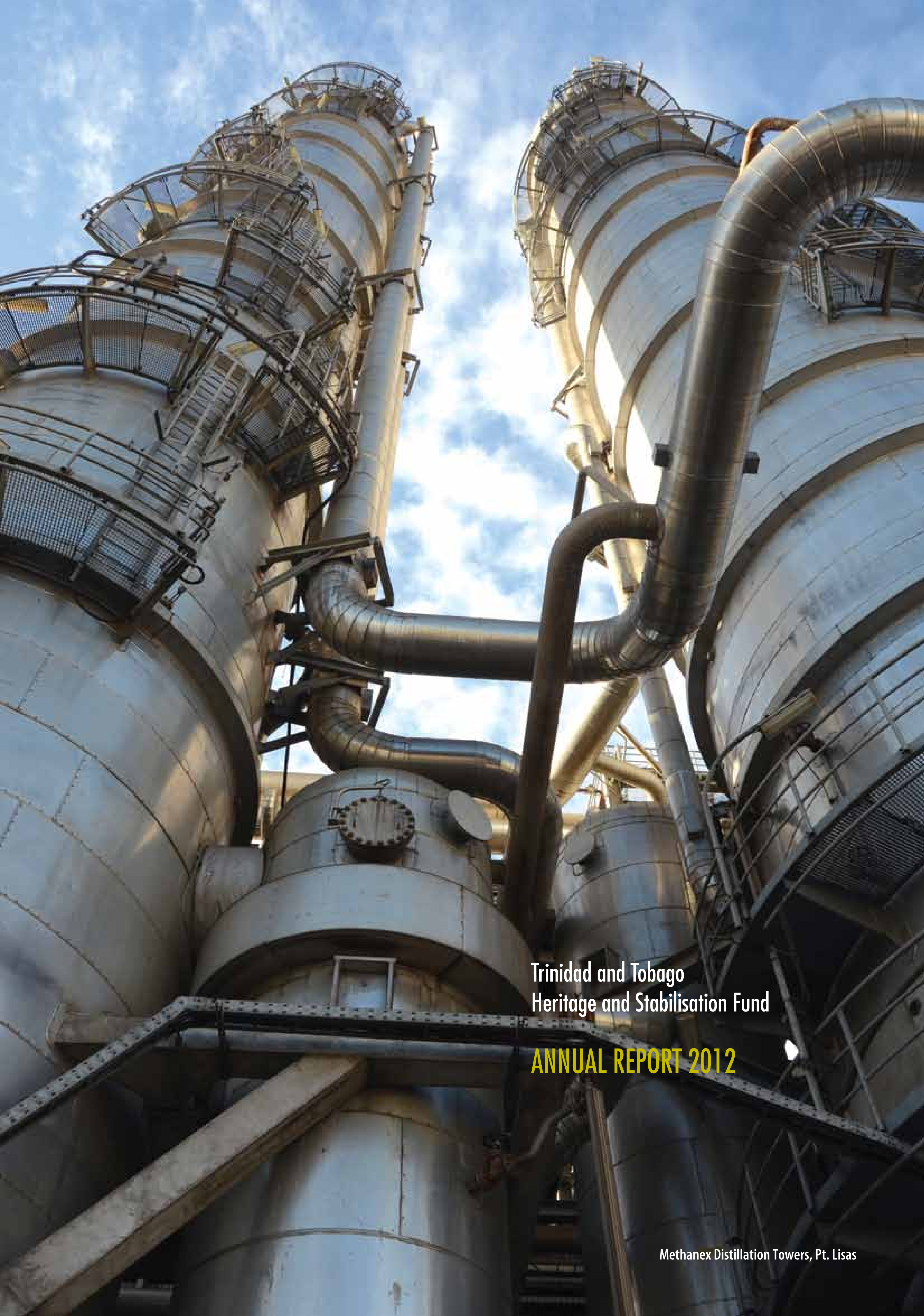
Trinidad and Tobago
Heritage and Stabilisation Fund

ANNUAL REPORT 2012



Trinidad and Tobago
Heritage and Stabilisation Fund

ANNUAL REPORT 2012

Methanex Distillation Towers, Pt. Lisas

PURPOSE

The Heritage and Stabilisation Act, No. 6 of 2007 (hereinafter called "the Act") established the Heritage and Stabilisation Fund (hereinafter called "the Fund") with effect from March 15, 2007. The Fund's primary purpose is to save and invest surplus petroleum revenues derived from production business in order to achieve the following objectives:

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

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

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

TRINIDAD AND TOBAGO
HERITAGE AND STABILISATION FUND • Annual Report 2012

Contents

BpTT Savonette Platform

Chairman's Foreword


Avyann Ferguson
Chairman

Over the financial year 2011/2012 the Fund fully deployed its Strategic Asset Allocation (SAA) Programme, the composition of which was designed to take advantage of the relative safety of fixed income financial assets whilst simultaneously mollifying the effects of volatile equity markets. This is precisely aligned with the Fund's objective to turn a non-renewable resource into an investment vehicle that would provide steady returns for the citizens of Trinidad and Tobago in both the present and future years-.

