Trinidad and Tobago

Heritage & Stabilisation Fund

QUARTERLY INVESTMENT REPORT

JULY – SEPTEMBER 2010

CENTRAL BANK OF TRINIDAD & TOBAGO

October 29, 2010

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EXECUTIVE SUMMARY

Real GDP growth for the United States (US) economy continued to be sluggish during the third quarter of 2010 despite outpacing the previous quarter by 0.3 per cent. Preliminary GDP data indicated that US output increased by an annualized rate of 2.0 per cent in the three months to September 2010, up from growth of 1.7 per cent for the second quarter. This increase reflected an acceleration in inventory investment, a rise in consumer spending for services and a smaller decrease in net exports. At the same time, the economy remained challenged by the slow pace of job creation and the problems facing the housing market. In the United Kingdom (UK), preliminary data for the third quarter showed that growth slowed relative to the previous quarter. The latest data for Japan's GDP revealed that growth decelerated during the second quarter and this was mainly on account of lower overseas demand which led to a decline in exports. Presenting a downside risk to Japan's economic growth is the strengthening of the yen against other major currencies. Meanwhile, the Euro zone expanded at a faster pace during the second quarter led by increased output from the German economy.

In the third quarter of 2010, financial markets were influenced by the much anticipated second round of quantitative easing in the US, volatility in the currency market and concerns about sovereign credit rating downgrades. **Most equity markets in developed economies posted strong returns during the quarter to recover from weak second quarter performances**. On the fixed income side, the market also recorded positive returns for the quarter as treasury yields continued to decline. However, for most of the sectors, the returns were lower when compared with those of the previous quarter.

The Fixed Income portfolios within the Heritage and Stabilisation Fund (HSF) generated positive returns for the quarter of 1.36 per cent and 2.67 per cent for the US Short Duration Fixed Income mandate and the US Core Domestic Fixed Income mandate, respectively. The positive returns on these portfolios which account for 50 per cent of the Fund were complemented by the double-digit gains on the equity portion of the Fund. The US Core Domestic Equity mandate returned 11.54 per cent over the quarter while the Non-US International Equity mandate returned 16.95 per cent. The combined equities in the portfolio account for almost 28 per cent of the total portfolio value. The remaining 22 per cent of the Fund comprise Money Market deposits which generated a modest return of 6 basis points over the quarter.

On an aggregate level, **the Fund's total return for the quarter was 5.33 per cent** compared with -1.83 per cent in the previous quarter and 5.08 per cent for the composite benchmark. The equity mandates contributed 4.09 per cent to the composite portfolio return while the Fixed Income and Money Market portfolios combined to contribute 1.24 per cent.

During the quarter, a further US$306.4 million was reallocated from money market deposits to the fixed income and equity mandates, in line with the Fund's Strategic Asset Allocation implementation plan. **The Government made two deposits to the Fund during the quarter totaling US$373.5 million.** The first contribution of

US$223.8 million was made in respect of the June quarter while the second contribution of US$149.7 million was made on September 30th, for the September quarter. **The total market value of the HSF portfolio as at September 30 2010 was US$3,622 million, up from US$3,083 million at the end of June 2010.**

SECTION 1 – INTERNATIONAL ECONOMIC ENVIRONMENT

United States

Preliminary GDP data for the US indicated that the economy expanded by an annualized rate of 2.0 per cent during the third quarter of 2010, a slightly faster pace than the growth of 1.7 per cent rate for the previous quarter. This increase in real GDP reflected an acceleration in inventory investment, a rise in consumer spending for services and a smaller decrease in net exports. While the growth in GDP was higher than that for the second quarter, other economic indicators pointed towards a further weakening of the economy. Business spending on equipment slowed significantly, rising by only 12 percent compared with an increase of 24 per cent in the second quarter.

Meanwhile, the unemployment rate continued to pose challenges for the economy. According to the U.S. Bureau of Labor Statistics, 203,000 non-farm jobs were lost during the third quarter of 2010 compared with additions of 570,000 jobs in the prior three months. As a result, the unemployment rate rose to 9.6 per cent in September 2010, up from 9.5 per cent in June 2010. Partly contributing to this higher unemployment rate was the unwinding of temporary census jobs which outpaced the anemic job growth in the private sector.

During the third quarter, the housing market continued to struggle following the expiration of the home-owners tax credit in April 2010. Data to August 2010 on housing starts revealed that at an annual rate, builders began work on 598, 000 homes, down from 697,000 in April but higher than the 539,000 housing starts in June.

Inflation in the US economy remained relatively subdued during the third quarter of 2010. The consumer price index increased by 1.1 per cent in the twelve months to September 2010, the same rate of increase recorded at the end of the previous quarter. As a result, the Federal Open market Committee (FOMC) decided to keep the federal funds rate at the range 0 to 0.25 per cent and maintain its existing policy of reinvesting the proceeds from its maturing mortgage bonds into longer-term government debt. The Committee also indicated that it is prepared to provide additional accommodation if such is needed to support the economic recovery.

Euro zone

The latest GDP data for the Euro zone revealed that the economy expanded at its fastest pace in four years, growing at an annualized rate of 1.0 per cent during the second quarter, compared with 0.4 per cent in the prior three months. Leading the way was the German economy which grew by 2.2 per cent, followed by Finland which registered growth of 1.9 per cent. In contrast, some of the region's other economies – including Greece and Ireland – struggled. The Greek economy experienced a decline of 1.8 per cent in the three months to June 2010, marking the seventh consecutive period of contraction while output in the Irish economy declined by 1.2 per cent over the same period. According to the European Commission, the region's growth is expected to moderate in the second half of 2010.

