-à-vis the US Dollar
/per cent/



Source: Bloomberg.

SECTION 3 – PORTFOLIO PERFORMANCE

Strategic Asset Allocation

During the three months to December 2012, the asset classes of the Fund deviated from their Strategic Asset Allocation (SAA) but their weights were all within the permitted (+/- 5 per cent) range. The approved SAA for the HSF investment portfolio is as follows:

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

At the start of October 2012, the US Core Domestic Equity mandate was the only asset class that had an overweight allocation relative to its SAA weight. Following the transfer of funds on October 2 to the external asset managers from the Government's contribution in September 2012, the over-exposure to US equities was slightly reduced. By the end of the quarter, the two equity mandates carried weights in excess of their SAA. In the case of the Non-US Core International mandate, the relatively stronger performance of International equity markets contributed to the increase in value of this segment of the overall portfolio.

At the end of December 2012, the total net asset value of the Fund was US$4,780.1 million, compared with US$4,712.4 million at the end of the previous quarter. Of this total, the investment portfolio was valued at US$4,778.0 million, while the remaining portion (US$2.1 million) was held in cash to meet the day-to-day expenses that arise from the management of the Fund. The Fund's target asset allocation and the portfolio weighting for the period March 31 2012 to December 31 2012 are shown in Table 1, overleaf.

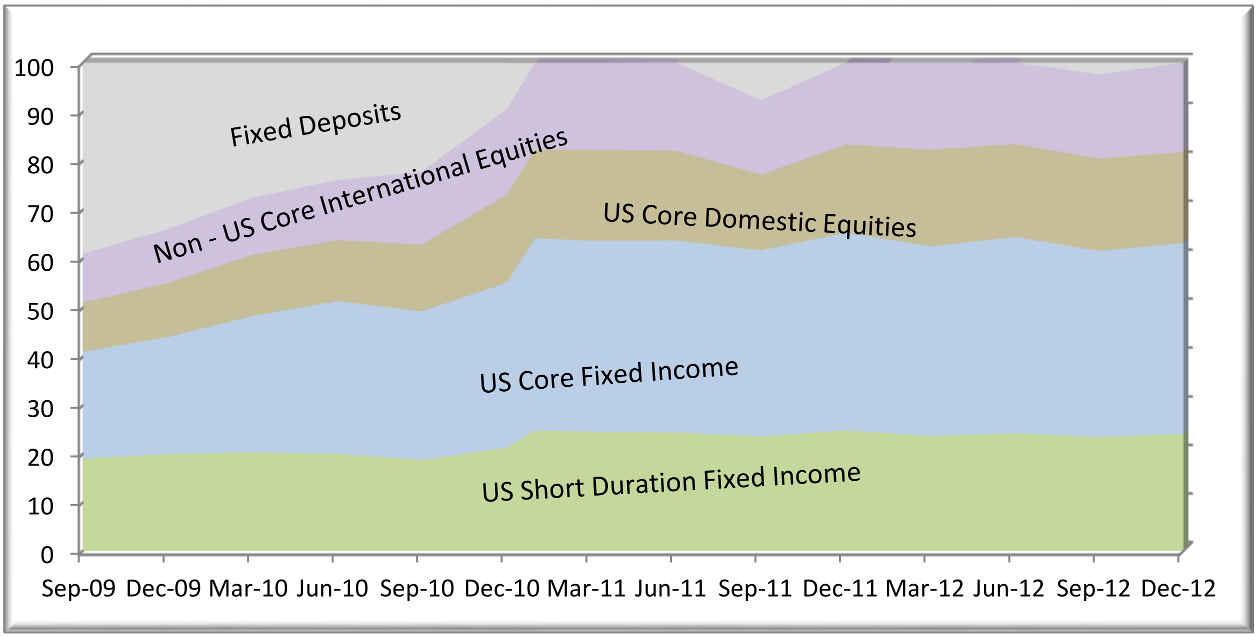
Table 1

Portfolio Composition relative to the Approved SAA
/per cent/

Portfolio Weights: Asset Class	Target Weight SAA	Mar-12 Actual % of Fund	Jun-12 Actual % of Fund	Sep-12 Actual % of Fund	Dec-12 Actual % of Fund
Cash	0.00	0.00	0.00	2.37*	0.00
US Short Duration Fixed Income	25.00	23.70	24.26	23.46	24.09
US Core Domestic Fixed Income	40.00	38.83	40.16	38.13	39.14
US Core Domestic Equity	17.50	19.72	18.99	18.82	18.57
Non-US Core International Equity	17.50	17.75	16.59	17.22	18.20

*This cash represents the contribution made by the Government on September 28, 2012.