The Fund's fixed income and equity portfolios both posted strong returns over the period, resulting in an overall impressive return of 10.73 per cent for the financial year ended September 30, 2012. This return was some 55 basis points higher than the Fund's composite benchmark and significantly higher than the 0.79 per cent return for the period ended September 30, 2011. The return over the period is significantly higher than the average annualized return of 5.38 per cent since the inception of the Fund and also has the distinction of being the largest return for the Fund since its inception.

The growth witnessed over the past year has been due to both deposits, which caused the Fund to have more capital available for investment; as well as a successful investment strategy, which allowed the Fund to capitalize on the rebound in global equity markets. Oil and gas prices remained higher than budgeted throughout 2011/2012, spurring three deposits during the financial year 2012 totaling US$207.5 million in keeping with the Fund's statutory requirements. This compares with the US$451.4 million deposited to the Fund during the previous financial year. As a result the Fund ended the financial year 2011/2012 with a net asset value of US$4,712.3 million, up from US$4,084 million for the year ended 2010/2011.

During the year the Board continued its work on the Review of the Fund, as mandated by the Act, and met with all major stakeholders to obtain key feedback and opinion in our effort to determine the way forward. It is expected that when this process is complete the Fund's governance structure and administrative functions would be improved, the benefits of which would continue to redound to the citizens as ultimate stakeholders in this institution.

Towards the end of the financial year, the Board saw the addition of two new members: Messrs. Jwala Rambarran and Ramcharan Kalicharan. Mr. Rambarran, as incoming Governor of the

Chairman's Foreword

Central Bank of Trinidad and Tobago replaced the former Central Bank Governor Ewart Williams. Mr. Ramcharan Kalicharan, is an accomplished investment manager in his own right, with over thirteen years' experience in the finance industry.

These additions have been timely as the Board was engaged a myriad of activities geared towards the Review of the guiding overarching legislation, in respect of which the critical input and direction from our new Governors was valuable. In this regard, we would also like to formally acknowledge and thank Mr. Ewart Williams and Mrs. Enid Zephyrine, who retired from the Board in July 2012 and November 2012 respectively. The yeoman service of former Central Bank Governor Mr. Ewart Williams from the Fund's inception and Mrs. Zephyrine assisted the Board greatly as the Board benefitted from their considerable experience and recommendations throughout the deliberations of the Board..

As we move forward to the New Financial Year, I would like to extend my sincere thanks to the Minister of Finance, fellow Governors of the Board and all Stakeholders who have provided tremendous support and continued contribution to the development of the Fund.

Ms. Avyann Ferguson
Chairman

Board of Governors

Avyann Ferguson
Chairman

Jwala Rambarran

Anushka Alcazar

Ramcharan Kalicharan

Alison Lewis

Board of Governors

Ms. Avyann Ferguson	Chairperson *Banker/Attorney-at-Law*
Mr. Jwala Rambarran	Member *Governor - Central Bank of Trinidad and Tobago*
Mrs. Anushka Alcazar	Member *Human Resources Consultant*
Mrs. Enid Zephyrine	Member *Director - Ministry of Finance and the Economy*
Mr. Ramcharan Kalicharan -	Member *Finance/Investment Specialist*

Board Secretariat

Mr. Michael L. Raymond	*Economic Policy Analyst,* *Ministry of Finance assigned to perform duties as* *Corporate Secretary*

Governance

Petrotrin Isomerization Plant

Governance

The Board of Governors

The Heritage and Stabilisation Fund Act provides that the Fund be governed by a Board of Governors who under section 9 shall perform the following duties:

- The Board shall determine the governance structure and the operational guidelines of the Fund
- The Board decides on the investment objectives and approves the manner in which the funds are to be strategically allocated and invested based on prudential standards used by the Central Bank.

Principally, the Board has, inter alia, the responsibility for the management of the Fund. This notwithstanding, section 10 of the Act, enables the Board to delegate its management responsibility to the Central Bank of Trinidad and Tobago. In December 2008, the Board of Governors delegated the management of the Fund to the Central Bank in keeping with the terms and conditions of delegation responsibility provided for in the legislation. The Board maintains oversight of the investment strategy and function through receipt of quarterly and annual investment reports. Following review by the Board, these reports on the operation and performance of the Fund are submitted to the Minister of Finance.

