Trinidad and Tobago

Heritage & Stabilization Fund

Quarterly Investment Report

January – March 2013

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EXECUTIVE SUMMARY

Despite the slowing of the economic growth momentum in the **United States (US)** during the fourth quarter of 2012, there has been an improvement during first three months of 2013. US GDP expanded at an annualised rate of 2.5 per cent during the first quarter of 2013 compared to the fourth quarter of 2012, when GDP growth was 0.4 per cent. The economy continued to be bolstered by improvements in the housing and manufacturing sectors while labour market data was softer than expected. On the policy front, the Federal Reserve left its monetary policy rates and size of its asset purchase programme unchanged during the quarter.

Events in the **Euro zone** dominated global market headlines this quarter. Major news bites during the period included the political stalemate in Italy and the subsequent downgrade of the country's sovereign rating by Fitch Ratings, allegations of tax evasion and fraud lodged against Spanish Prime Minister Mariano Rajoy and the threat of a banking crisis in Cyprus. These events compounded the region's existing challenge of poor economic growth. The recession deepened in the fourth quarter of 2012, as GDP declined by 0.6 per cent, compared with a contraction of 0.1 per cent in the preceding three months. The fall in output was primarily due to a decline in domestic demand but also reflected a fall-off in exports. Moreover, conditions in the labour market continued to deteriorate as evidenced by rising unemployment among member states. Consumer prices however remained subdued. Given 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 and indicated that the accommodative monetary stance will be maintained as long as needed.

The **United Kingdom (UK)** avoided a triple-dip recession in the first quarter of 2013 as economic output expanded by 0.3 per cent; this compares with a decline of 0.3 per cent in the final quarter of 2012. The largest contributors to growth in the first quarter were hotels and restaurants, business services and finance. On the policy side, the Monetary Policy Committee, at its meeting on April 4, 2013, decided to maintain the official rate at 0.5 per cent and the size of its asset purchase programme at GBP 375 billion.

In **Japan**, real GDP expanded by 0.2 per cent in the fourth quarter of 2012 pulling the economy out of its third recession in ten years. Economic data for the first quarter of 2013 was encouraging and pointed to a continuation of the growth experienced in the final quarter of 2012. In April 2013, the Bank of Japan (BOJ) announced the introduction of quantitative and qualitative monetary easing with the objective of achieving an inflation target of 2.0 per cent within the coming two years. The BOJ also committed to an open-ended asset purchase program of ¥7.5 trillion on a monthly basis and to double the monetary base in two years.

During the first quarter of 2013, the financial markets were impacted by poor economic performance in the Euro Zone, the threat of a banking crisis in Cyprus, the uncertainty surrounding the formation of an Italian Government and the improvement in US economic activity. These factors however did not unsettle investors as expected. In fact, investors hung on to the positive news over the period and their bullish outlook and strong demand buoyed equity markets. The Chicago Board Options Exchange Volatility Index (VIX) averaged 13.5 points this quarter, considerably lower than the previous quarter's average of 16.7 points. The equity markets posted strong gains over the period with the US Standard and Poor's (S&P) index gaining 10.6 per cent and the Japanese Nikkei 225 index advancing 19.27 per cent from the previous quarter. In the global fixed income markets, US Treasury yields rose modestly whilst those in the UK, Japan and Germany fell over the three months to March 2013.

The HSF investment portfolio returned 3.3 per cent for the quarter ended March 2013, compared with a return of 2.9 per cent for the Strategic Asset Allocation (SAA) benchmark. Approximately ninety-eight per cent of the portfolio's return was generated by the Equity portion of the Fund. There were no deposits to or withdrawals from the fund over the reporting period.

At the end of March 2013, the net asset value of the HSF was US$4,933.3 million, an increase from the US$4,780.1 million reported at the end of December 2012.

Contribution to Quarterly Return,
For the period January 2013 – March 2013
/per cent/

	SAA Weights	Portfolio Weights as at 31-Mar- 2013	Weighted Return HSF	Weighted Return Benchmark
Composite Portfolio	100.00	100.00	3.29	2.90
US Core Domestic Fixed Income	40.00	37.92	0.00	-0.05
US Core Domestic Equity	17.50	19.86	1.95	1.90
Non US Core International Equity	17.50	18.84	1.27	1.00
US Short Duration Fixed Income	25.00	23.38	0.05	0.04

NB: Differences in totals are due to rounding.

SECTION 1 – INTERNATIONAL ECONOMIC ENVIRONMENT

United States

According to first-quarter advance estimate by the Bureau of Economic Analysis, US GDP expanded at an annualised rate of 2.5 per cent during the first three months of 2013. This was below the consensus estimate of 3.0 per cent. It compares favourably however to the fourth quarter, when GDP growth was 0.4 per cent. The acceleration in the rate of growth of economic output in the first quarter for the most part can be attributed to personal consumption expenditures, private inventory investment, exports, residential investment, and nonresidential fixed investment. These were partially offset by negative contributions from federal government spending and state and local government spending in addition to increased imports. Despite the improved output indicators which some analysts have attributed to temporary inventory restocking and unusually cold weather which impacted personal consumption, the IMF lowered its forecast for US growth in the April 2013 IMF World Economic Outlook report. In addition, automatic budget cuts which commenced on March 1, 2013 are expected to result in a drag on GDP growth. US GDP is now expected to expand by 1.7 per cent in 2013, compared with the previous forecast of 2.0 per cent.

During the first quarter of 2013, US economic data was generally positive. The housing market in particular, showed encouraging signs of a return to pre-recession levels of activity. President of the Federal Reserve Bank of New York, William C. Dudley, noted that "*after a long period of being a drag on the economy, the housing market is now providing lift to economic activity*." Near record-low mortgage rates propelled the sales of new U.S. homes to an annual rate of 417,000 in March 2013, its strongest quarter since 2008. Additionally, housing starts climbed to a 1.04 million annual rate in March, the most since June 2008 and up from the 982,000 housing starts posted in December 2012.

At the end of the first quarter of 2013, manufacturing activity continued to expand, albeit at a slower pace, as the ISM manufacturing index fell to 51.3 in March, compared to 53.1 in January and 54.2 in February. This however was an improvement over the December 2012 reading of 50.2. The Manufacturing Purchasing Managers' Index[1] (PMI) was even more positive, measuring 54.6 in March, up from 54.3 index points one month earlier. This was the second highest reading in the past eleven months and it reflected strong growth in both production and new orders. Meanwhile, industrial production expanded by 3.5 per cent in the twelve months to March 2013, compared with 2.8 per cent in December 2012. This increase in production reflected in part, increased output in utilities as a result of unusually cold weather.