Figure 7
Asset Composition of the HSF Portfolio
/per cent/



Performance of the Investment Portfolio

The HSF investment portfolio generated a return of 1.5 per cent during the fourth quarter of 2012, compared with 1.4 per cent for the SAA benchmark[2]. Approximately eighty per cent of the portfolio's return was attributed to the performance of the Non-US International Core Equity mandate. As a whole, the equity portion of the Fund contributed 1.3 per cent to the overall performance, while the fixed income mandates added the remaining 0.2 per cent. The former benefitted from having no direct exposure to the Energy sector which returned losses over the quarter. On an asset class level, the US Core Equity mandate underperformed its benchmark; the Non-US Core International equities matched the performance of the benchmark, while the two fixed income mandates outperformed their respective benchmarks during the quarter.

The Fund's investments in **Non-US International Equities** posted the highest absolute return among the four mandates, gaining 7.2 per cent in the fourth quarter of 2012, compared with a similar return of 7.2 per cent for its MSCI EAFE ex Energy benchmark index. This sub-portfolio had exposure to equities in Australia, New Zealand, Europe and Far East Asia, where the markets all generated positive returns. Most of the country allocation decisions detracted from performance during the quarter as the mandate had an underweight allocation to some of the top performing countries, including Greece, Austria, Portugal, Finland, Italy and France. However, these were offset by positive security selection in Japan and the UK. On a sectoral level, the holdings in the health care and financials sectors made the greatest contribution to excess returns. In addition, the weakness of the Yen led to the reintroduction of a hedge on the currency, which made a positive contribution to performance. The net asset value of this mandate as at December

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

31, 2012 was **US$869.3 million**, compared with US$811.2 million at the end of September 2012.

The other equity mandate which is invested in **US Core Equities** returned a marginal 0.2 per cent in the fourth quarter of 2012, compared with a return of 0.6 per cent for the Russell 3000 ex Energy benchmark Index. This underperformance was attributed to unfavourable stock selection decisions, which resulted in a combination of stocks that generated marginally lower returns than those in the benchmark. On a sectoral level, the holdings in the Consumer Discretionary, Materials and Financials sectors detracted the most from excess returns. The net asset value of this mandate, as at December 31 2012, was **US$887.4 million**, compared with US$886.4 million at the end of September 2012.

Despite the increase in yields over the quarter, the two fixed income mandates registered gains. The **US Short Duration Fixed Income** portfolio returned 0.1 per cent during the fourth quarter of 2012, compared with a return of 0.0 per cent for its benchmark, the Bank of America Merrill Lynch US Treasury 1-5 Year Index. The slightly better performance of this portfolio, relative to the benchmark, was attributed to its exposure to spread sectors including foreign government bonds and agency securities. The spread on these bonds relative to US Treasury securities tightened over the quarter. The net asset value of the mandate as at December 31 2012 was **US$1,151.0 million,** compared with US$1,105.0 million at the end of September 2012. This increase in value mainly reflected the transfer of US$45.5 million to this mandate in early October 2012.

The other fixed income mandate which consists of **US Core Fixed Income securities,** outperformed its benchmark, returning 0.5 per cent for the fourth quarter of 2012, compared with 0.2 per cent for the Barclays Capital US Aggregate Bond index. The key contributor to excess returns was the portfolio’s overweight allocations to corporate bonds, particularly within the industrials and financials sectors. Also adding to performance was the overweight allocation to the CMBS sector. Over the quarter, these securities exhibited the best performance within the Barclay's Aggregate Bond index. The net asset value of this mandate at December 31 2012 was **US$1,870.2 million**, compared with US$1,795.8 million at the end of September 2012. This increase in value mainly reflected the transfer of US$66 million to this mandate in early October 2012.