Despite the improved overall economic performance in the Euro zone, the rate of unemployment remained relatively high at 10.1 per cent in August 2010. Spain continued to record the highest jobless rate (20.5 per cent) while the lowest rates were recorded in the Netherlands (4.5 per cent) and Austria (4.3 per cent).

In September, Spain's Aaa credit rating by Moody's was downgraded to Aa1 with a "stable outlook", while Fitch lowered Ireland's credit grade rating to A+ from AA-, reflecting the "exceptional and greater-than-expected cost" of the nation's bailout of its banking system. In addition, Fitch placed Ireland's rating on a negative outlook on account of the uncertainty over the country's economic recovery.

Inflationary pressures in the Euro zone remained subdued. The annual inflation rate decelerated marginally to 1.6 per cent in August, 2010, from 1.7 per cent in July. Given the continued uncertainty about the Euro zone's economic recovery, the European Central Bank's (ECB) left its benchmark interest rate unchanged at 1.0 per cent for the sixteenth month in succession.

United Kingdom

In the third quarter of 2010, the UK economy grew at an annualized rate of 0.8 per cent compared with growth of 1.2 per cent in the second quarter. According to the UK's Office for National Statistics, this decline in growth was due to slower increases in output from the construction and production sectors. Construction output rose by 4 per cent in the third quarter of 2010, compared with an increase of 9.5 per cent in the previous quarter, while the production sector expanded by 0.6 per cent, down from 1.0 per cent in the three months to June 2010.

Meanwhile retail sales contracted for the second month in succession to fall by 0.2 per cent in September 2010 following a decline of 0.7 per cent in August. Analysts believe that the government's austerity measures, worries over job prospects, and January 2011's planned VAT hike to 20 per cent were making consumers more cautious with regards to their spending.

The latest unemployment data for August 2010 showed that the jobless rate fell marginally to 7.7 per cent after it remained unchanged at 7.8 per cent in the prior three months. Also in August, year-on-year consumer prices were slightly lower as the inflation rate measured 3.1 per cent compared with 3.2 per cent in June. Although the inflation rate continued to be higher than the target of 2.0 per cent, the Bank of England kept its GBP 200 billion Asset Purchasing Facility programme in place and left its benchmark interest rate unchanged at 0.5 per cent.

Japan

During the second quarter of 2010, the Japanese economy expanded by 0.4 per cent, a marked slowdown from the growth of 1.2 per cent in the previous quarter. Contributing to this outturn was the sharp deceleration in the growth of industrial production to 1.5 per cent, compared with 7.0 per cent in the first quarter. The decrease in economic momentum continued into the third quarter of 2010 as Japan's exports declined by 12.8 per cent in August, mainly reflecting a fall-off in overseas demand. Overseas demand was affected by the appreciation of the yen vis-à-vis other major currencies which had the effect of making Japanese goods relatively more expensive when compared to foreign goods.

During September, the Bank of Japan intervened in the currency market to damper further strengthening of the yen after it traded at 15-year highs against the dollar. This was the first intervention by the Bank of Japan since 2004. However, the impact of this policy measure was short-lived as the currency resumed its appreciating trend some days later. By the end of September, the yen traded at ¥83.53 per dollar compared with ¥85.75 on the day of the intervention and ¥88.44 at the end of June 2010.

Meanwhile, the deflationary state of the economy continued in the third quarter of 2010 as the year-on-year inflation rate measured -0.9 per cent in July and August compared with -0.7 per cent in June 2010. In somewhat of a surprise to the markets, the Bank of Japan decided on further monetary easing by lowering its benchmark interest rate to a range of 0.0 to 0.1 per cent, from the rate of 0.1 per cent which was unchanged since December 2008. In addition, the Bank of Japan announced that it has set up a $60 billion fund to buy government bonds and other assets, an expansion of earlier efforts to generate demand as well as safeguard the fragile recovery from the threats of deflation and currency appreciation.

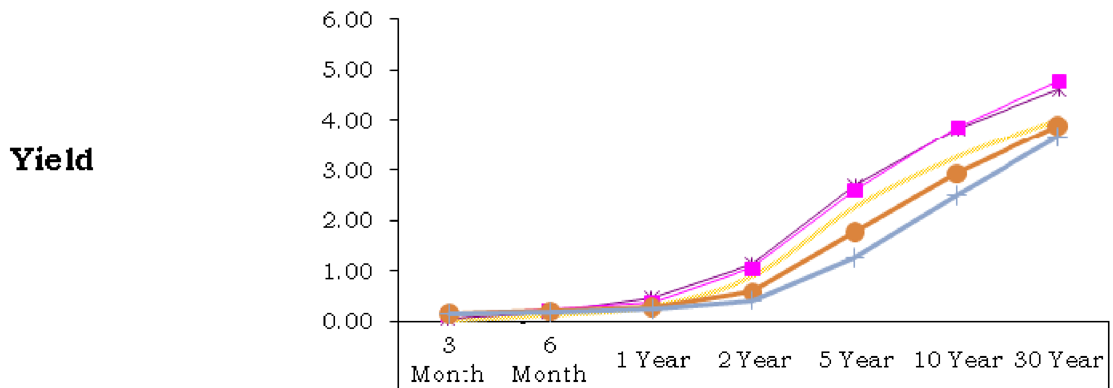
SECTION 2 – CAPITAL AND MONEY MARKET REVIEW

Financial markets were influenced by several factors during the third quarter 2010. These include the much anticipated second round of quantitative easing in the US, volatility in the currency market and concerns about sovereign credit rating downgrades. Most equity markets in developed economies posted strong returns during the quarter to recover from weak second quarter performances. The bulk of the third quarter return was generated in September 2010. The VIX Index, which is an indicator of volatility in the US equity markets, fell sharply in September to close the quarter at 23.70, compared with 34.54 at the end of June. The fixed income market also recorded positive returns for the quarter as treasury yields continued to decline. However, these returns were generally lower when compared with those of the previous quarter.

