Trinidad and Tobago

Heritage & Stabilisation Fund

QUARTERLY INVESTMENT REPORT

OCTOBER – DECEMBER 2010

CENTRAL BANK OF
TRINIDAD & TOBAGO

January 31, 2010

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EXECUTIVE SUMMARY

The United States (US) economic recovery gained momentum during the third quarter of 2010 and was sustained in the fourth quarter by positive manufacturing performance, as well as increased consumption, exports, and non-residential fixed investment. Preliminary fourth quarter GDP data indicated that output expanded at an annualised rate of 3.2 per cent, compared with 2.6 per cent in the third quarter. Real GDP for the quarter ending September 2010 was revised upwards to an annualized rate of 2.6 per cent, from an initial estimate of 2.0 per cent. Additionally, some improvements were observed in the labour and housing markets, as housing starts data for the month of November were better than expected. The unemployment rate declined to 9.4 per cent in December from 9.8 per cent three months earlier.

The **Japanese economy also grew at a faster pace** as output expanded by an annualized rate of 3.9 per cent in the quarter ending September 2010, compared with growth of 1.8 per cent in the prior quarter. However, economic indicators in the Euro zone and the United Kingdom (UK) were not as optimistic as their US counterpart. During the third quarter of 2010 the **Euro zone experienced a deceleration in economic activity,** while labour market conditions worsened in the final quarter of 2010. These developments occurred against a backdrop of renewed fears about the sovereign debt crisis facing the region. Meanwhile, preliminary data revealed that **economic output in the UK contracted by 0.5 per cent in the fourth quarter of 2010** following growth of 0.7 per cent in the previous quarter.

In the financial markets, fixed income securities posted negative returns for the review period as the US Treasury-yield curve steepened in the final two months of the year. Conversely, the equity markets benefitted from the improvement in investor confidence which was buttressed by the release of positive economic data. As such, **equities advanced robustly during the three months to December 2010**, almost mirroring the strong performance exhibited during the prior quarter ending in September.

Total return on the composite HSF portfolio measured 2.29 per cent for the period October to December 2010, compared with a composite benchmark return of 2.23 per cent. In the prior quarter, the Fund posted a total return of 5.33 per cent to outperform the composite benchmark return by 25 basis points. The equity portion of the Fund's investments was the main driver of returns over the quarter, contributing 2.89 per cent, while money market deposits added 1 basis point to returns. These gains were partially offset by the losses made on the fixed income segment of the Fund.

On October 01, 2010, US$454.4 million was transferred from the internally managed funds to the fixed income and equity mandates, in line with the Fund's Strategic Asset Allocation implementation plan. By the end of the quarter, 90.5 per cent of the Fund was externally managed, while the remaining 9.5 per cent was managed internally. **The total market value of the HSF portfolio as at December 31 2010 was US$3,702 million, up from US$3,622 million at the end of September 2010.**

SECTION 1 – INTERNATIONAL ECONOMIC ENVIRONMENT

United States

During the fourth quarter of 2010, the performance of the US economy improved modestly, dispelling fears about a faltering economic recovery. Preliminary GDP data indicated that output expanded at an annualised rate of 3.2 per cent in the fourth quarter of 2010, compared with 2.6 per cent in the third quarter of last year. The faster pace of growth primarily reflected an acceleration in household consumption, exports and non-residential fixed investment. These movements were partly offset by fall-offs in private inventory investment.

Economic activity in the manufacturing sector continued to expand during the fourth quarter of 2010. In December 2010, the Purchasing Managers Index[1] (PMI) measured 57 per cent, marking the 17th consecutive month of growth and an increase of 2.6 percentage points when compared to its September posting of 54.4 per cent.

U.S. employment data were generally encouraging with the U.S. Bureau of Labour Statistics reporting a 384,000 increase in nonfarm payroll employment during the three months to December 2010. The fourth quarter employment gain represented a reversal of the 147,000 jobs lost in the previous quarter ending September 2010.

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

The expansion in employment occurred mainly in the hospitality and health care industries, and resulted in a decline in the unemployment rate to 9.4 per cent in December, down from the 9.6 per cent reported in September.

While the housing market continued to experience some challenges during the fourth quarter of 2010, the market received positive news which indicated that builders in the US had begun to construct new homes at an increased rate in November. Housing starts rose to an annual rate of 555,000 in November 2010, up 3.9 per cent from the 534,000 in October.

On a year-on-year basis, consumer prices as measured by the Consumer Price Index (CPI) increased by 1.5 per cent in December 2010, compared with 1.1 per cent in September. The core inflation rate however, which excludes the price increases observed in the energy sector, rose 0.8 per cent in the twelve months to December 2010. Against this backdrop, the Federal Open Market Committee (FOMC) reaffirmed its commitment to purchase US$600 billion in bonds by the end of June 2011 to further stimulate growth. In addition, the Committee maintained its existing policy of reinvesting principal payments from its securities holdings and kept the target range for the federal funds rate at 0 to 0.25 per cent.

Euro zone

The Euro zone economic recovery lost some momentum in the third quarter of 2010 as GDP grew marginally by 0.3 per cent, down from the 1.0 per cent GDP growth reported in the previous quarter. The deceleration in growth was largely due to the fall-offs in capital and exports during the review period. The highest growth rates were recorded in Luxembourg (1.5 per cent), Austria (1.0 per cent) and Germany (0.7 per cent). The Greek economy continued to contract, with output falling by 1.3 per cent during the quarter. Analysts forecast that growth in the Euro zone will continue to wane into 2011 as the implementation of fiscal austerity programs is expected to pose a downside risk to output in some countries. Nonetheless, the region's economic activity is expected to be driven largely by Germany and France.

The unemployment situation worsened slightly during the fourth quarter, as the jobless rate increased to 10.1 per cent in November, from 10.0 per cent at the end of September. Among the Member States, the lowest unemployment rates were recorded in the Netherlands (4.4 per cent), Luxembourg (4.8 per cent) and Austria (5.1 per cent), and the highest was recorded in Spain (20.6 per cent).