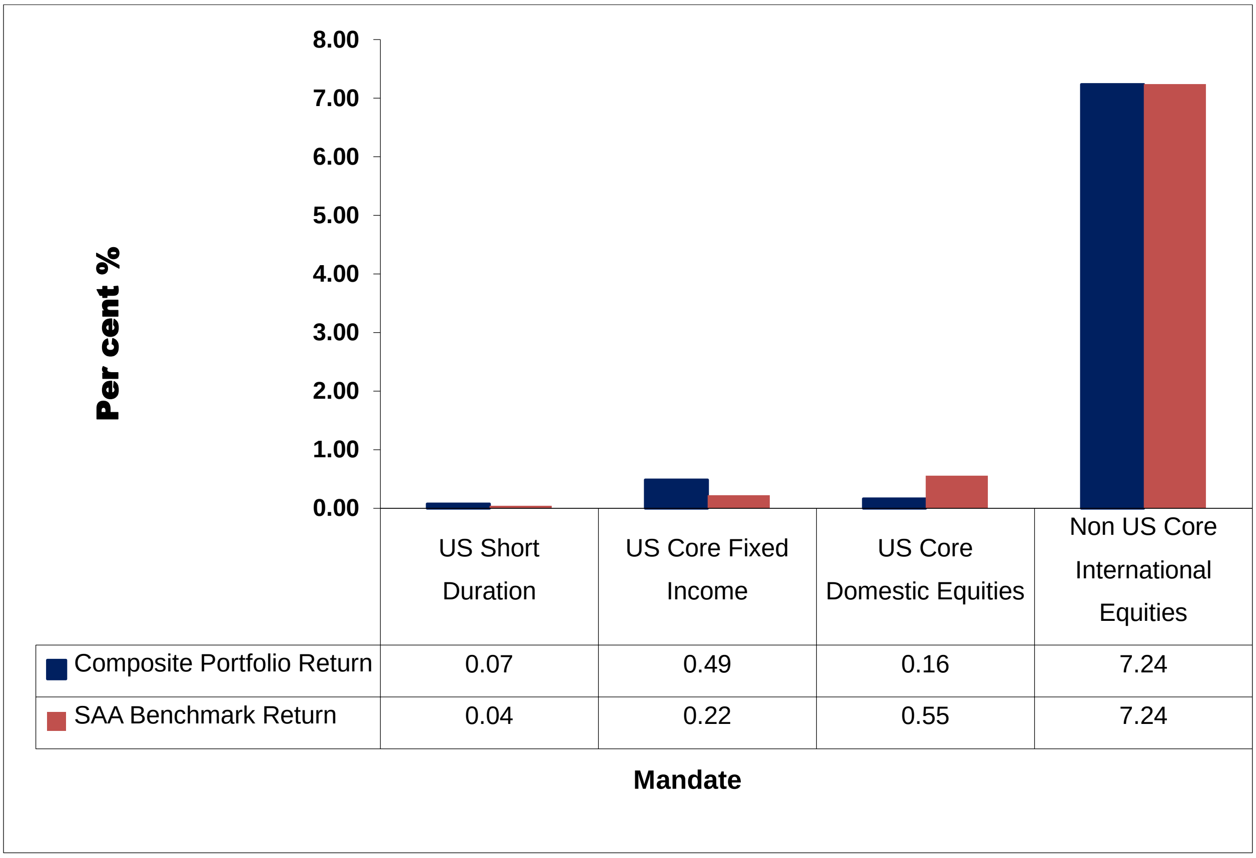
In the coming quarter, it is expected that market volatility will persist as Europe continues to work towards resolving its debt challenges, while the re-emergence of the US debt ceiling issue is likely to dominate the headlines. Additionally, market analysts may also be focused on the performance of the Chinese economy as the new leadership is likely to continue with stimulus measures to support economic activity in that country. Given the above, the prospects for financial markets remain uncertain, but it is expected that the Fund's external managers would take tactical positions that would allow them to outperform their respective benchmarks.