Meanwhile in the labour market, data was softer than expected. The unemployment rate declined to 7.6 per cent in March from 7.7 per cent in February, as a result of a decline in the participation rate due to persons exiting the workforce. Additionally, non-farm payrolls posted its smallest increase in twenty months, falling to 88,000 in March compared to the 268,000 posted in February. Consumer confidence levels increased nevertheless as both the Conference Board and University of Michigan indices rose to 59.7 and 78.6 in March, respectively, from 58.4 and 73.8 in January.

On March 1, 2013, eighty-five billion in automatic spending cuts, more commonly known as sequestration, went into effect as the Democrats and the Republicans were unable to agree on an alternative option. Subsequently, in April, President Barack Obama proposed a $3.77 trillion budget which reduces Social Security and Medicare benefits

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

and includes the adoption of the "Buffet rule" which seeks to impose a 30 per cent minimum tax on income earners in excess of $1 million.

Consistent with market expectations, the Fed left its monetary policy rates and the size of its asset purchase programme unchanged during the quarter. However, the minutes revealed that several members were considering ending the asset purchase programme by the end of the year.

Euro zone

Euro Zone economic data remained weak in the first quarter of 2013, while the region continued to be subject to significant challenges, this time in the form political turmoil in Italy and the threat of a banking crisis in Cyprus. In its latest forecast, the IMF stated that the euro zone still posed the greatest threat to a recovery in the global economy, citing "the fallout from events in Cyprus", the political stalemate in Italy, as well as "vulnerabilities" among the weaker members of the euro area. According to the IMF's latest estimates, the euro area is expected to contract by 0.3 per cent in 2013.

Euro zone economic indicators confirmed that the recession recorded in the third quarter of 2012, deepened in the fourth quarter when gross domestic product contracted by 0.6 per cent, from 0.1 per cent. On a year-on-year basis, the economy declined by 0.9 per cent as the three largest economies, Germany, France and Italy, shrank more than expected in the last three months of 2012. The fall in output was primarily due to a decline in domestic demand, but also reflected a fall-off in exports. This trend continued into the first quarter of 2013, with the Markit's Euro zone PMI Composite Output index indicating that the economy contracted in the first quarter of 2013. The index posted a March final reading of 46.5, down from 47.8 in February with declines in composite orders, services activity and manufacturing output. The PMI reading points to an acceleration in the rate of decline in activity for the second month in a row. Of the largest Euro nations France, Spain and Italy experienced severe contractions in output while the German economy showed signs of stagnation. Similarly, Industrial production declined in the Euro zone, by 3.1 per cent year-on- year to February 2013, compared with declines of 2.4 per cent in the previous month and 2.0 per cent in December 2012.

Conditions in the labour market continued to deteriorate in March 2013, as the unemployment rate continued its record breaking ascension, reaching 12.1 per cent, up from 11.8 per cent in December. Among the member states, Spain and Greece continued to register the highest rates of 26.7 per cent and 27.2 per cent, respectively, while the lowest rates were recorded in Austria (4.7 per cent) and Germany (5.4 per cent).

Consumer prices however, remained relatively subdued in the Euro zone as the inflation rate decelerated to 1.8 per cent in the twelve months to February 2013, down from 2.2 per cent in December 2012, reflecting a decline in energy prices. Given the continued decline in inflation 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 and indicated that the monetary policy stance would remain accommodative for as long as needed.

In Italy, the February 24th-25th 2013 general elections resulted in a political deadlock with an increased likelihood of a second election within months. The election outcome, which reflected the Italian public's anti-austerity sentiments, resulted in no party winning a majority in either the Lower or Upper House. As a result of the inconclusive election, on March 8th, Fitch downgraded Italy's credit rating by one notch to BBB+ indicating that such a result was a threat to the country's ability to respond to a recession and to the European debt crisis.

During the quarter, it was announced that the Euro Zone island nation of Cyprus sought a financial rescue package from the troika (the European Commission, ECB, and IMF) to assist with the government's financial needs and to avert a banking crisis brought about primarily as a result of high exposure to distressed Greek debt. Cyprus eventually accepted a proposal which included imposing a tax on bank deposits in excess of EUR 100,000. Cyprus as a result, will be the beneficiary of a rescue package totaling EUR 9 billion in aid from its euro zone peers and EUR 1 billion from the International Monetary Fund. Conditions attached to the bailout include, restructuring its two largest banks, reducing budget deficits and adjustments to its wage and pension system.

During the quarter, Moody's downgraded the Cyprus government bond rating to '**Caa3**' with a negative outlook from '**B3**' mainly due to the anticipated increase in the debt burden resulting from increased bank recapitalization needs. Moody's indicated that "*there is a higher likelihood that the government may default outright or press for a distressed exchange".* Similarly, Standard & Poor's cut the rating on Cyprus by one level to '**CCC**' from '**CCC+**' citing "*acute problems*" in the nation's banking industry. The country was given a negative outlook indicating the possibility of another cut.

United Kingdom

According to a release by the Office for National Statistics, the UK economy grew by 0.3 per cent during the first quarter of 2013, thus averting a "triple-dip" recession. In response, the UK Chancellor George Osborne, expressed the view that this was "an encouraging sign that the economy is healing." Following the fourth quarter contraction of 0.3 per cent, a second consecutive quarterly contraction of GDP in the first quarter would have met the standard definition of a recession. The increase in output during the first quarter was largely due to growth in the key services sector which includes retail and transport. Despite the improved economic output in the first quarter, the IMF cut its forecast for the UK economy to 0.7 per cent from 1 per cent for 2013 and to 1.5 per cent from 1.9 per cent in 2014. The IMF indicated that downward revision was mainly due to the private sector being hampered by a lack of credit and economic uncertainty.

On a year-on-year basis to February 2013, industrial production contracted at a slower pace, falling by 2.2 per cent, compared with a decline of 3.1 per cent in January and 2.8 per cent in December 2012. On a monthly basis, the production sector increased by 1.0 per cent in February 2013, following a decline of 1.3 per cent the previous month. Meanwhile, Markit's Manufacturing Purchasing Managers' Index (PMI) recorded the sharpest reduction in seven months to 47.9 in February from 50.5 in January 2013, as a result of weak demand in both local and foreign markets.

Labour market conditions continued to be stable during the first quarter of 2013, as the unemployment rate in January measured 7.8 per cent, unchanged from the level recorded in December 2012. Meanwhile, inflationary pressures increased slightly as the year-on-year rate to February 2013 measured 2.8 per cent, compared with 2.7 per cent in December 2012. This was due to increased energy prices compared to one year earlier while the depreciation of the pound sterling also contributed to inflationary pressures.

In February 2013, Moody' s Investors' Service lowered the UK sovereign's '**Aaa**' credit rating citing a weak medium-term outlook for economic growth, anticipated difficulty of the government to implement its deficit reduction plan and a high and rising public debt burden as contributing factors. The rating was lowered by one notch to '**Aa1**' with a stable outlook, suggesting that no further downgrade was likely. Meanwhile Fitch Rating Agency placed the UK's '**AAA**' rating on negative watch increasing the probability of a downgrade.