Market uncertainty arising out of the Sovereign debt challenges facing some Euro area member states returned to the forefront during the quarter. In December, Moody's downgraded Ireland's Sovereign Credit rating by five notches to "Baa1" while Portugal, Greece and Spain were also the recipients of negative rating actions. Some Irish banks suffered financial woes which led to Ireland making a formal request for a bailout. As a result of this development, the Irish government agreed to accept €67.5 billion (US$90.4 billion) in loans from the European Union and International Monetary Fund as part of an €85 billion package to support Ireland's stricken banks and public finances.

In other developments, consumer prices in the Euro region rose by an annual rate of 2.2 per cent in December 2010, compared with 1.8 per cent in September. This was the first time in two years that the Euro zone's inflation rate exceeded 2.0 per cent. Most of the categories registered accelerated price increases with the highest being observed in transport, housing, as well as alcohol and tobacco. The European Central Bank indicated that the recent inflationary pressure occurred as a result of rising energy prices and that inflation should be contained over the medium term. The Bank therefore decided to keep its benchmark policy interest rate unchanged at 1.0 per cent.

United Kingdom

Preliminary GDP data for the UK showed that the economy exhibited a weaker performance when compared with the third quarter of 2010. The Office for National Statistics (ONS) reported that UK GDP contracted by 0.5 per cent in the three-month period ending December, compared with 0.7 per cent in the prior quarter. This outturn was attributed to the decline in output from the construction and services sectors. Comparative sector data showed that construction activities fell by 3.3 per cent in the December quarter, while services output declined by 0.5 per cent. These performances did not compare favourably with growth of 3.9 per cent and 0.5 per cent, respectively in the third quarter of 2010.

In addition, the ONS reported increased savings in the quarter ending September 2010. Analysts believe the improvement in consumer savings was in anticipation of the Government's planned spending cuts in 2011. Further, the growth in retail sales was sluggish during the fourth quarter of 2010, with December monthly sales volume worse than forecasted. Mounting concerns about the adverse impact of spending cuts on the wider economy and the effects of the unusually cold weather were key contributing factors to this outturn.

The UK inflation rate climbed to 3.7 per cent in December, up from 3.1 per cent in September. The rise in the index marked the highest year-on-year increase in consumer prices since April 2010. Moreover, analysts expect that further upward pressure would be exerted on prices in the coming months, as the value-added tax (VAT) is scheduled to increase to 20.0 per cent in January 2011, up from the current rate of 17.5 per cent. Given this expectation for prices and with the inflation rate already above the 2.0 per cent target, the Bank of England is likely to face increased pressure to raise interest rates. However, at its January 2011 meeting the Bank of England opted to leave its benchmark interest rate unchanged at 0.5 per cent and maintained its GBP 200 billion Asset Purchasing Facility programme.

Japan

Economic output in the Japanese economy expanded at an annualized rate of 3.9 per cent during the third quarter of 2010, compared with 1.8 per cent in the previous quarter. The acceleration in growth partly reflected increased household consumption as consumers brought forward their purchases ahead of the scheduled expiration of some government subsidies. In the latest data to November 2010, exports rose 9.1 per cent year-on-year, up from 7.8 per cent for the comparative period in October. The Ministry of Finance reported that increased overseas demand in November was supported by a weakening of the yen and the increase in exports was mainly to Asia, in particular China. In November, the yen depreciated against the US Dollar to close the month at ¥84.10, compared with ¥83.53 at the close of September. By year-end, the yen had strengthened to reach ¥81.12.

While signs of a moderate recovery were still evident, conditions in the labour market continued to pose some challenge as the unemployment rate rose marginally to 5.1 per cent in November, from 5.0 per cent at the end of September. Meanwhile, consumer prices rose by 0.1 per cent in the twelve months to November 2010, compared with a decline of 0.6 per cent in September. This increase in prices coincided with a rise in corporate profits and a pickup in business fixed investment.

During the quarter ending December 2010, the Bank of Japan kept the benchmark interest rate unchanged at the range of 0.0 to 0.1 per cent and continued its asset purchase programme.

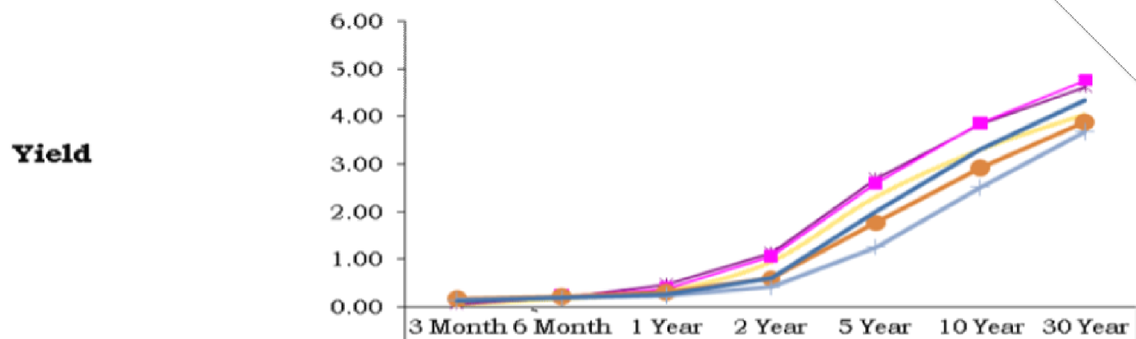
SECTION 2 – CAPITAL AND MONEY MARKET REVIEW

Unlike the third quarter of 2010 - when both the equity and fixed income markets generated positive returns - there were contrasting performances in the fourth quarter. The fixed income market experienced a challenging quarter as yields rose in most developed economies, generating negative returns in almost all of the sectors. Meanwhile, equities posted strong positive returns, driven by improving economic fundamentals in the US, strong corporate earnings, additional government debt purchases by the US Federal Reserve and the extension of tax cuts in the US. These factors contributed to improved investor optimism about the prospect for the global economy, despite concerns about the sovereign debt challenges in Europe. The VIX Index, an indicator of volatility in the US equity markets, fell further in the fourth quarter to close the month of December at 17.75, compared with 23.70 at the end of September.