Fixed Income

The US yield curve exhibited a downward trend during the third quarter of 2010. The 10-year benchmark Treasury yield fell to 2.51 per cent from 2.93 per cent at the end of the second quarter. This decline reflected the expectation of further quantitative easing which increased the demand for these securities. By the end of the quarter, the treasury yield curve flattened with the spread between the US 2-year and US 10-year treasury yields declining to 209 basis points from 233 basis points at the close of June 2010.

Figure 1
US Treasury Yield Curve
/per cent/

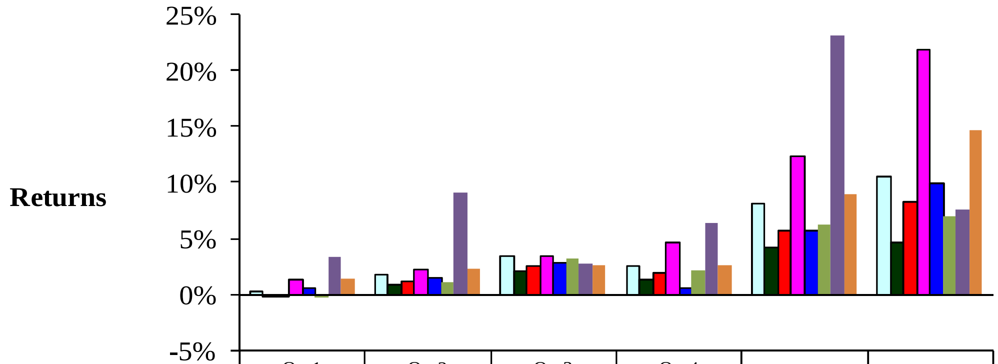


	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
September 30, 2009	0.05	0.17	0.34	0.95	2.31	3.31	4.05
December 31, 2009	0.06	0.20	0.47	1.14	2.69	3.85	4.63
March 31, 2010	0.15	0.23	0.39	1.06	2.60	3.87	4.77
June 30, 2010	0.17	0.22	0.31	0.60	1.77	2.93	3.89
September 30, 2010	0.15	0.19	0.25	0.42	1.26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

Returns for the third quarter of 2010 were positive for the various fixed income indices. The Bank of America/Merrill Lynch US Government Treasury 1 – 5 Year Index generated a return of 1.39 per cent compared with a return of 2.03 per cent in the previous quarter, while the broader US fixed income market, as represented by the Barclays US Aggregate Index, returned 2.51 per cent compared with a return of 3.51 per cent for the quarter ended June 2010. The Commercial Mortgage Backed Securities (CMBS) sub-index of the Barclays US Aggregate Index generated stronger returns during the third quarter to gain 6.41 per cent compared with 2.78 per cent in the previous quarter. Among the other sectors, Asset Backed Securities (ABS), US Corporate Investment Grade securities and US agency securities returned 2.51 per cent, 4.71 per cent and 1.90 per cent, respectively for the quarter ended September 2010.

In Europe, the movement in government bond yields was mixed over the quarter reflecting the differences in economic conditions in the various countries. The yield on German 10-year bonds fell to 2.28 per cent at the close of the quarter from 2.58 per cent at the end of June, while that on France's 10-year bonds dropped 39 basis points ending September at 2.66 per cent and that on the 10-year UK Gilt fell to 2.95 per cent, 41 basis points lower than the yield at the end of the previous quarter. By contrast, bond yields in several of the peripheral European economies exhibited a general upward trend during the third quarter. In Greece, 10-year government bond yields reached 11.35 per cent in August, but ended the quarter at 10.45 per cent, 3 basis points above the June 2010 level. In Ireland, rates on 10-year government bonds increased by 107 basis points during the quarter to reach 6.57 per cent by the end of September.

Figure 2
Returns on Fixed Income Indices
/per cent/



	Qtr 1 09/10	Qtr 2 09/10	Qtr 3 09/10	Qtr 4 09/10	FY 09/10	FY 08/09
Barclays U.S. Aggregate	0.20%	1.73%	3.51%	2.51%	8.16%	10.56%
ML U.S. Treasury 1-5 Years	-0.11%	0.88%	2.03%	1.39%	4.23%	4.59%
U.S. Agencies	-0.03%	1.19%	2.54%	1.90%	5.69%	8.21%
U.S. Corporate	1.35%	2.30%	3.42%	4.71%	12.27%	21.77%
U.S. MBS	0.58%	1.53%	2.87%	0.63%	5.71%	9.85%
G-7 Global Bonds (Hedged)	-0.29%	1.08%	3.18%	2.16%	6.23%	7.04%
CMBS Index	3.27%	9.11%	2.78%	6.41%	23.23%	7.56%
ABS Index	1.33%	2.22%	2.54%	2.51%	8.88%	14.68%