At its meeting on April 4, 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

Japan's fourth quarter final posting for real GDP confirmed that the economy in fact pulled out of its third bout of recession in ten years faster than previously estimated. In annualized terms, GDP expanded by 0.2 per cent in the fourth quarter of 2012 following declines in both the second and third quarters. The revision of the fourth quarter data was due to a smaller decrease in corporate capital expenditure than initially reported and an increase in private consumption. Similarly, in the April 2013 IMF World Economic Outlook report, the forecast for GDP for 2013 was revised upward by 0.4 per cent from the previous forecast, to 1.6 per cent. According to the IMF, recently announced government policies based on aggressive quantitative easing, a positive inflation target, fiscal stimulus, and structural reforms are expected to provide growth stimulus in the short term.

Economic data for the first quarter of 2013 was encouraging and also pointed to a continuation of the growth experienced at the end of 2012. After nine months of contraction, manufacturing activity in Japan returned to growth with the Manufacturing PMI increasing to 50.4 in March from 48.5 in February, as demand improved supported by yen depreciation.

Business sentiment among Japanese large manufacturers and large non-manufacturers increased as the Tankan survey diffusion index of current business conditions improved in March to -8 from -12 in December and to +6 from +4, respectively. However, conditions in the labour market deteriorated slightly as the unemployment rate rose to 4.3% in February from 4.2% in January.

In keeping with the recently elected Prime Minister, Mr. Shinzo Abe's stated intention of bringing Japan's economic contraction and persistent deflation to an end, a fiscal and monetary stimulus plan, commonly referred to as "Abenomics" was announced during the quarter. The three-fold plan includes increased government spending, an increase in monetary stimulus through central bank policy, and an economic structural reform program.

Newly appointed Governor of the Bank of Japan, Harihuko Kuroda has publicly supported the government's stimulus plan. It was therefore not surprising that in April 2013, the Bank of Japan (BOJ) announced the introduction of quantitative and qualitative monetary easing with the objective of achieving an inflation target of 2.0 per cent within two years. The BOJ committed to an open-ended asset purchase program of ¥7.5 trillion on a monthly basis and to double the monetary base, which includes cash in circulation, in two years. In addition to increasing the purchases of Japanese government bonds (JGBs), all maturities will now be eligible for purchase as well as exchange traded funds (ETFs) and Japan real estate investment trusts (J-REITs). This unprecedented level of easing in Japan resulted in the weakening of the yen against other major currencies.

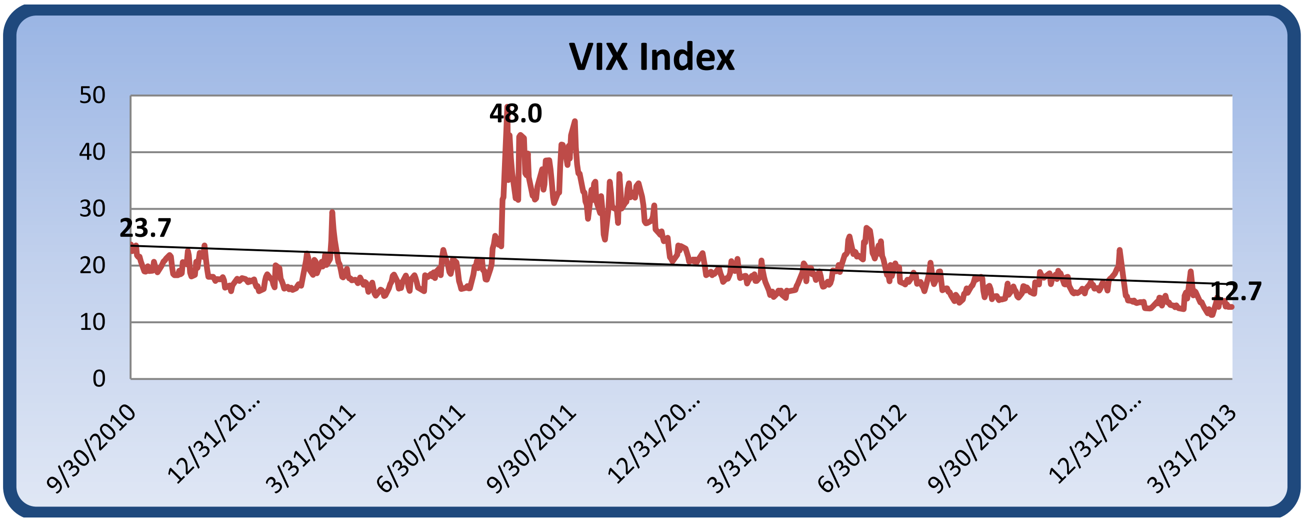
SECTION 2 – CAPITAL AND MONEY MARKET REVIEW

The financial markets generated mixed results over the first quarter of 2013 amid poor economic performance in Europe, the threat of a banking crisis in Cyprus and the uncertainty surrounding the formation of an Italian government. However, investor anxiety was tempered by positive US economic data.

The Chicago Board Options Exchange Volatility Index (VIX), which is a proxy for investor anxiety and market risk, fell considerably during the first quarter of 2013 to 12.7 points from 18.0 points at the end of December 2012. The index averaged approximately 13.5 points this quarter, compared with 16.7 points in the previous three months.

The equity market posted strong gains this quarter, with the US Standard and Poor's (S&P) index reaching its highest level and surpassing its pre crisis level by a narrow margin. Japan was the best performing non-US developed market as the Nikkei 225 index advanced by 19.27 per cent from the previous quarter. Whilst yields rose in the US and the Euro zone peripheries, yields in Germany, Japan and the UK fell over the quarter.