Fixed Income

After posting solid performances during the first three quarters of 2010, the fixed income market incurred losses during the fourth quarter, as the US treasury yield curve shifted upwards over the period (Figure 1 overleaf, refers). The interest rate on the benchmark 10-year US Treasury bond increased to 3.29 per cent at the end of December, from 2.51 per cent in September. This movement in yield reflected investors willingness to take more risk as signs of economic improvement in the US became evident. Further comfort was provided when the monetary authorities announced additional support measures for the market.

Figure 1
US Treasury Yield Curve
/per cent/

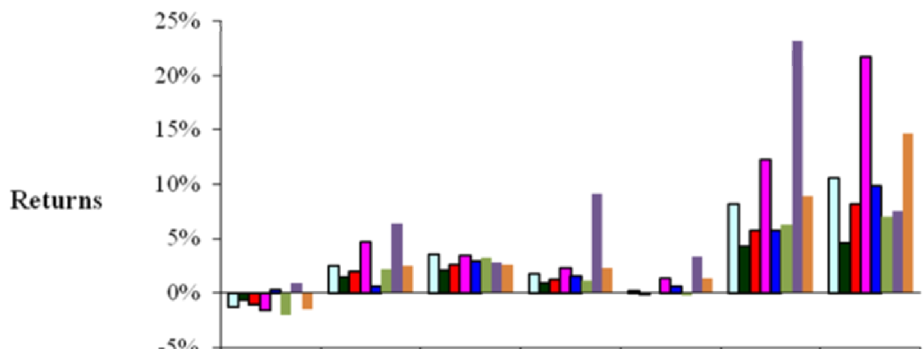


	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
September 30, 2009	0.05	0.17	0.34	0.95	2.31	3.31	4.05
December 31, 2009	0.06	0.20	0.47	1.14	2.69	3.85	4.63
March 31, 2010	0.15	0.23	0.39	1.06	2.60	3.87	4.77
June 30, 2010	0.17	0.22	0.31	0.60	1.77	2.93	3.89
September 30, 2010	0.15	0.19	0.25	0.42	1.26	2.51	3.68
December 31, 2010	0.12	0.18	0.26	0.59	2.01	3.29	4.33

The Barclays US Aggregate Bond Index, which measures the performance of the US taxable bond market, lost 1.30 per cent during the quarter (See Figure 2 overleaf). The sub-indices however, produced mixed performances with the US Agency and US Corporate sectors losing 1.11 per cent and 1.61 per cent, respectively. In contrast, the Mortgage Backed Securities (MBS) and Commercial Mortgage Backed Securities (CMBS) sectors returned 0.24 per cent and 0.91 per cent, respectively. The latter sectors benefitted from the increased activity in the housing market. Over the same period, the Bank of America/Merrill Lynch US Treasury 1 – 5 Year

Index lost 0.67 per cent, compared with a return of 1.39 per cent in the quarter ended September 2010.

Figure 2
Returns on Fixed Income Indices
/per cent/



	Qtr 1 10/11	Qtr 4 09/10	Qtr 3 09/10	Qtr 2 09/10	Qtr 1 09/10	FY 09/10	FY 08/09
Barclays U.S. Aggregate	-1.30%	2.51%	3.51%	1.73%	0.20%	8.16%	10.56%
ML U.S. Treasury 1-5 Years	-0.67%	1.39%	2.03%	0.88%	-0.11%	4.23%	4.59%
U.S. Agencies	-1.11%	1.90%	2.54%	1.19%	-0.03%	5.69%	8.21%
U.S. Corporate	-1.61%	4.71%	3.42%	2.30%	1.35%	12.27%	21.77%
U.S. MBS	0.24%	0.63%	2.87%	1.53%	0.58%	5.71%	9.85%
G-7 Global Bonds (Hedged)	-2.00%	2.16%	3.18%	1.08%	-0.29%	6.23%	7.04%
CMBS Index	0.91%	6.41%	2.78%	9.11%	3.27%	23.23%	7.56%

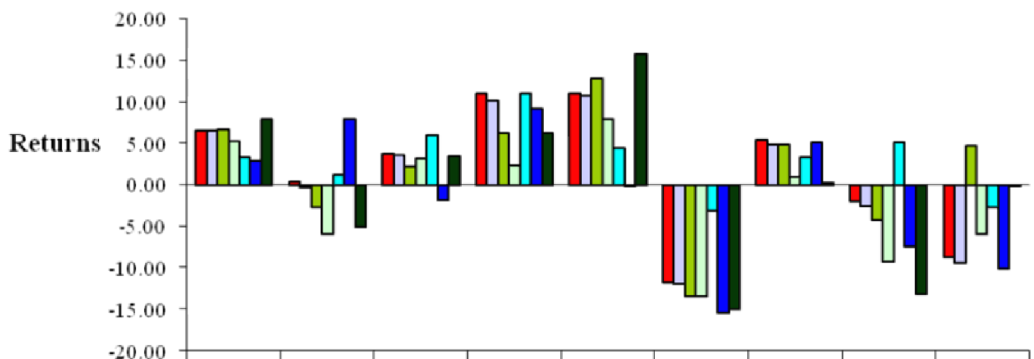
Renewed fears over sovereign debt in Europe led to heightened volatility in the region's bond market. In the peripheral European market, the risk premium on government bonds rose sharply over the quarter. The yield on Greek 10-year bonds increased to 12.55 per cent at the end of December, from 10.45 per cent one quarter earlier. Similarly in Ireland, the 10-year sovereign bond yield soared to 9.05 per cent, up from 6.64 per cent in September. In the larger European economies, positive economic data drove interest rates higher. The yield on

German 10-year bonds moved to 2.96 per cent at the close of December, from 2.28 per cent at the end of September, while France's 10-year bond yield rose to 3.36 per cent, from 2.66 per cent one quarter earlier. The yield on the 10-year UK Gilt increased 45 basis points over the period to end December at 3.40 per cent.