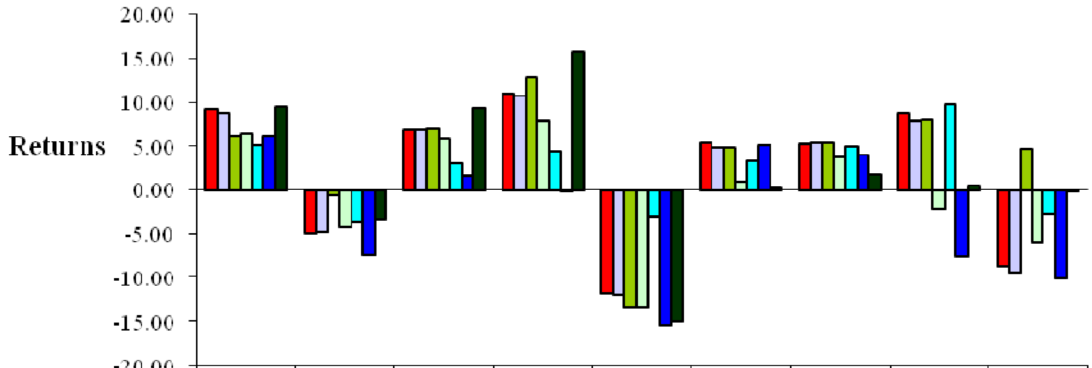
Equity Markets

Equity markets rebounded strongly during the three months to September 2010, after returning double-digit losses in the previous quarter. In the United States, investors appeared to have shrugged off fears about the sovereign debt situation in Europe as encouraging news regarding Europe's banks and economies bolstered the market. Early in the quarter, strong corporate earnings seemed to have rekindled investors' enthusiasm for stocks as equities performed creditably in July. However, renewed fears of a double-dip recession gained momentum in August causing US equities to decline over the month. In September, equities performed strongly amid some favourable economic data and increasing expectations that the FED will take additional measures to boost economic growth.

Large cap stocks as measured by the S&P 500 index gained 10.72 per cent during September quarter compared with a decline of 11.86 per cent in the prior three months. All ten sub-sectors of the S&P 500 Index generated positive returns, with seven sectors recording double-digit gains. Leading the way were the Telecommunication and Materials sub-sectors which advanced 19.10 per cent and 17.24 per cent, respectively. At the same time, the Russell 3000 Index, which measures the performance of the largest 3000 U.S. companies, posted a return of 11.53 per cent in the third quarter to almost offset the loss of 11.73 per cent in the previous three months.

The performance of equity markets in Europe, Australia and the Far East which is gauged by the MSCI EAFE index was also quite robust, showing an increase of 15.79 per cent during the third quarter of 2010 following a decline of 14.91 per cent in the second quarter. Equity markets in Europe advanced 18.87 per cent with the markets in Norway, Austria, Finland and Spain gaining in excess of 25 per cent over the quarter. European equities benefitted from the favourable results of the banks' stress tests and the capital and liquidity requirements from the Basel Committee which were less onerous than anticipated. All the other European equity markets generated positive returns with the exception of Ireland which dropped 4.05 per cent during the quarter.

Figure 3
Returns on Equity Indices
/per cent/

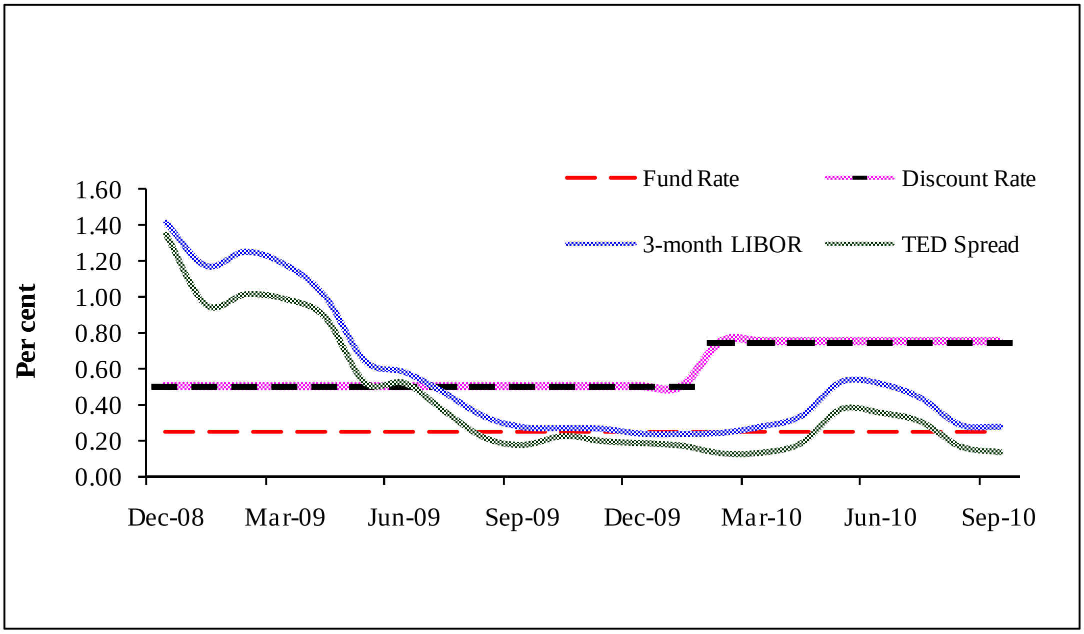


	Sep-10	Aug-10	Jul-10	Q4 09/10	Q3 09/10	Q2 09/10	Q1 09/10	FY 09/10	FY 08/09
Russell 3000	9.27	-4.91	6.82	10.99	-11.73	5.45	5.37	8.85	-8.64
S&P 500	8.76	-4.74	6.88	10.72	-11.86	4.87	5.49	7.96	-9.37
FTSE 100 - UK	6.19	-0.62	6.94	12.85	-13.43	4.93	5.43	8.08	4.72
CAC 40 - France	6.43	-4.18	5.82	7.91	-13.36	0.96	3.71	-2.11	-5.87
DAX 30 - Germany	5.13	-3.62	3.06	4.42	-3.06	3.29	4.97	9.76	-2.67
Nikkei 225 - Japan	6.18	-7.48	1.65	-0.14	-15.40	5.15	4.08	-7.54	-10.01
MSCI EAFE	9.49	-3.34	9.41	15.79	-14.91	0.22	1.80	0.53	-0.02

Money Market

Money market interest rates fell over the quarter as concerns over the European debt crisis eased and speculation grew that the Federal Reserve may resume monetary easing policies. The TED spread, which is the difference between the 3-month T-bill rate and 3-month London Inter Bank Offered Rate (LIBOR) narrowed to 14 basis points at the end of September from 36 basis points in June while the Fed Funds Target Rate remained unchanged at 0 to 25 basis points during the quarter. The movements in key short-term US money market rates for the period December 2008 to September 2010 are shown in figure 4.