Figure 1
Market Volatility in the US
/points /



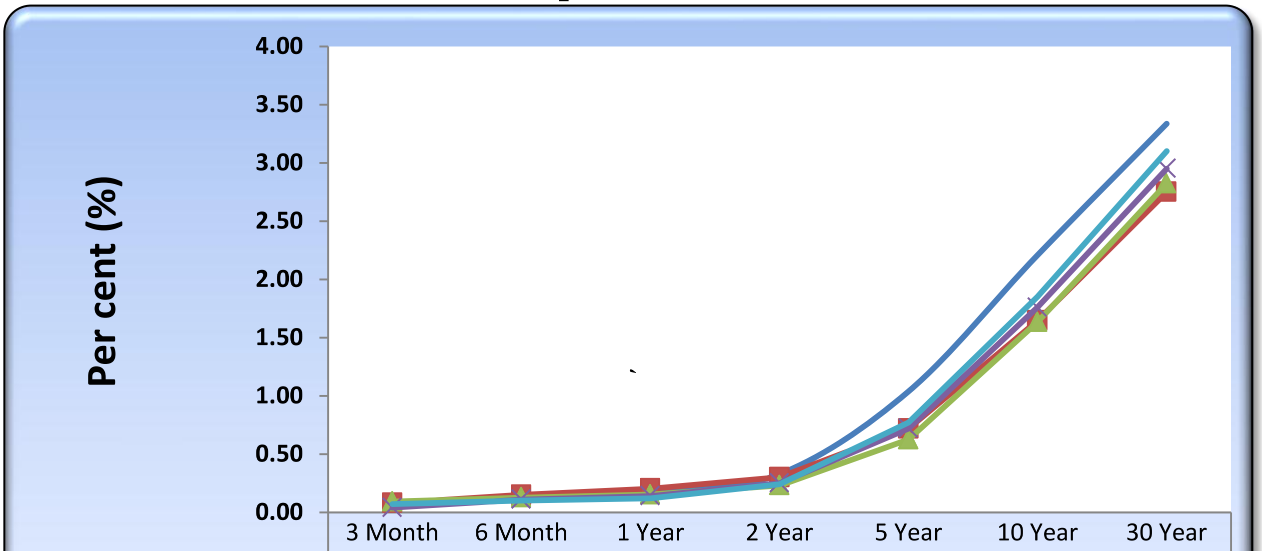
Source: Bloomberg.

Fixed Income

US Treasury yields rose modestly over the first quarter of 2013 and the curve steepened some 16 basis points between the 2-year and the 30-year sectors. Front end yields marginally declined the 2-year yield fell to 0.24 per cent from 0.25 per cent as at December 31, 2012 reflecting the Fed's commitment to maintain rates at current low levels until mid-2015. Medium-term to long-term yields rose sharply in January, as investors' demand for riskier assets increased following the fiscal cliff reprieve. However, in the latter half of March, the Cyprus depositor bail-in plan renewed investors concerns about the European Sovereign Debt Crisis, causing Treasury yields to fall and reversing some of the negative returns experienced over the quarter.

Figure 2
US Treasury Yield Curve

/per cent /

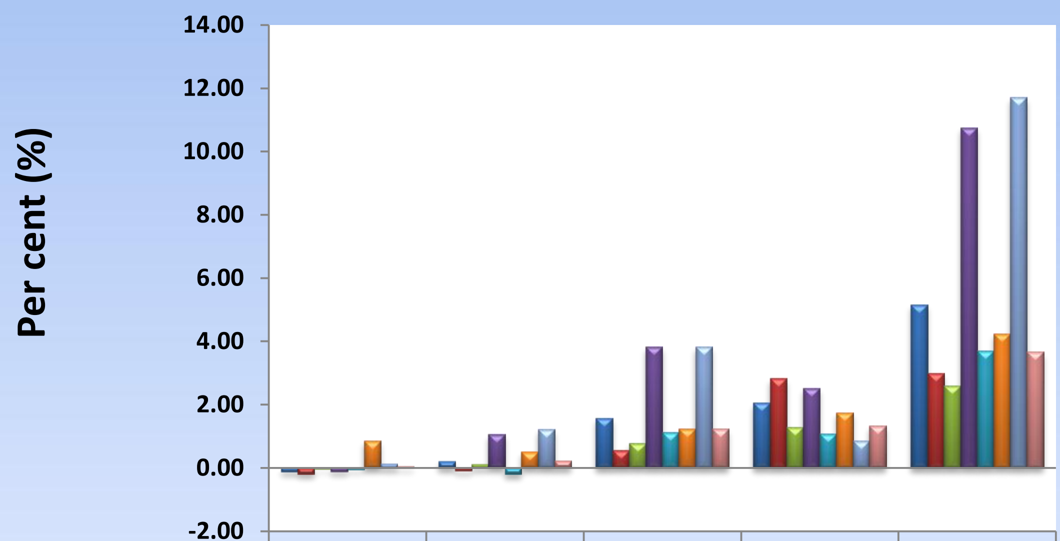


	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
March 31, 2012	0.07	0.13	0.17	0.33	1.04	2.21	3.34
June 30, 2012	0.08	0.15	0.20	0.30	0.72	1.64	2.75
September 30, 2012	0.09	0.13	0.15	0.23	0.63	1.63	2.82
December 31, 2012	0.04	0.11	0.14	0.25	0.72	1.76	2.95
March 31, 2013	0.07	0.10	0.12	0.24	0.77	1.85	3.10

Source: Bloomberg.

The broader US fixed income market as measured by the Barclays Capital US Aggregate Bond index, lost 0.12 per cent in the first quarter of 2013, compared with a gain of 0.21 per cent in the previous three months. The performance of US Treasuries and the U.S. Corporate sector detracted from the overall performance of the index. The G-7 Global bonds and Commercial Mortgage Backed Securities (CMBS) sectors posted the highest returns, gaining 0.86 per cent and 0.13 per cent, respectively. The improvement in the US housing market and strong supply/demand dynamics aided the performance of the CMBS sector.

Figure 3
Returns on Fixed Income Indices
/per cent/



	QTR ended Mar-13	QTR ended Dec-12	QTR ended Sep-12	QTR ended Jun-12	FY 11/12
Barclays U.S. Aggregate	-0.12	0.21	1.58	2.06	5.16
U.S. Treasuries	-0.19	-0.09	0.57	2.83	2.99
U.S. Agencies	-0.03	0.12	0.78	1.29	2.60
U.S. Corporate	-0.11	1.06	3.83	2.52	10.76
U.S. MBS	-0.05	-0.20	1.13	1.08	3.71
G-7 Global Bonds (Hedged)	0.86	0.51	1.23	1.75	4.24
CMBS Index	0.13	1.22	3.83	0.86	11.71
ABS Index	0.05	0.22	1.23	1.33	3.67

Source: Barclays Capital.

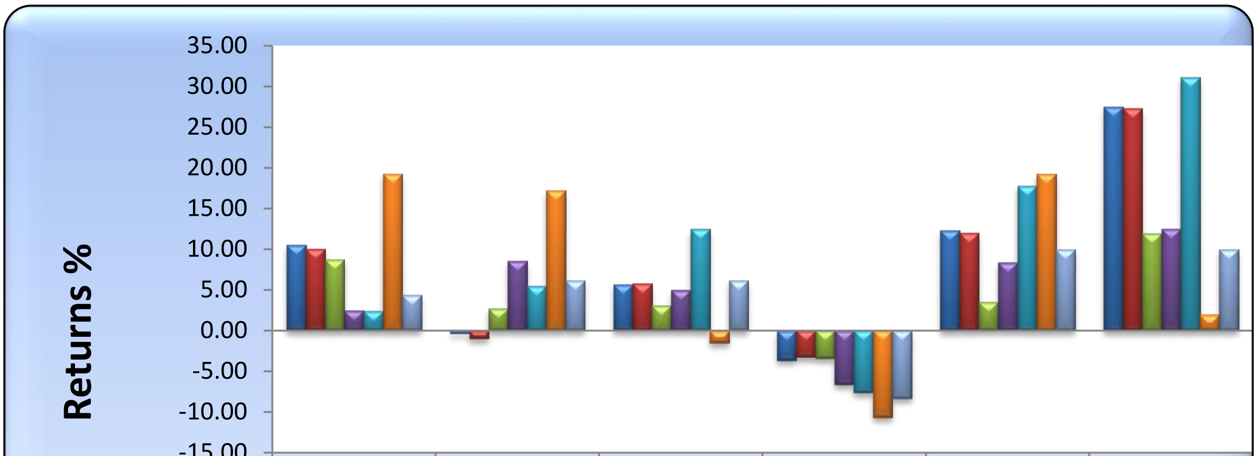
The performance of other developed market sovereign bonds was mixed over the quarter. The benchmark German bund yield fell by 3 basis points to 1.29 per cent, as continued turmoil in Europe caused investors to seek perceived safe-haven securities, yields on Spanish and Greek bonds rose over the period.