Equity Markets

In the US, equity markets continued to trend upwards in the final three months of 2010, almost mirroring the returns generated in the previous quarter. The release of strong economic data fuelled the positive momentum, which resulted in the markets posting solid fourth quarter performances. Buoyed by corporate earnings which surpassed market expectations, upward revisions to GDP and heightened consumer confidence, investors' optimism grew as they appeared more willing to move away from relatively safer assets to invest in riskier ones such as equities. The S&P 500 index returned 10.20 per cent in the fourth quarter, compared with 10.72 per cent for the September quarter (Figure 3 overleaf, refers). Nine of the ten sectors posted positive returns, with five sectors recording double-digit gains. The best performing components of the index were the energy and materials sub-sectors which returned 20.86 per cent and 18.50 per cent, respectively. The worse performing sub-sectors were utilities (-0.02 per cent) and health care (3.12 per cent). Meanwhile, the Russell 3000 Index, which measures the performance of the 3000 largest U.S. companies, posted a slightly higher return than its larger cap counterpart, gaining 11.08 per cent in the fourth quarter compared with 10.99 per cent over the previous three months.

Figure 3
Returns on Equity Indices
/per cent/



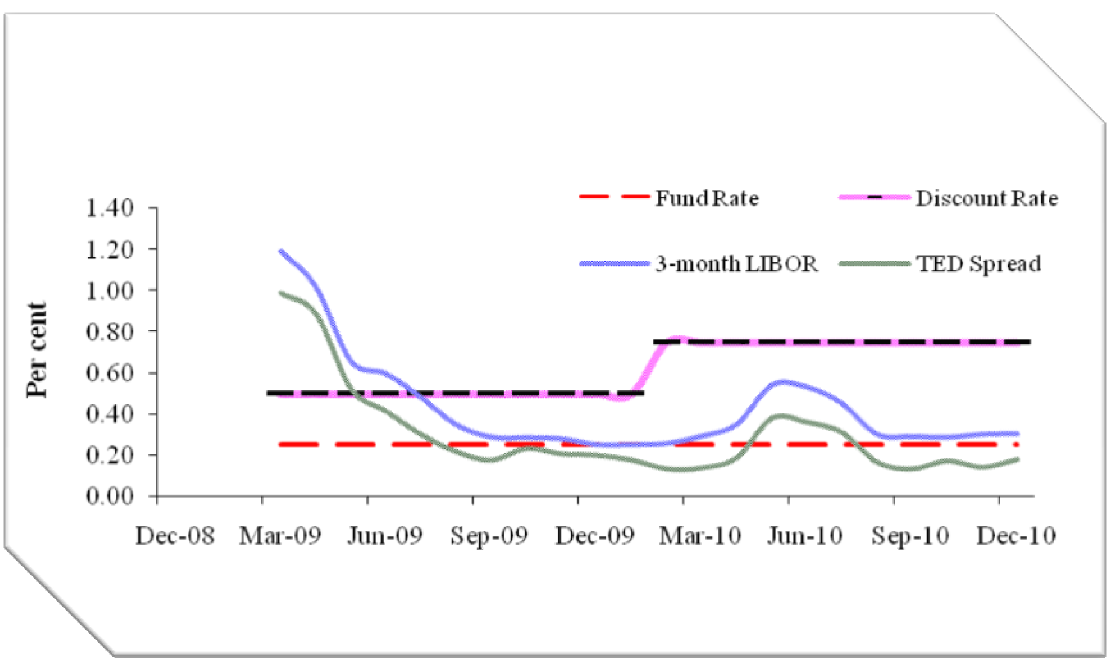
	Dec-10	Nov-10	Oct-10	Q1 10/11	Q4 09/10	Q3 09/10	Q2 09/10	FY 09/10	FY 08/09
Russell 3000	6.62	0.36	3.80	11.08	10.99	-11.73	5.45	-1.93	-8.64
S&P 500	6.53	-0.23	3.69	10.20	10.72	-11.86	4.87	-2.49	-9.37
FTSE 100 - UK	6.72	-2.59	2.28	6.33	12.85	-13.43	4.93	-4.23	4.72
CAC 40 - France	5.38	-5.82	3.18	2.41	7.91	-13.36	0.96	-9.29	-5.87
DAX 30 - Germany	3.37	1.32	5.98	11.00	4.42	-3.06	3.29	5.12	-2.67
Nikkei 225 - Japan	2.94	7.98	-1.78	9.17	-0.14	-15.40	5.15	-7.41	-10.01
MSCI EAFE	8.02	-5.03	3.55	6.23	15.79	-14.91	0.22	-13.18	-0.02

In the other developed economies, equities posted a fairly robust performance despite lagging the US markets. The MSCI EAFE index which gauges the performance of equity markets in Europe, Australia and the Far East returned 6.23 per cent during the fourth quarter, compared with 15.79 per cent in the previous quarter. European markets produced a smaller gain than the overall index, advancing 4.12 per cent over the quarter. The smaller equity market gain was due to the sovereign debt challenges faced in a number of countries, most notably Greece, Ireland, Spain and Portugal.

Money Market

Yields on US money market instruments were generally flat over the quarter. The Fed Funds Target Rate remained low at the range 0 to 25 basis points while the TED spread, which represents the difference between the 3-month Treasury bill rate and 3-month London Inter Bank Offered Rate (LIBOR), widened marginally to 17 basis points at the end of December. In the prior quarter ending September 2010, the TED spread measured 14 basis points. Movements in key short-term US money market rates for the period December 2008 to December 2010 are shown in figure 4.