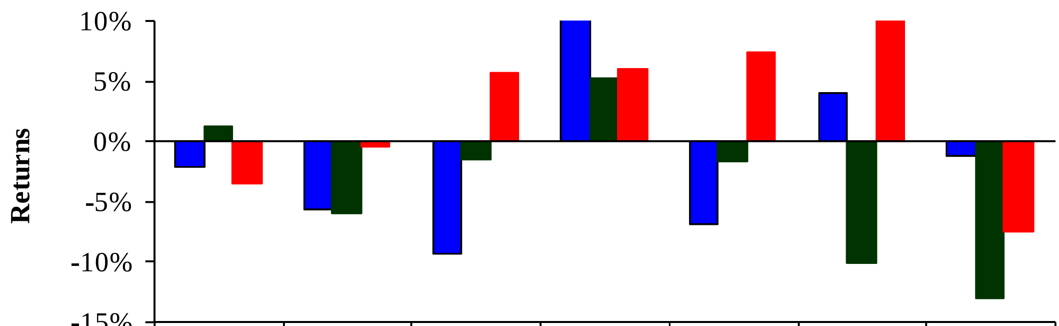
Figure 4
US Money Market Rates
/per cent/



Currency Markets

During the quarter, the US dollar depreciated against the major currencies including the Euro, Pound Sterling and the Yen. The currency markets reacted to the growing speculation that FED may embark on a second round of quantitative easing in an attempt to fuel the dwindling economic recovery. The Euro, Pound Sterling and Japanese Yen appreciated against the US Dollar by 11.42 per cent, 5.16 per cent and 5.87 per cent, respectively, to end the quarter vis-à-vis the US dollar at $1.3634, $1.5716 and ¥83.53, respectively.

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



	Qtr 1 09/10	Qtr 2 09/10	Qtr 3 09/10	Qtr 4 09/10	FY 09/10	FY 08/09	FY 07/08
EUR	-2.18%	-5.66%	-9.42%	11.41%	-6.87%	3.89%	-1.23%
GBP	1.18%	-6.10%	-1.57%	5.16%	-1.66%	-10.24%	-13.03%
JPY	-3.57%	-0.48%	5.70%	5.87%	7.39%	18.29%	-7.58%

SECTION 3 – PORTFOLIO PERFORMANCE

Strategic Asset Allocation (SAA)

As the portfolio continued to transition towards its Strategic Asset Allocation (SAA), US$306.4 million were transferred from the internally managed funds to the external managers on July 01 2010 consistent with the approved transition plan. Following the transfer and contributions during the quarter, 78 per cent of the Fund was managed by external managers as at the end of September while the remaining 22 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:

1) US Short Duration Fixed Income (25.0%)
2) US Core Domestic Fixed Income (40.0%)
3) US Core Domestic Equity (17.5%)
4) Non- US Core International Equity (17.5%)

The value of the aggregate portfolio (money market, fixed income and equity) at the end of September 2010 was US$3,622.0 million, up from US$3,083.4 million at the end of June 2010. During the period July to September 2010, the Government made cash contributions to the Fund on two occasions for a total of US$373.5 million. On the first occasion, the contribution amounted to US$223.8 million in respect of the second quarter of 2010 while the second contribution of US$149.7 million was deposited on September 30 for the third quarter of 2010.

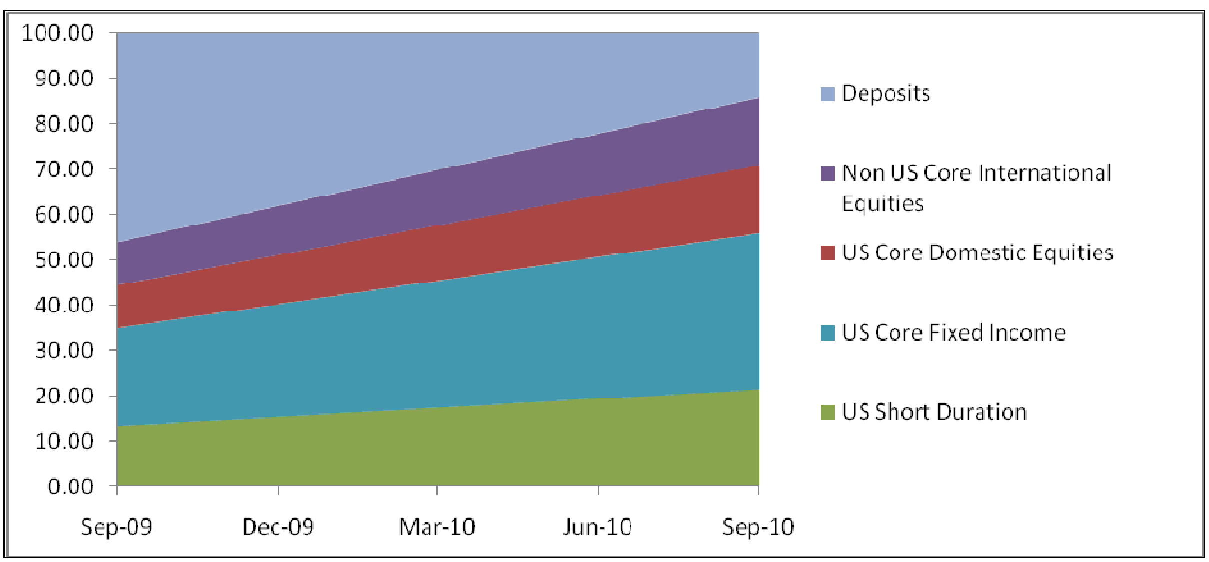
The Fund's target transition asset allocation and the portfolio weighting as at September 30 2010 are shown below in Table 2 and Figure 6.