Equity Markets

The equity market posted strong gains in the first quarter of 2013 following the dissipation of the US fiscal cliff concerns, continued improvements in the US housing and manufacturing sectors, and better than expected fourth quarter earnings. Some of these gains were threatened by the political uncertainty in Italy and debt crisis in Cyprus.

In the US, the S&P 500 index gained 10.03 per cent, compared with a loss of 1.01 per cent in the previous three months. The index hit an all-time high of 1,569.19 on March 29th, surpassing its pre-crisis level by a narrow margin. All ten sectors comprising the index recorded gains with the Health Care and Consumer Staples sectors posting the highest returns. Japan was the leader in the non-US equity market, with the Nikkei 225 index posting returns of 19.27 per cent over the quarter. Prime Minister Shinzo Abe's pledge to end deflation has resulted in an increase in the demand for Japanese equities. In the Euro zone, the French CAC index advanced 2.48 per cent, whilst Germany's DAX 30 index returned 2.40 per cent over the three months ending March 31, 2013.

Figure 4
Price Returns on Equity Indices
/Per cent/



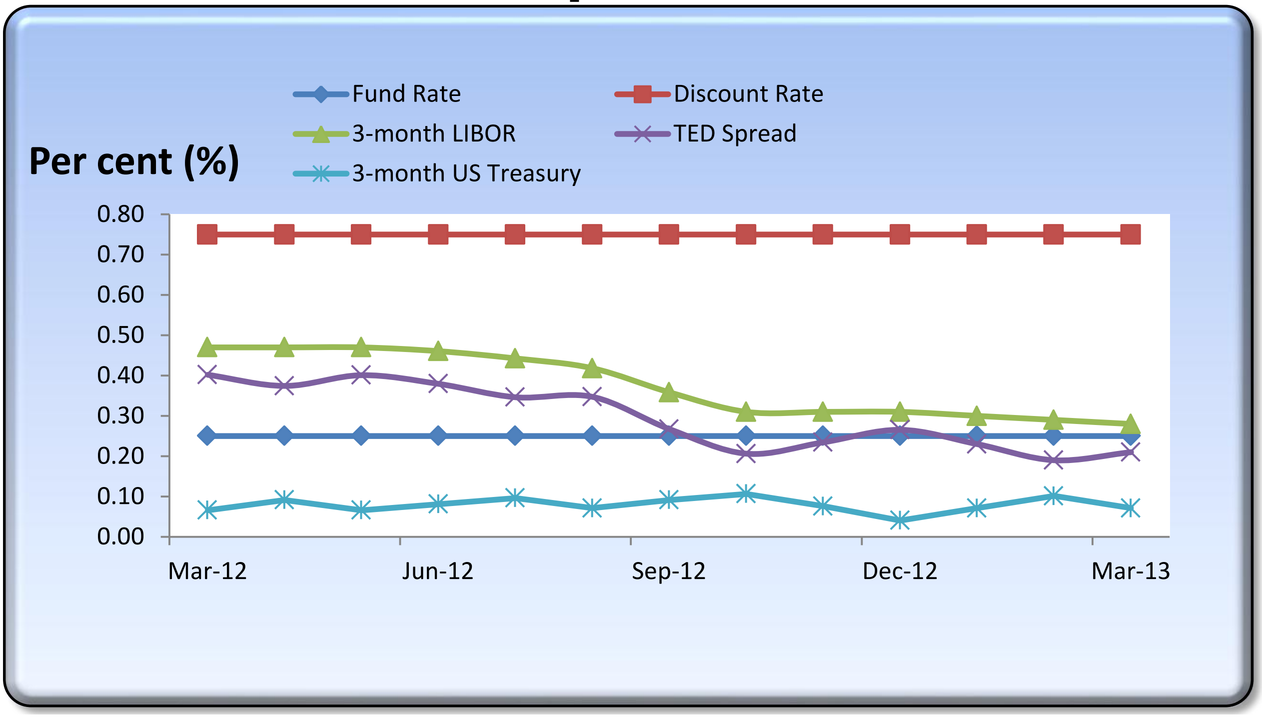
	QTR ended Mar-13	QTR ended Dec-12	QTR ended Sep-12	QTR ended Jun-12	QTR ended Mar-12	FY 11/12
Russell 3000	10.53	-0.34	5.68	-3.65	12.32	27.53
S&P 500	10.03	-1.01	5.76	-3.29	12.00	27.33
FTSE 100 - UK	8.71	2.71	3.07	-3.42	3.52	11.96
CAC 40 - France	2.48	8.53	4.95	-6.63	8.35	12.50
DAX 30 - Germany	2.40	5.49	12.47	-7.64	17.78	31.15
Nikkei 225 - Japan	19.27	17.19	-1.52	-10.68	19.26	1.95
MSCI EAFE	4.38	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 3-month US Treasury bill rate rose 3 basis points to 0.07 per cent at the end of the quarter. Meanwhile, the 3-month London Inter-Bank Offered Rate (LIBOR) fell 5 basis points to 0.21 per cent.