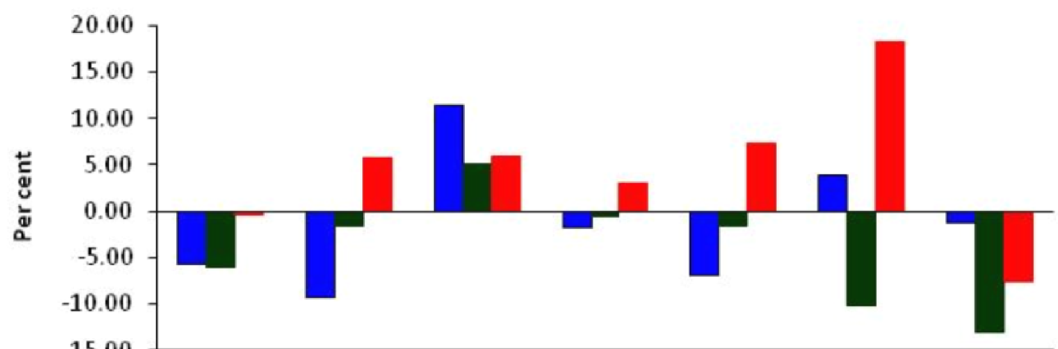
Figure 4
US Money Market Rates
/per cent/



__Currency Markets__

The foreign exchange market was quite volatile during the fourth quarter of 2010 with the US dollar fluctuating against other major currencies (See Figure 5).

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



	Qtr 2 09/10	Qtr 3 09/10	Qtr 4 09/10	Qtr 1 10/11	FY 09/10	FY 08/09	FY 07/08
EUR	-5.66	-9.42	11.41	-1.83	-6.87	3.89	-1.23
GBP	-6.10	-1.57	5.16	-0.66	-1.66	-10.24	-13.03
JPY	-0.48	5.70	5.87	2.97	7.39	18.29	-7.58

Period

Contributing to such movement was the quantitative easing undertaken by the US Federal Reserve, the debt situation in Europe and the respective economic performances of the major countries. Overall, encouraging data from the US led to a resurgent appetite for dollar-denominated assets. This resulted in a strengthening of the US Dollar against the Euro and Pound Sterling by 1.83 per cent and 0.66 per cent, respectively over the quarter. However, the US Dollar, after appreciating in November continued its depreciating trend vis-à-vis the Yen, falling by 2.97 per cent in the three months to December. Speculation began to mount that the Bank of Japan would again intervene in the foreign exchange market if the Yen continued to strengthen. The Euro, Pound Sterling and Japanese Yen ended the quarter vis-à-vis the US dollar at $1.3384, $1.5612 and ¥81.12, respectively.

SECTION 3 – PORTFOLIO PERFORMANCE

Strategic Asset Allocation (SAA)

During the quarter, the portfolio continued to transition towards its Strategic Asset Allocation (SAA) target. On October 01 2010, US$454.4 million were transferred from the internally managed funds to the external managers, consistent with the approved transition plan. By the end of December, 90.5 per cent of the Fund was managed by external managers while the remaining 9.5 per cent was managed internally. When the transition plan is fully implemented by January 2011, the Fund would be invested in four major asset classes in the following proportions:

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 end of December 2010, the market value of the overall portfolio (money market, fixed income and equity) was US$3,702.0 million, US$80 million higher than the value at the end of September (US$3,622.0 million). During the quarter under review, the Government made no cash contribution to the Fund. A deposit of US$149.7 million was made on September 30, 2010 with respect to the third quarter.

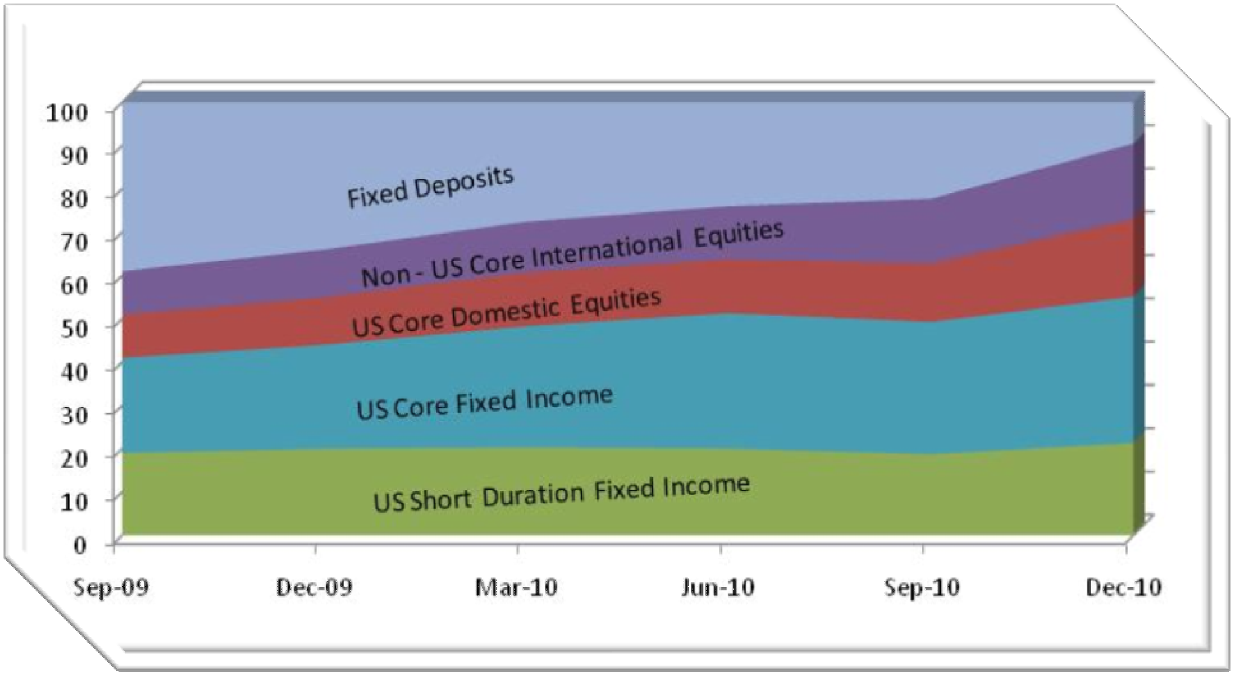
The Fund's target transition asset allocation and the portfolio weighting as at December 31 2010 are shown below in Table 1 and Figure 6.