Table 2
Portfolio Transition Towards Target SAA
/per cent/

	Asset Class	Mar-09		Jun-10		Sep-10	
		Target Transition SAA	Actual % of Fund	Target Transition SAA	Actual % of Fund	Target Transition SAA	Actual % of Fund
Portfolio Weights	US Fixed Deposits	30.00	27.55	22.00	23.97	14.00	22.26*
	US Short Duration Fixed Income	17.50	20.30	19.50	20.03	21.50	18.72
	US Core Domestic Fixed Income	28.00	28.00	31.20	31.30	34.40	30.55
	US Core Domestic Equity	12.25	12.45	13.65	12.47	15.05	13.57
	Non US Core International Equity	12.25	11.70	13.65	12.23	15.05	14.90

*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

Over the three months to September 2010, the Fund returned 5.33 per cent, the highest quarterly return since its inception in March 2007. This is compared with a benchmark's return of 5.08 per cent for the same period and a loss of 1.83 per cent in the previous quarter. This performance mainly reflected the double-digit returns generated by both the US equity and Non-US International equity portfolios which represent approximately 28 per cent of the total Fund's value. The Equity portfolio contributed 4.09 per cent to the quarter's return while the Fixed Income portion of the Fund which accounts for roughly 50 per cent of the aggregate portfolio, contributed 1.17 per cent. The remaining 22 per cent of the Fund which is held in Money Market deposits added 1 basis point to the quarterly return.

The US and Non-US equity portfolios collectively returned 14.25 per cent over the three month period to outperform their respective benchmarks by an average of 56 basis points. During the quarter, the US Core Domestic Equity portfolio gained 11.54 per cent, more than offsetting the loss of 11.33 per cent returned in the previous quarter. This mandate outperformed its benchmark – the Russell 3000 ex Energy Index – mainly as a result of stock selection. Given that all the sectors in the benchmark produced positive returns, additional returns from the overweight allocations to the Consumer Discretionary and Utilities sectors more than compensated for the lesser returns from the underweight allocation of stock to the Financial Services and Technology sectors. However, for the financial year ended September 30 2010, this mandate returned 10.79 per cent, to underperform its benchmark which returned 11.70 per cent. The market value of the US Core Domestic Equity Portfolios as at September 30 2010 was US$491.5 million.

The Non-US International Equity portfolio also posted a strong gain in the third quarter, completely reversing the loss of 12.26 per cent made in the earlier three months. This mandate generated an absolute return of 16.95 per cent to outperform the MSCI EAFE ex Energy benchmark by 92 basis points. The Non-US International Equity portfolio benefitted from country allocation and stock selection decisions. The decisions to overweight Sweden and Belgium added in excess of 30 basis points to outperformance while the primary benefit in Asia came from overweighting Hong Kong. Within the Japanese market, stock selection added roughly 22 basis points to excess returns. For the financial year ended September 30 2010, the portfolio returned was 5.51 per cent compared with 3.76 per cent for the benchmark. The market value of the Non-US Core International Equity mandate as at September 30 2010 was US$539.8 million.

On the fixed income side, the US Core Fixed Income mandate was the better performer between the two fixed income mandates. This portfolio returned 2.67 per cent in the three months to September 2010 to outperform its benchmark - the Barclays US Aggregate Index - by 18 basis points. Contributing to this outperformance was the portfolio's underweight exposure to Agency MBS relative to the benchmark as these securities underperformed duration-adjusted Treasuries over the quarter. This resulted from the FED's decision to reinvest mortgage paydowns into Treasuries, which contributed to a weaker tone in the Agency MBS sector. For the financial year ended September 30 2010, this mandate returned 8.66 per cent compared with 8.17 per cent for the benchmark. The value of this portfolio as at September 30 2010 was US$1,106.5 million.

The other fixed income mandate - the US Short Duration Fixed Income portfolio – returned 1.36 per cent over the quarter ended September 2010 compared with 1.33 per cent for the Bank of America Merrill Lynch 1-5 year US Treasury benchmark. This outperformance was attributed to the overweight allocation to foreign government securities and agency notes. The spreads on these securities versus US Treasuries narrowed over the quarter. However, some of the excess returns were lost due to the slightly shorter duration of the portfolio relative to the benchmark. This positioning had a small negative impact on performance as Treasury yields declined during the quarter. For the financial year ended September 30 2010, this portfolio returned 4.30 per cent compared with 4.25 per cent for the benchmark. The market value of the US Short Duration Fixed Income portfolio as at September 30 2010 was US$678.1 million.

In absolute terms, the Money Market portion of the Fund returned 6 basis points during the quarter to outperform the LIBID benchmark by 2 basis points. The 12-month return to September 30 2010 was 23 basis points compared with 16 basis points for the benchmark. The value of these deposits as at September 30 2010 was US$806.2 million.