Table 2
Contribution to Quarterly Return,
For the period October 2012 – December 2012
/per cent/

	SAA Weights	Portfolio Weights as at 31-Dec- 2012	Weighted Return HSF	Weighted Return Benchmark
Composite Portfolio	100.00	100.00	1.49	1.44
US Core Domestic Fixed Income	40.00	39.14	0.19	0.09
US Core Domestic Equity	17.50	18.57	0.03	0.10
Non US Core International Equity	17.50	18.19	1.25	1.25
US Short Duration Fixed Income	25.00	24.09	0.02	0.01

NB: Differences in totals are due to rounding.

Figure 8
Absolute Returns by Asset Class
For the period October 2012 – December 2012
/per cent/



SECTION 4 –COMPLIANCE AND PORTFOLIO RISKS

Compliance

During the quarter ended December 31 2012, there was no breach of the Investment Guidelines.

Portfolio Risks

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

Credit Risk

For the **money market portion** of the Fund, Credit Risk is minimized by the strict adherence to the following standards: (i) all counterparties must have a minimum credit rating of either A-1 from the Standard and Poor's rating agency or P-1 from Moody's; and (ii) a maximum exposure limit for counterparties of no more than 5.0 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. Table 3 below shows the Average Credit Quality of the US Short Duration and US Core Fixed Income Portfolios as at December 31, 2012.

Table 3
Average Credit Rating

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

Concentration Risk

Concentration 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.

Interest Rate Risk

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

Table 4
Weighted Average Duration
/Years/

Mandate	Portfolio	Benchmark
US Short Duration	**2.68**	**2.68**
US Core Domestic Fixed Income	**4.61**	**4.75**

Currency Risk

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

Appendix I
HSF Portfolio
Historical Performance since Inception

Quarter End	Current Returns			Fiscal YTD			Annualised Return Since Inception		
	Portfolio %	Benchmark %	Excess bps	Portfolio %	Benchmark %	Excess bps	Portfolio %	Benchmark %	Excess bps
FY 2010									
December	0.96	0.89	6.65	0.96	0.89	6.65	3.72	3.78	-6.16
March	1.61	1.68	-6.20	2.59	2.58	0.49	3.95	4.03	-7.76
June	-1.83	-1.89	6.05	0.71	0.64	6.69	3.07	3.12	-5.18
September	5.33	5.08	24.73	**6.07**	**5.75**	**31.93**	**4.37**	**4.35**	**2.06**
FY 2011									
December	2.29	2.21	8.15	2.29	2.21	8.15	4.70	4.65	4.13
March	1.62	1.54	7.24	3.94	3.79	15.68	4.81	4.76	5.72
June	1.88	1.81	6.68	5.89	5.67	22.91	4.98	4.91	7.00
September	-4.82	-4.28	-53.66	**0.79**	**1.14**	**-34.89**	**3.57**	**3.63**	**-6.29**
FY 2012									
December	2.74	3.03	-28.52	2.74	3.03	-28.52	3.96	4.08	-12.00
March	5.04	4.46	57.50	7.92	7.63	29.29	4.78	4.78	-0.08
June	-0.90	-0.60	-30.42	6.95	6.98	-3.72	4.37	4.43	-6.13
September	3.53	2.98	55.01	**10.73**	**10.18**	**55.01**	**4.82**	**4.78**	**4.20**
FY 2013									
December	1.49	1.44	4.12	1.49	1.44	4.12	4.88	4.83	4.76

Notes:

(1) Differences in totals are due to rounding.

(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).

(4) With effect from the quarter ended December 2012, the Annualised Returns Since Inception were computed using a geometric average and not the previously used arithmetic average. For comparative purposes, prior period annualised returns since inception shown above were computing using a geometric average.