Table 1
Portfolio Transition Towards Target SAA
/per cent/

Portfolio Weights	Asset Class	Jun-10		Sep-10		Dec-10	
		Target Transition SAA	*Actual % of Fund*	*Target Transition SAA*	*Actual % of Fund*	*Target Transition SAA*	*Actual % of Fund*
	US Fixed Deposits	22.00	23.97	14.00	22.26*	6.00	9.50
	US Short Duration Fixed Income	19.50	20.03	21.50	18.72	23.50	21.32
	US Core Domestic Fixed Income	31.20	31.30	34.40	30.55	37.60	33.81
	US Core Domestic Equity	13.65	12.47	15.05	13.57	16.45	17.93
	Non-US Core International Equity	13.65	12.23	15.05	14.90	16.45	17.44

*This percentage includes the Government's contribution to the Fund on September 30 2010.

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



Fund Performance

For the period October to December 2010, the Fund returned 2.29 per cent, compared with a benchmark return of 2.23 per cent and total performance return of 5.33 per cent for the previous quarter. The equity portion of the Fund, which accounted for approximately 35.4 per cent of the overall portfolio, was the main driver of returns over the quarter, contributing 2.89 per cent. This gain was partially offset by the losses made by the fixed income portion of the Fund. The fixed income mandates which represented 55.1 per cent of the aggregate portfolio returned -0.61 per cent. The remaining 9.5 per cent of the Fund which is held in Money Market deposits added 1 basis point to the quarter's return.

The two equity mandates produced solid returns during the quarter, and outperformed their respective benchmarks. The **US Core Domestic Equity** portfolio gained **10.84 per cent**, compared with 10.51 per cent for its benchmark -

the Russell 3000 ex Energy Index. Excess performance was primarily attributable to managers' stock selection. An overweight position in the information technology sector relative to the benchmark was the largest contributor to excess returns, while an underweight positioning in the consumer discretionary and health care sectors partially offset portfolio gains. The market value of the US Core Domestic Equity Portfolio as at December 31 2010 was **US$663.9 million**, up from US$491.5 million at the end of September 2010. This increase in value partly reflected the transfer of US$108 million to this mandate on October 01 2010.

The **Non-US International Equity** portfolio returned **6.45 per cent** in the three months to December 2010 to outperform the MSCI EAFE ex Energy benchmark index by 13 basis points. The excess return on this portfolio was attributable to country allocation, stock selection and currency hedging decisions. Managers' overweight stocks in Germany and Norway added value as these markets gained about 9 per cent over the quarter. Also contributing to excess return was the underweight equity asset exposure in Spain and Greece, relative to the benchmark. These markets recorded losses over the period. Given renewed concerns about the European debt crisis, a currency hedging strategy was implemented and this positively aided portfolio performance. The main detractors from returns were the underweight exposure to Japan and the overweight exposure to Belgium. As at December 31 2010, the market value of the Non-US Core International Equity mandate was **US$645.6 million,** compared with US$539.8 million at the end of September 2010. This increase in value partly reflected the transfer of US$67.4 million to this mandate on October 01 2010.

The fixed income mandates did not share the same experience as the equity portfolios since they generated losses over the quarter. The **US Core Fixed Income** portfolio underperformed its Barclays US Aggregate benchmark returning **-1.37 per cent,** versus -1.29 per cent for the benchmark. The primary contributor to underperformance was the portfolio's longer U.S. duration position, which negatively impacted returns as the yields increased over the quarter. Meanwhile, the overweight exposure to the Agency MBS sector added to performance as these securities outperformed duration-adjusted Treasuries. The value of this portfolio as at December 31 2010 was **US$1,251.5 million** compared with US$1,106.5 million at the end of September 2010. This increase in value was attributable to the transfer of US$163 million to this mandate on October 01 2010.