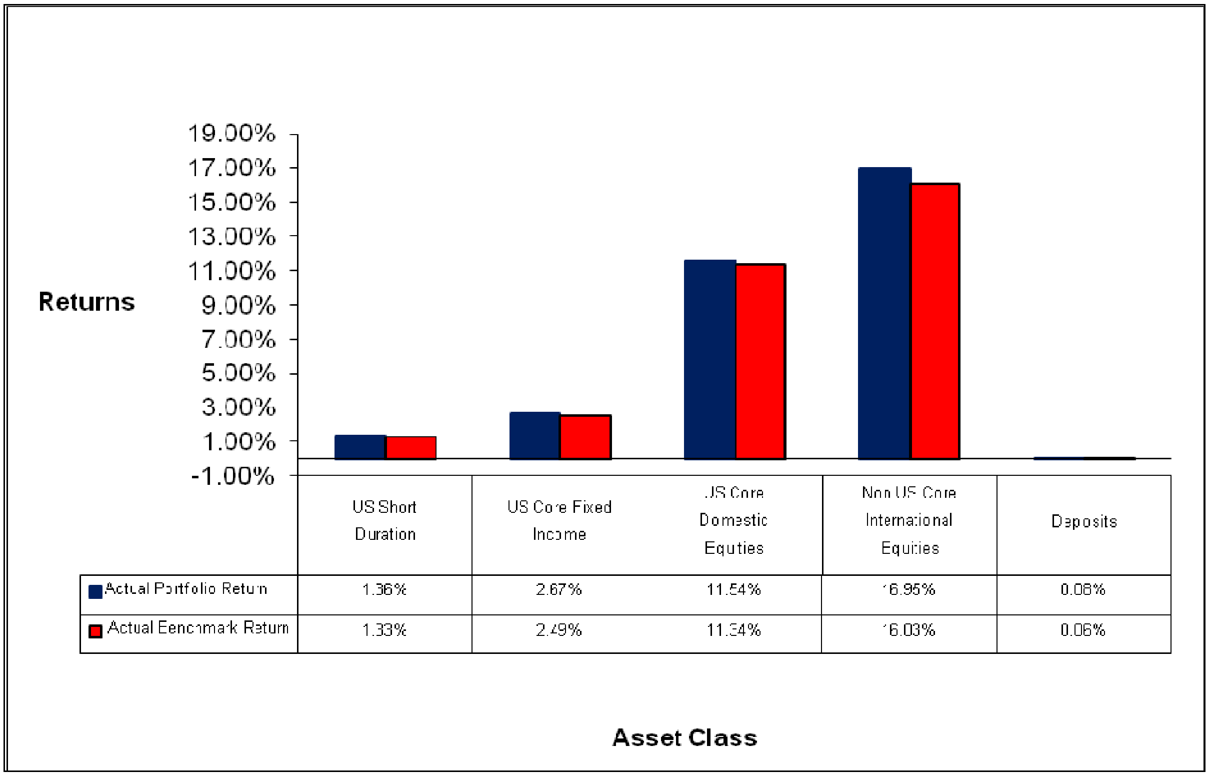
Table 3
Contribution to Quarterly Return
/per cent/

	Weighting as at September 30th 2010	Weighted Return** HSF	Weighted Return** Benchmark	Excess Return**	FYTD* Weighted Return HSF	FYTD Weighted Return Benchmark	FYTD Excess Return
Composite Portfolio	100.00	5.33	5.08	0.25	6.07	5.75	0.32
Money Market	22.26	0.01	0.01	0.00	0.06	0.04	0.02
US Core Domestic Fixed Income	18.72	0.89	0.83	0.06	2.44	2.36	0.08
US Core Domestic Equity	30.55	1.60	1.57	0.03	0.87	0.86	0.01
Non US Core International Equity	13.57	2.45	2.32	0.13	1.51	1.33	0.18
US Short Duration Fixed Income	14.90	0.28	0.27	0.01	1.09	1.05	0.04

*FYTD - Financial Year to Date (September 2009 to October 2010).

** Returns are for the period July 2010 to September 2010.

Figure 7
Absolute Returns by Asset Class
July 2010 – September 2010



SECTION 4 –COMPLIANCE AND PORTFOLIO RISKS

Compliance

During the quarter ended September 30 2010, there was one breach of the Investment Guidelines involving an over-allocation to the consumer discretionary sector by one of the managers. This breach occurred as a result of the manager using a different classification system from that stipulated in the Investment Management Agreement. This issue was resolved 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 4 below shows the Average Credit Quality of the US Short Duration and US Core Fixed Income Portfolios as at September 30 2010.

Table 4
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. By the end of 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 5 shows the Fund’s US Short Duration and US Core Domestic Fixed Income duration limits as at September 30 2010.

Table 5
Weighted Average Duration
/Years/

Mandate	Portfolio	Benchmark
US Short Duration	2.44	2.55
US Core Domestic Fixed Income	4.38	4.33

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 September 2010, the value of the currency hedge was zero.