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

Valuation Date	Net Asset Value	Quarterly Income	Accumulated Surplus & Unrealized Capital Gains/Losses	Contributions
March 15, 2007	1,402,178,155	0	0	
March 31, 2007	1,405,448,567	3,270,412	3,270,412	-
June 30, 2007	1,424,094,965	18,646,398	21,916,810	-
September 30, 2007	1,766,200,701	20,301,027	41,966,361	321,706,043
December 31, 2007	1,788,304,749	22,204,785	64,035,501	-
March 31, 2008	1,804,531,743	16,631,853	80,514,798	-
June 30, 2008	1,997,251,772	13,715,988	93,124,304	180,210,617
September 30, 2008	2,888,421,556	15,341,508	110,379,131	873,963,840
December 31, 2008	2,909,717,167	16,296,264	131,638,985	-
March 31, 2009	2,911,075,318	4,492,667	133,066,161	-
June 30,2009	2,912,040,600	3,621,489	133,909,143	-
September 30, 2009	2,964,686,478	11,397,337	186,755,766	-
December 31, 2009	2,992,717,167	19,444,496	214,699,141	-
March 31, 2010	3,038,173,194	17,674,928	259,925,615	-
June 30, 2010	3,083,272,124	23,694,244	199,004,184	103,843,621
September 30, 2010	3,621,984,041	27,568,267	364,361,226	373,500,642
December 31, 2010	3,701,961,347	33,317,910	443,906,745	-
March 31, 2011	3,759,689,344	45,854,060	500,513,925	-
June 30, 2011	3,825,639,556	70,691,561	567,222,023	-
September 30, 2011	4,084,016,158	29,885,267	374,074,067	451,400,519
December 31, 2011	4,191,162,904	10,474,106	481,361,876	-
March 31, 2012	4,397,263,070	42,045,281	687,290,865	-
June 30, 2012	4,378,930,036	34,014,167	642,769,982	26,241,964
September 30, 2012	4,712,376,278	38,688,423	794,770,772	181,308,882
December 31, 2012	4,780,065,524	42,243,928	861,557,777	-

Appendix III
Summary Characteristics of Composite Benchmarks
Fixed Income Benchmarks

Key Characteristics	Barclays US Aggregate Index	Merrill Lynch 1-5 Index
Total Holdings	8,052	130
Coupon (%)	3.60	1.89
Duration (Years)	4.74	2.65
Average Life (Years)	6.44	2.74
Yield to Maturity (%)	1.53	0.37
Option Adjusted Spread (bps)	51	1
Average Rating (S&P)	AA	AA+
Minimum Rating (S&P)	BBB-	AA+