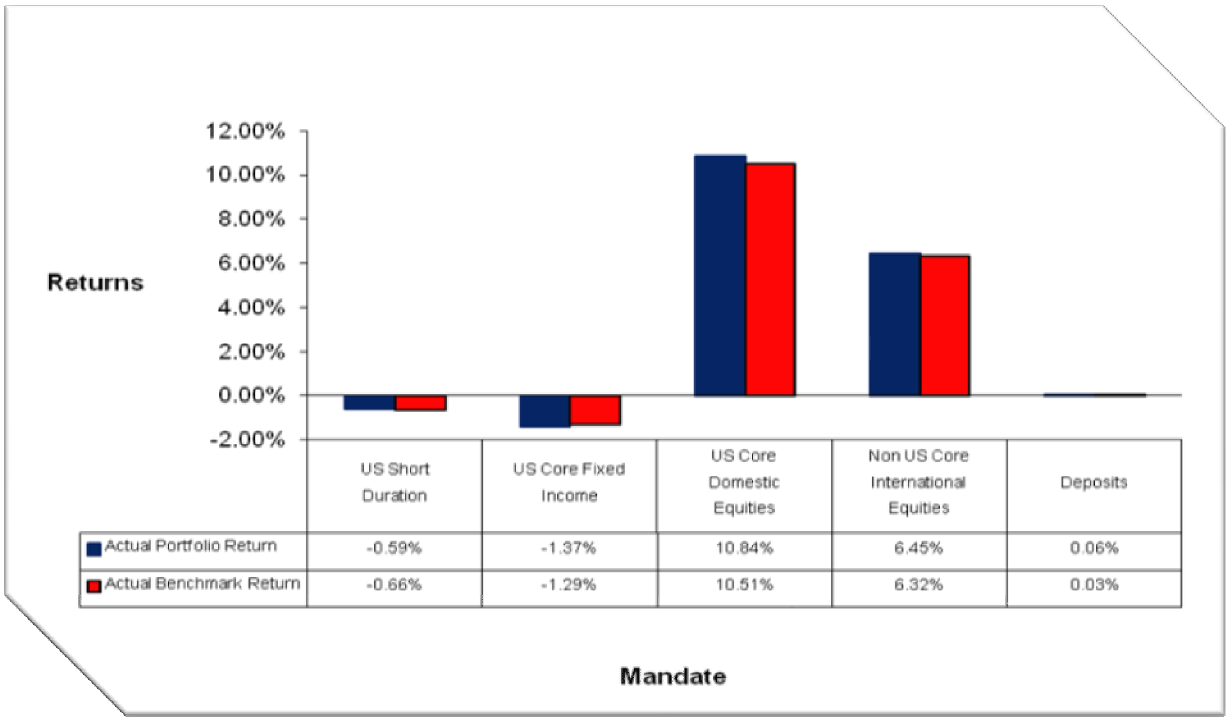
The **US Short Duration Fixed Income** portfolio returned **-0.59 per cent** over the quarter, compared with -0.66 per cent for the Bank of America Merrill Lynch US Treasury 1-5 Year benchmark. The smaller loss generated by this portfolio relative to the benchmark resulted from the shorter U.S. duration position which was maintained for most of the quarter. In addition, the portfolio's exposure to foreign government securities and agency notes contributed to excess returns as these securities outperformed US Treasuries over the period. The market value of the US Short Duration Fixed Income portfolio as at December 31 2010 was **US$789.4 million** compared with US$678.1 million at the end of September 2010. This increase in value was attributable to the transfer of US$116 million to this mandate on October 01 2010.

The **Money Market** portion of the Fund returned **6 basis points** during the quarter to outperform the LIBID benchmark by 3 basis points. The value of these deposits as at December 31 2010 was **US$351.8 million**, down from US$806.2 million at the end of September 2010. This fall in value reflected the transfer of US$454.4 million to the fixed income and equity mandates.

Table 2
Contribution to Quarterly Return,
For the period October 2010 - December 2010
/per cent/

	Weighting as at 31-Dec-2010	Weighted Return HSF	Weighted Return Benchmark	Excess Return
Composite Portfolio	100.00	2.29	2.23	0.06
Money Market	9.50	0.01	0.00	0.00
US Core Domestic Fixed Income	21.32	-0.48	-0.45	-0.03
US Core Domestic Equity	33.81	1.80	1.75	0.05
Non US Core International Equity	17.93	1.09	1.07	0.02
US Short Duration Fixed Income	17.44	-0.13	-0.14	0.02

Figure 7
Absolute Returns by Asset Class
For the period October 2010 – December 2010



SECTION 4 –COMPLIANCE AND PORTFOLIO RISKS

Compliance

During the quarter ended December 31 2010, there was one breach of the Investment Guidelines involving the purchase of a security on the secondary market by one of the investment managers who was also an underwriter for the security. The investment guidelines specify that managers may purchase such a security no earlier than six months after the security's date of issue. The above transaction occurred before the stipulated time period had elapsed. The manager acknowledged the breach and has put systems in place to avoid similar occurrences in the future. The security was sold shortly thereafter without any financial cost to the Fund.

Portfolio Risks

The main risks for the HSF portfolio are Credit risk, Interest rate risk, Concentration risk and Currency risk.

Credit Risk

For the money market portion of the Fund, Credit risk is minimized by the adherence to certain strict standards before deposits can be placed with any money market counterparty. In the first instance, all counterparties must have a minimum credit rating of either A1 from the Standard and Poor's rating agency or P1 from Moody's. Credit risk is further minimized by the implementation of a maximum exposure limit for the counterparties. No more than 5.00 per cent of the market value of the portfolio can be invested with a single money market counterparty.

For Fixed Income Instruments, Credit risk is mitigated by having strict credit concentration limits as well as minimum credit quality ratings. The Fund requires its core fixed income managers to invest in bonds that 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 2010.

Table 3
Average Credit Rating

Mandate	Portfolio	Benchmark
US Short Duration	AAA	AAA

US Core Fixed Income	**AAA**	**AAA**

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

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 Fund's US Short Duration and US Core Domestic Fixed Income duration limits as at December 31 2010.

Table 4
Weighted Average Duration
/Years/

Mandate	Portfolio	Benchmark
US Short Duration	**2.52**	**2.57**
US Core Domestic Fixed Income	**4.76**	**4.69**

Concentration Risk

Concentration or diversification risk is the risk of loss attributable to holding assets from a single investment style or class. The SAA seeks to reduce this risk by ensuring the Fund's assets are invested across various asset classes. The portfolio is invested across four asset classes as follows - US Short Duration Fixed Income Mandate, US Core Domestic Fixed Income Mandate, US Core Domestic Equity Mandate and Non-US Core International Equity Mandate. Each asset class in which the Fund invests reacts differently under a given market condition and usually when one asset class has strong returns, another will have lower returns. By diversifying the Fund's investments across a number of asset types, the Fund better ensures a positive return under a range of market conditions and lowers the total risk of the portfolio.

Currency Risk

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 denominated in currencies other than the US Dollar. For the Non-US Core International Equity mandates, currency hedging is allowed up to a maximum of 15 per cent of the portfolio's market value, with the base currency being the US Dollar. During the quarter, the portfolios were within these limits. At the end of December 2010, the currency hedge represented 1.6 per cent of the portfolio value.