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 2007									
March	0.23	0.23	0.30						
June	1.32	1.31	1.04						
September	1.38	1.37	0.52	**2.96**	**2.94**	**1.89**	**5.47**	**5.44**	**3.50**
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**	**3.87**	**3.90**	**-3.46**

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 15th, 2007	1,402,178,155	0	0	
March 31st, 2007	1,405,448,567	3,270,412	3,270,412	
June 30th, 2007	1,424,094,965	18,646,398	21,916,810	
September 30th, 2007	1,766,200,701	20,301,027	41,966,361	321,706,043
December 31st, 2007	1,788,304,749	22,204,785	64,035,501	
March 31st, 2008	1,804,531,743	16,631,853	80,514,798	
June 30th, 2008	1,997,251,772	13,715,988	93,124,304	180,210,617
September 30th, 2008	2,888,421,556	15,341,508	110,379,131	873,963,840
December 31st, 2008	2,909,717,167	16,296,264	131,638,985	
March 31st, 2009	2,911,075,318	4,492,667	133,066,161	
June 30th,2009	2,912,040,600	3,621,489	133,909,143	
September 30th, 2009	2,964,686,478	11,397,337	186,755,766	
December 31st, 2009	2,992,717,167	19,444,496	214,699,141	
March 31st, 2010	3,038,173,194	17,674,928	259,925,615	
June 30th, 2010	3,083,272,124	23,694,244	199,004,184	103,843,621
September 30th, 2010	3,621,984,041	27,568,267	364,361,226	373,500,642

Appendix III
Summary Characteristics of Composite Benchmarks

Fixed Income Benchmarks

Key Characteristics	Barclays US Aggregate Index	Merrill Lynch 1-5 Index
Total Holdings	8,152	99
Coupon (%)	4.39	2.27
Duration (Years)	4.35	2.55
Average Life (Years)	6.03	2.65
Yield to Maturity (%)	2.39	0.61
Option Adjusted Spread (bps)	69	1
Average Rating	AAA	AAA

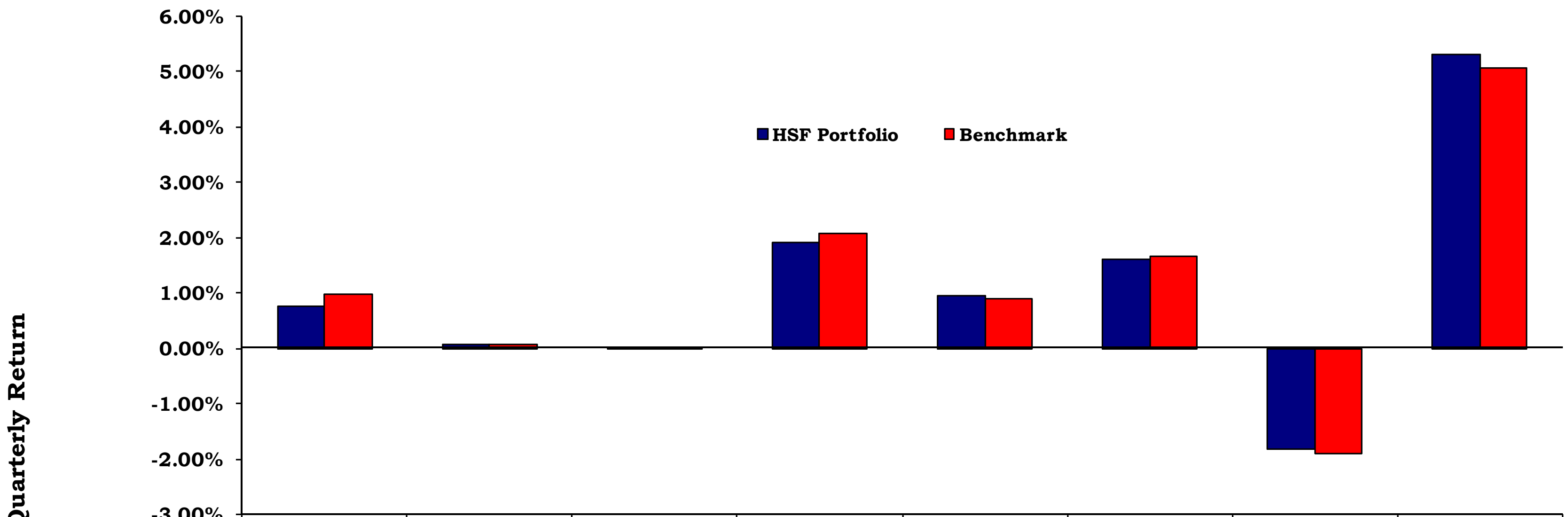
Equity Benchmarks

Key Characteristics	Russell 3000 (ex energy)	MSCI EAFE (ex energy)
Total Holdings	2,773	918
Earnings Per Share (EPS Growth 3-5y fwd) (%)	9.20	14.59
Price Earnings (P/E fwd)	13.70	15.21
Price / Book (P/B)	2.10	2.66
Market Capitalization (Bn)	\$7.7	\$46.0

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

	December 2009	March 2010	June 2010	September 2010
Total Fund Value	**2,992**	**3,039**	**3,083**	**3,622**
Total Value of Equity	**664**	**770**	**761**	**1,031**
US Core Domestic Equity	337	398	384	491
Non-US Core International Equity	327	372	377	540
Total Value of Fixed Income	**1,304**	**1,451**	**1,583**	**1,785**
US Short Duration Fixed Income	436	606	618	678
US Core Domestic Fixed Income	708	845	965	1,107
US Treasury Portfolio	160	0	0	0
Total Value of Cash or Cash Equivalents	**1,024**	**818**	**739**	**806**

Appendix V
HSF Portfolio Quarterly Returns
/per cent/



	FY2009 Q1	FY2009 Q2	FY2009 Q3	FY2009 Q4	FY2010 Q1	FY2010 Q2	FY2010 Q3	FY2010 Q4
HSF Portfolio	0.762%	0.078%	0.024%	1.917%	0.959%	1.613%	-1.833%	5.326%
Benchmark	0.987%	0.071%	0.031%	2.063%	0.893%	1.675%	-1.894%	5.079%

Quarter