Figure 5
US Money Market Rates
/per cent/

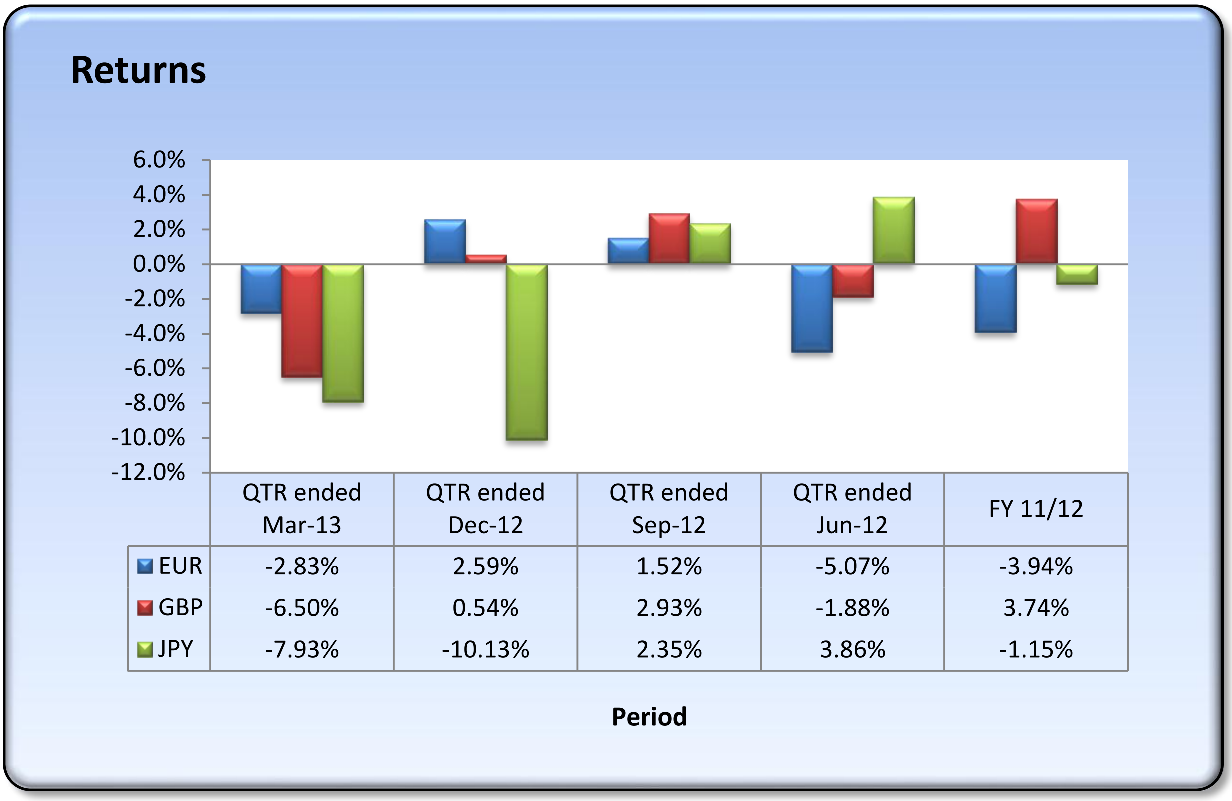


Source: Bloomberg.

Currency Markets

The US dollar strengthened relative to most of the major currencies – with the exception of the New Zealand and Australian dollars - given improvements in employment and manufacturing data as well as investors' concerns over the inconclusive Italian election, the corruption scandal in Spain and the funding crisis in Cyprus. The Japanese Yen was the worst performing G10 currency, depreciating by 7.93 per cent vis-à-vis the US dollar over the quarter. The fall in the value of the yen was primarily driven by the appointment of the new governor of the Bank of Japan, Harihuko Kuroda, who publicly announced his support for aggressive easing measures. The British Pound fell by 6.5 per cent in the quarter, mainly on fears of a triple-dip recession and a more dovish central bank. The Euro also weakened over the quarter amidst political uncertainty and the Cyprus depositor bail-in plan.

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



	QTR ended Mar-13	QTR ended Dec-12	QTR ended Sep-12	QTR ended Jun-12	FY 11/12
EUR	-2.83%	2.59%	1.52%	-5.07%	-3.94%
GBP	-6.50%	0.54%	2.93%	-1.88%	3.74%
JPY	-7.93%	-10.13%	2.35%	3.86%	-1.15%

Source: Bloomberg.

SECTION 3 – PORTFOLIO PERFORMANCE

Strategic Asset Allocation

Over the period January to March 2013, 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%*

Throughout the quarter, the two equity mandates carried overweight allocations relative to their SAA weights and these resulted from their stronger performance when compared with their fixed income counterparts. By the end of the quarter, the asset class with the largest overweight was the US Core Domestic Equity mandate while the US Core Fixed Income mandate had the largest underweight position.

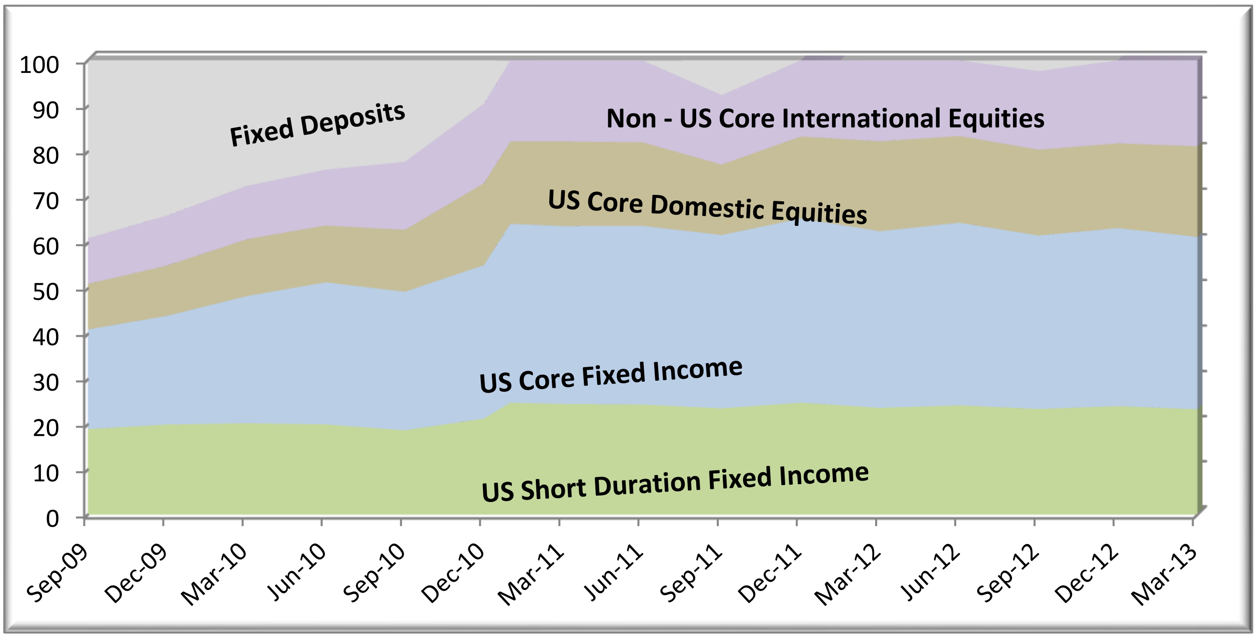
The total net asset value of the Fund as at the end of March 2013 totaled US$4,933.3 million, compared with US$4,780.1 million at the end of the previous quarter. Of this total, the investment portfolio was valued at US$4,932.0 million, while the remaining portion (US$1.3 million) was held in cash to 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 June 30 2012 to March 31 2013 are shown in Table 1, overleaf.