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 2008									
December	1.25	1.27	-1.80						
March	0.90	0.96	-5.28						
June	0.73	0.63	10.36						
September	0.68	0.59	9.27	**3.61**	**3.49**	**12.30**	**4.33**	**4.24**	**9.48**
FY 2009									
December	0.76	0.99	-22.54	0.76	0.98	-22.49	4.19	4.24	-5.25
March	0.08	0.07	0.62	0.84	1.06	-21.88	3.71	3.72	-4.30
June	0.02	0.03	-0.69	0.86	1.09	-22.60	3.32	3.36	-4.15
September	1.90	2.07	-16.05	**2.78**	**3.18**	**-39.26**	**3.80**	**3.91**	**-10.62**
FY 2010									
December	0.96	0.89	6.65	0.96	0.89	6.65	3.84	3.91	-6.56
March	1.61	1.68	-6.26	2.59	2.58	0.44	4.12	4.20	-8.40
June	-1.83	-1.90	6.28	0.71	0.64	6.87	3.18	3.23	-5.47
September	5.33	5.08	24.71	**6.07**	**5.75**	**31.96**	**4.61**	**4.59**	**2.29**
FY 2011									
December	2.29	2.23	5.89	2.29	2.23	5.89	4.76	4.73	3.28

Note:

(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.

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	

Appendix III
Summary Characteristics of Composite Benchmarks

Fixed Income Benchmarks

Key Characteristics	Barclays US Aggregate Index	Merrill Lynch 1-5 Index
Total Holdings	8,177	99
Coupon (%)	4.27	2.17
Duration (Years)	4.69	2.57
Average Life (Years)	6.28	2.59
Yield to Maturity (%)	2.82	0.68
Option Adjusted Spread (bps)	53	1
Average Rating	AAA	AAA

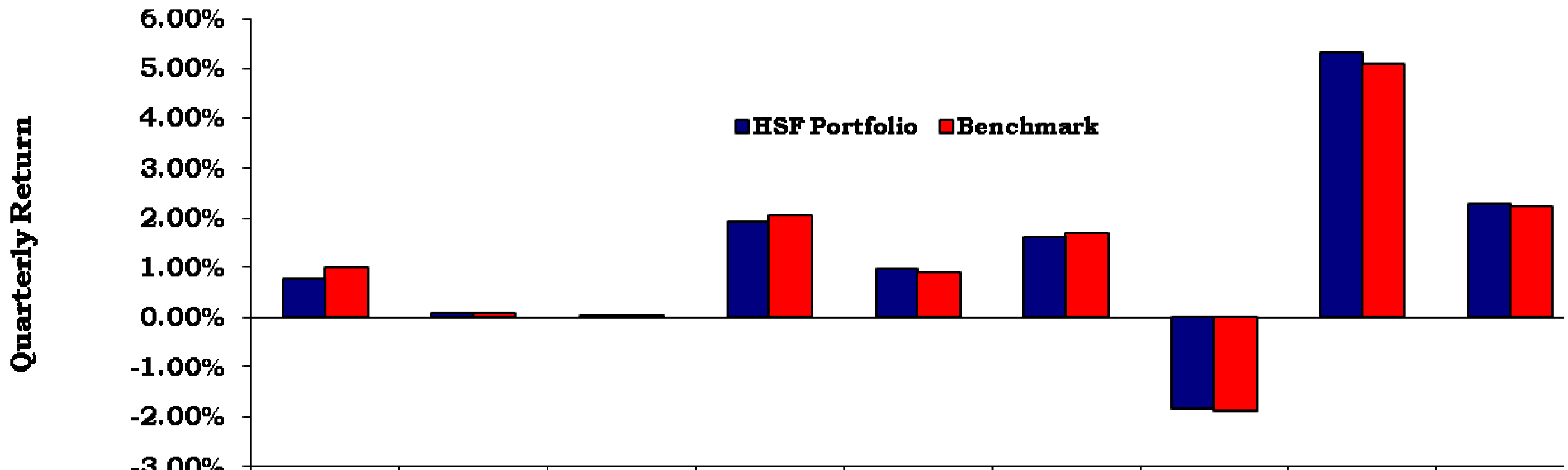
Equity Benchmarks

Key Characteristics	Russell 3000 (ex energy)	MSCI EAFE (ex energy)
Total Holdings	2,769	914
Earnings Per Share (EPS Growth 3-5y fwd) (%)	11.70	14.40
Price Earnings (P/E fwd)	14.00	13.34
Price / Book (P/B)	2.20	1.56
Market Capitalization (Bn)	$66.9	$47.6

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

	March 2010	June 2010	September 2010	December 2010
Total Fund Value	**3,039**	**3,083**	**3,622**	**3,702**
Total Value of Equity	**770**	**761**	**1,031**	**1,310**
US Core Domestic Equity	398	384	491	664
Non-US Core International Equity	372	377	540	646
Total Value of Fixed Income	**1,451**	**1,583**	**1,785**	**2,040**
US Short Duration Fixed Income	606	618	678	789
US Core Domestic Fixed Income	845	965	1,107	1,251
US Treasury Portfolio	0	0	0	0
Total Value of Cash or Cash Equivalents	**818**	**739**	**806**	**352**

Appendix V
HSF Portfolio Quarterly Returns
/per cent/



	FY2009 Q1	FY2009 Q2	FY2009 Q3	FY2009 Q4	FY2010 Q1	FY2010 Q2	FY2010 Q3	FY2010 Q4	FY2011 Q1
HSF Portfolio	0.762%	0.078%	0.024%	1.917%	0.959%	1.613%	-1.833%	5.325%	2.290%
Benchmark	0.987%	0.071%	0.031%	2.064%	0.893%	1.675%	-1.894%	5.078%	2.231%

Quarter