Equity Benchmarks

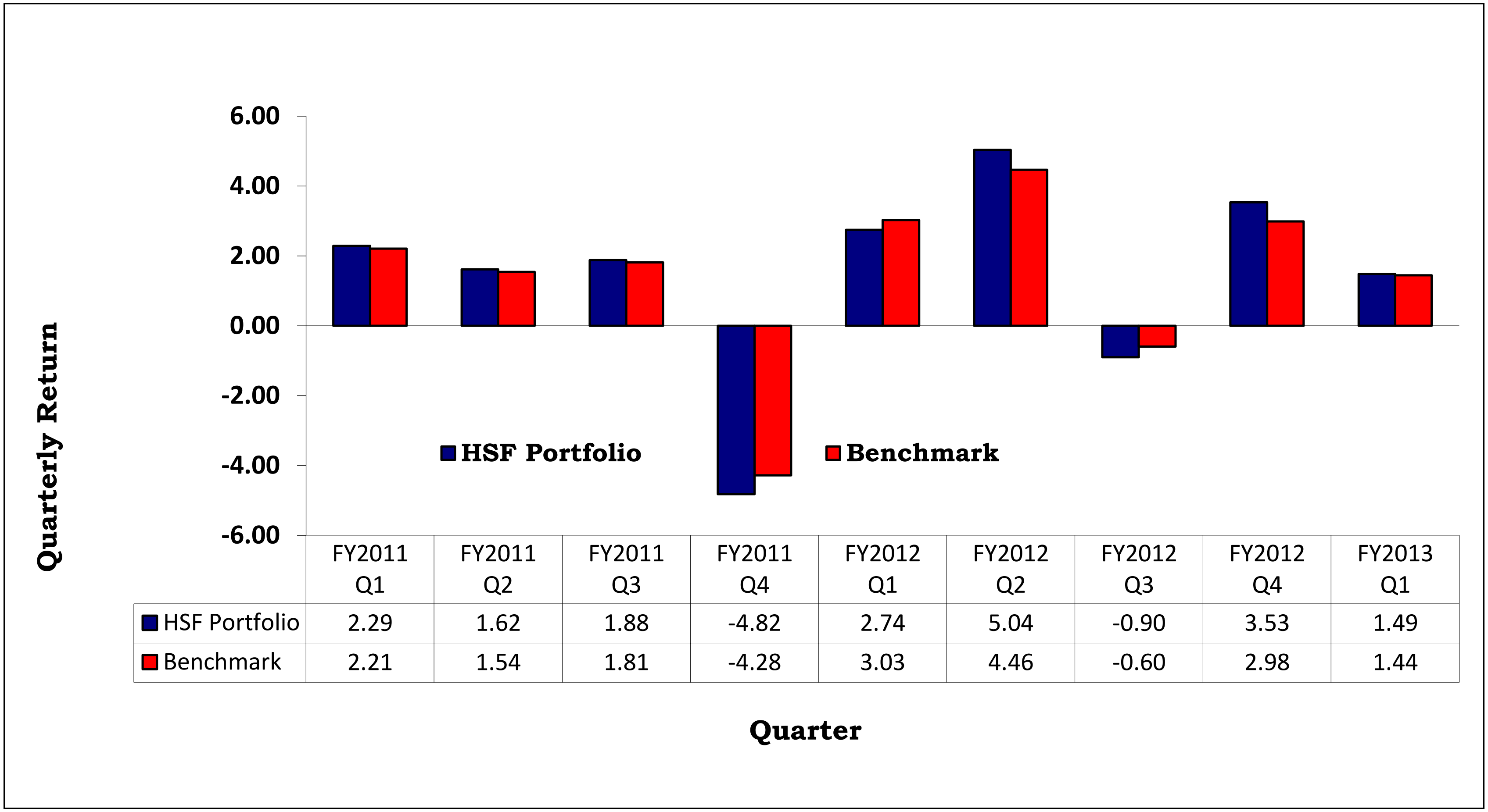
Key Characteristics	Russell 3000 (ex energy)	MSCI EAFE (ex energy)
Total Holdings	2,781	859
Earnings Per Share (EPS Growth 3-5y fwd) ()	11.40	9.04
Price Earnings (P/E fwd)	13.6	13.42
Price / Book (P/B)	2.30	1.46
Weighted Average Market Capitalization (Bn)	$78.6	$50.8

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

	March 2012	June 2012	September 2012	December 2012
Total Fund Value	**4,397**	**4,379**	**4,712**	**4,780**
Total Value of Equity	**1,647**	**1,557**	**1,697**	**1,757**
US Core Domestic Equity	867	831	886	887
Non-US Core International Equity	780	726	811	869
Total Value of Fixed Income	**2,749**	**2,820**	**2,901**	**3,021**
US Short Duration Fixed Income	1,042	1,062	1,105	1,151
US Core Domestic Fixed Income	1,707	1,758	1,796	1,870
Total Value of Cash or Cash Equivalents	**1**	**2**	**114***	**2**

NB: Differences in totals are due to rounding.
*This mainly represented the cash contribution (US$111.9million) made by the Government on September 28, 2012.

Appendix V
HSF Portfolio Quarterly Returns
/per cent/



	FY2011 Q1	FY2011 Q2	FY2011 Q3	FY2011 Q4	FY2012 Q1	FY2012 Q2	FY2012 Q3	FY2012 Q4	FY2013 Q1
HSF Portfolio	2.29	1.62	1.88	-4.82	2.74	5.04	-0.90	3.53	1.49
Benchmark	2.21	1.54	1.81	-4.28	3.03	4.46	-0.60	2.98	1.44