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

	Asset Class		*Jun-12*	*Sep-12*	*Dec-12*	*Mar-13*
		Target Weight SAA	*Actual % of Fund*	*Actual % of Fund*	*Actual % of Fund*	*Actual % of Fund*
Portfolio Weights	Cash	0.00	0.00	2.37*	0.00	0.00
	US Short Duration Fixed Income	25.00	24.26	23.46	24.09	23.38
	US Core Domestic Fixed Income	40.00	40.16	38.13	39.14	37.92
	US Core Domestic Equity	17.50	18.99	18.82	18.57	19.86
	Non-US Core International Equity	17.50	16.59	17.22	18.20	18.84

*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

For the first quarter of 2013, the HSF investment portfolio gained 3.3 per cent, compared with a return of 2.9 per cent for the SAA benchmark[2]. This outperformance by 39 basis points can be attributed equally to favourable security selection as well as the deviation between the portfolio and SAA weighting composition. Most of the HSF portfolio's returns were generated by the equity portion of the Fund which contributed 3.2 per cent to the overall performance, while the fixed income mandates added the remaining 0.1 per cent.
On an asset class level, all the mandates with the exception of the US Core Domestic Equity portfolio outperformed their respective benchmarks during the quarter ended March 31 2013.

The **US Short Duration Fixed Income** portfolio posted an absolute return of 0.19 per cent during the first quarter of 2013, outperforming its benchmark, the Bank of America Merrill Lynch US Treasury 1-5 year index, by 4 basis points. This ouperformance was attributed to the portfolio's exposure to supranational and government guaranteed bonds whose spreads relative to US Treasury securities tightened over the quarter. The net asset value of this mandate as at March 31 2013 was **US$1,153.1 million,** compared with US$1,151.0 million at the end of the previous quarter. For the financial year to March 2013, this mandate portfolio returned 0.27 per cent compared with a return of 0.19 per cent for the benchmark.

The longer duration fixed income mandate which consists of **US Core Fixed Income** securities**,** posted a return of 0.01 per cent during the first quarter of 2013, outperforming its benchmark, the Barclays Capital US Aggregate Bond index which lost 0.12 per cent. The better performance of this portfolio relative to the benchmark resulted

[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%).

from its overweight allocation commercial mortgage backed and asset-backed securities. These holdings were among the best performing sectors of the Barclay's Capital US Aggregate Bond index. In addition, the portfolio benefitted from its overweight exposure to investment grade corporate bonds, particularly those holdings within the financials sector. The net asset value of this mandate as at March 31 2013 remained relatively unchanged from the previous quarter, totaling **US$1,870.0 million** compared with US$1,870.2 million in December 2012. For the financial year to March 2013, the US Core Fixed Income mandate returned 0.50 per cent compared with a benchmark's return of 0.10 per cent.

The **Non-US International Equities** mandate generated a gain of 7.01 per cent for the first quarter of 2013, compared with a return of 5.70 per cent for its benchmark, the MSCI EAFE ex Energy index. This outperformance was mainly on account of the managers' stock selection decisions which were favourable in Europe and Asia. In addition, this portfolio benefitted from a currency hedge on the yen, which gained in value as the yen depreciated vis-à-vis the US dollar during the quarter. The net asset value of the Non-US Core International Equity mandate as at March 31, 2013 was **US$929.3 million**, up from US$869.3 million at the end of December 2012. For the financial year to March 2013, this mandate returned 14.75 per cent, compared with a benchmark's return of 13.36 per cent.

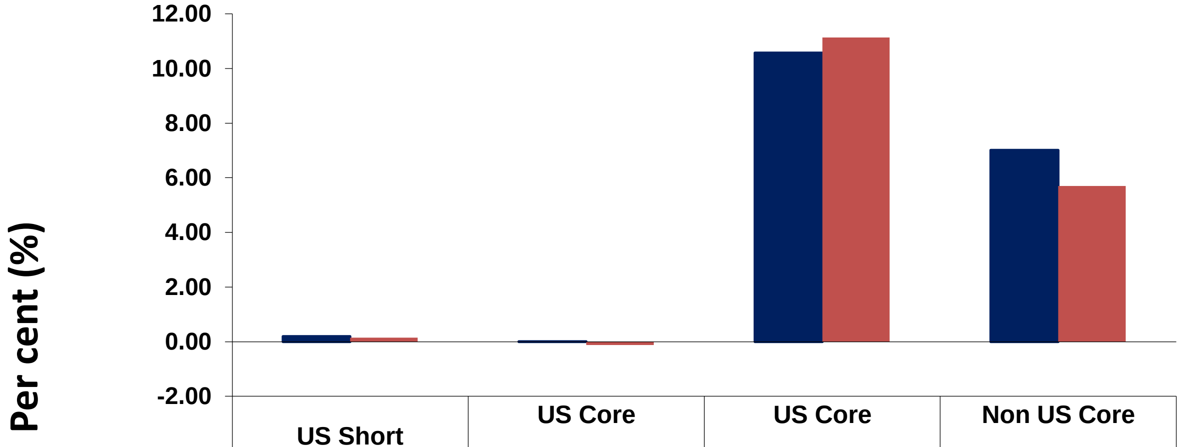
The **US Core Domestic Equities** mandate was the only asset class to underperform its benchmark, the Russell 3000 ex Energy Index, over the quarter ended March 2013. This mandate returned 10.57 per cent, compared with a benchmark return of 11.13 per cent. This underperformance was on account of the managers' unfavourable stock selection decisions which resulted in a combination of stocks that generated a lower return relative to those stocks in the benchmark. On a sectoral level, the holdings in the Consumer Discretionary, Financial services and Technology sectors detracted the most from excess returns. The net asset value of this mandate, as at March 31 2013, was **US$979.7 million**, compared with US$887.4 million at the end of December 2012. For the financial year to March 2013, this mandate returned 10.71 per cent compared with a return of 11.75 per cent for the benchmark.

Table 2
Contribution to Quarterly Return,
For the period January 2013 – March 2013
/per cent/

	SAA Weights	Portfolio Weights as at 31-Mar- 2013	Weighted Return HSF	Weighted Return Benchmark
Composite Portfolio	100.00	100.00	3.29	2.90
US Core Domestic Fixed Income	40.00	37.92	0.00	-0.05
US Core Domestic Equity	17.50	19.86	1.95	1.90
Non US Core International Equity	17.50	18.84	1.27	1.00
US Short Duration Fixed Income	25.00	23.38	0.05	0.04

NB: Differences in totals are due to rounding.

Figure 8
Absolute Returns by Asset Class
For the period January 2013 – March 2013
/per cent/



	US Short Duration	US Core Fixed Income	US Core Domestic Equities	Non US Core International Equities
Composite Portfolio Return	0.19	0.01	10.57	7.01
SAA Benchmark Return	0.15	-0.12	11.13	5.70

Mandate

SECTION 4 –COMPLIANCE AND PORTFOLIO RISKS

Compliance

During the quarter ended March 31 2013, 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 March 31, 2013.

Table 3
Average Credit Rating

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

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.

Interest Rate Risk

Interest Rate Risk is managed using a weighted average effective duration limit on the respective portfolios, with an allowable range of one (1) year longer or shorter than the weighted average duration of the respective benchmark. Table 4 shows the weighted average duration for the US Short Duration and US Core Domestic Fixed Income portfolios as at March 31, 2013.

Table 4
Weighted Average Duration
/Years/

Mandate	Portfolio	Benchmark
US Short Duration	**2.69**	**2.65**
US Core Domestic Fixed Income	**4.58**	**5.00**

Currency Risk

Currency Risk is managed by containing and managing the exposure to non-US dollar instruments. For the Fixed Income and US Core Domestic Equity mandates, no more than 10 per cent of the market value of the portfolio can be invested in securities which are denominated in currencies other than the US Dollar. The Non-US Core International Equity Portfolio is comprised primarily of non-US dollar denominated securities, and the Fund accepts the currency risk inherent in the relevant benchmark. For this mandate, currency hedging is permitted up to 15 per cent of the market value of the portfolio using the US dollar as the base currency. At the end of March 2013, the currency exposure for this portfolio was 99 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
March	3.29	2.90	39.19	4.82	4.38	44.01	5.23	5.12	11.20

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	-
March 31, 2013	4,933,344,741	70,726,991	1,015,212,703	-

Appendix III
Summary Characteristics of Composite Benchmarks
Fixed Income Benchmarks

Key Characteristics	Barclays US Aggregate Index	Merrill Lynch 1-5 Index
Total Holdings	8,195	133
Coupon (%)	3.50	1.87
Duration (Years)	5.00	2.65
Average Life (Years)	6.58	2.74
Yield to Maturity (%)	1.68	0.38
Option Adjusted Spread (bps)	513	0
Average Rating (S&P)	AA+	AA+
Minimum Rating (S&P)	BBB-	AA+

Equity Benchmarks

Key Characteristics	Russell 3000 (ex energy)	MSCI EAFE (ex energy)
Total Holdings	2,753	856
Earnings Per Share (EPS Growth 3-5y fwd)	11.40	9.32
Price Earnings (P/E fwd)	13.40	14.05
Price / Book (P/B)	2.40	1.57
Weighted Average Market Capitalization* (Bn)	$77.2	$54.0

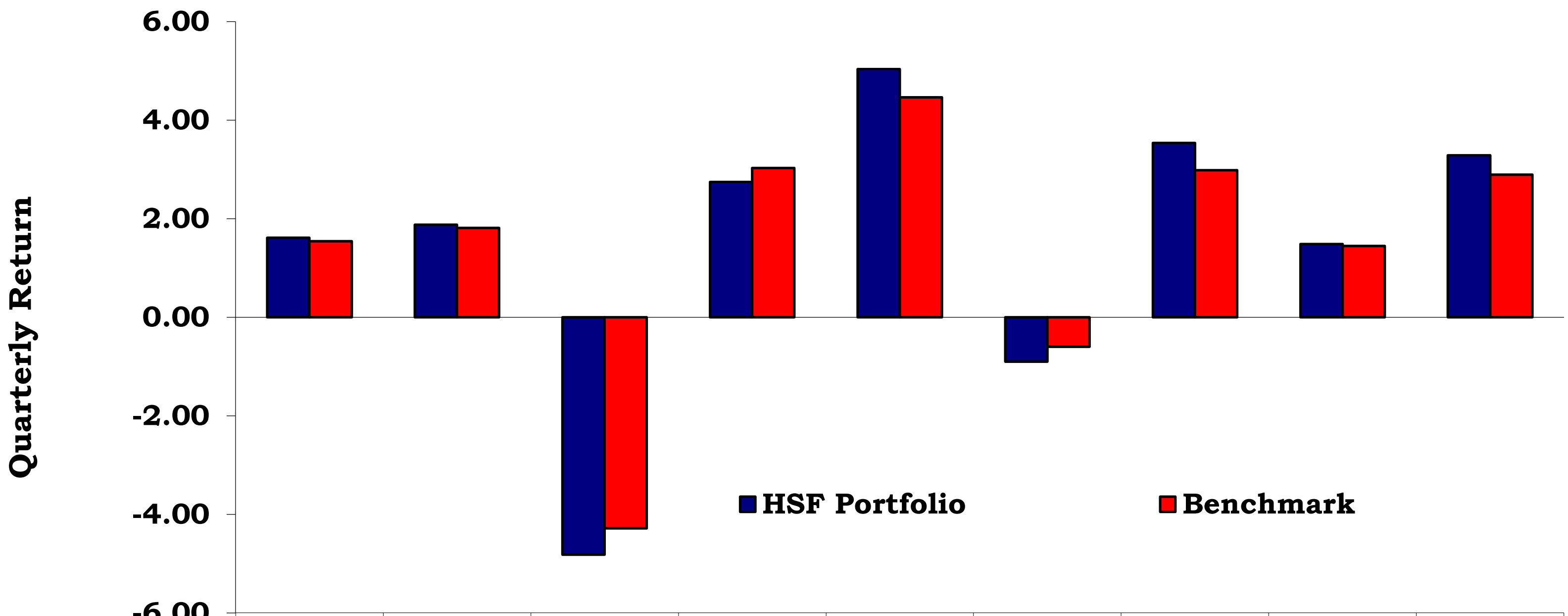
*Market capitalization is a measurement of the size of a company (share price x the number of outstanding shares). The weighted average market capitalization of a stock market index represents the average size of the firms comprising the index where each is weighted according to its market capitalization.

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

	June 2012	September 2012	December 2012	March 2013
Total Fund Value	**4,379**	**4,712**	**4,780**	**4,933**
Total Value of Equity	**1,557**	**1,697**	**1,757**	**1,909**
US Core Domestic Equity	831	886	887	980
Non-US Core International Equity	726	811	869	929
Total Value of Fixed Income	**2,820**	**2,901**	**3,021**	**3,023**
US Short Duration Fixed Income	1,062	1,105	1,151	1,153
US Core Domestic Fixed Income	1,758	1,796	1,870	1,870
Total Value of Cash or Cash Equivalents	**2**	**114***	**2**	**1**

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 Q2	FY2011 Q3	FY2011 Q4	FY2012 Q1	FY2012 Q2	FY2012 Q3	FY2012 Q4	FY2013 Q1	FY2013 Q2
HSF Portfolio	1.62	1.88	-4.82	2.74	5.04	-0.90	3.53	1.49	3.29
Benchmark	1.54	1.81	-4.28	3.03	4.46	-0.60	2.98	1.44	2.90

Quarter