The Management of the Fund

- The Central Bank is responsible for the day-to-day management of the Fund (to meet Investment Objectives as approved by the Board
- The Central Bank reports quarterly and annually to the Board on the performance of the Fund
- The Schedule to the Act details the responsibilities of the Central Bank including but not limited to the management and investment of assets and other resources of the Fund.

The Minister of Finance

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

*DEPOSITS AND WITHDRAWALS

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

Deposits

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

Quantum:

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

Timing:

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

Governance

Withdrawals

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

Quantum:

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

Limitations on Withdrawals

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

The Trinidad and Tobago Parliament

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

Overview of Activities

Overview of Activities

Reports to Parliament

The Audited Financial Statements for the period ending September 30, 2011 were presented to the Parliament in March, 2012. The 2011 Annual Report for the corresponding period was laid in Parliament simultaneously.

Public Accounts Committee

The Board appeared before the Public Accounts Committee of Parliament in March and April 2012. During the public hearing, the Board fielded questions from the Committee on the Audited Financial Statements of the Fund for the years ended September 30, 2008, 2009 2010 and 2011.

Deposits to the Fund

The Fund began the fiscal year with a Net Asset Value of US$4,084 million. In keeping with the HSF Act, the Government made three deposits to the Fund as follows:

- US$26.2 million was deposited for the quarter ending in March;
- US$69.4 million was made in respect of the June quarter; and
- US$111.9 million was made on September 28, 2012.

For fiscal year 2012, a total of US$207.5 million was deposited to the Fund.

HSF Review

As per Section 22 of the HSF Act, the Board continued with its activities geared to the Review of the Fund. During the year, consultation with key stakeholders continued with the Board actively engaging with: the Ministry of Finance, the Central Bank, the Ministry of Energy, the International Monetary Fund, the World Bank and representatives of private sector finance and energy companies to obtain feedback on the structure and administration of the Fund over the five-year period since inception. Discussions were key to assess the efficacy of the existing legislation and garnering proposals for policy changes moving forward.

Membership of the IFSWF

The HSF became a member of the International Forum of Sovereign Wealth Funds (IFSWF) in May 2012. The IFSWF is a voluntary group of Sovereign Wealth Funds, such as the HSF, which meet to exchange views on issues of common interest, and facilitate an understanding of the Santiago Principles and SWF activities. The Santiago Principles are generally accepted governance principles for SWFs, which were finalized in 2008.

Governance

The Board of Governors of the HSF met all legal and statutory requirements in the discharge of its function and maintained its governance oversight as required by law during the review period.

Petrotrin Water Treatment Plant

Investment Report

Atlantic Facility, Point Fortin

Investment Report

Executive Summary

The financial year 2011/2012 represented a milestone for the Heritage and Stabilisation Fund which posted double-digit returns for the first time in its five and a half years of existence. This robust performance reflected the rebound in global equity markets and was generated in an environment that was characterized by considerable volatility due to the sovereign debt crisis in Europe and weaker global growth. These developments made investors wary about the prospects for the global economy and contributed to severe strains in financial markets.

As market tension rose, some relief was provided through monetary policy actions by the major central banks. Further easing of financial stress and widespread optimism occurred following the European Central Bank (ECB) President Mario Draghi's statement in late July 2012, that the ECB is "ready to do whatever it takes to preserve the Euro." The short-lived effects of policy measures during the financial year resulted in the re-emergence of uncertainty, while the release of weaker-than-anticipated economic data dampened investors' enthusiasm. Given the increased risk to growth, the central banks of the advanced economies all maintained an accommodative monetary policy stance in financial year 2011/2012.

For financial year 2011/2012, the Fund returned 10.7 per cent, compared with gains of 10.2 per cent for the strategic asset allocation (SAA) benchmark and 0.8 per cent for the previous financial year. The equity portion of the Fund contributed approximately 7.7 per cent to the total return, while the remaining 3 per cent came from the fixed income holdings. Among the four mandates, the US Core Domestic Equities had the strongest performance, producing an absolute return of 31.4 per cent. The Non-US International Equity portfolio also posted a solid gain of 14.1 per cent.

As at the end of September 2012, the Fund's Net Asset Value stood at US$4,712.4 million, up from US$4,084 million as at the end of September 2011. During the financial year, the Government made three contributions to the Fund totaling US$207.5 million.

Investment Report

Macroeconomic Environment

The global economic recovery suffered several setbacks in 2012, mainly on account of the fiscal and banking sector challenges facing several countries in the Euro Area, particularly Greece and Spain. The ongoing challenges have not only threatened the stability and survival of the European Monetary Union, but have posed significant contagion risks to growth in both developed and emerging economies. These developments led to increased financial stress causing the major central banks to adopt various policy measures throughout the year, aimed at stabilising financial market sentiments and stimulating economic growth. In its October World Economic Outlook, the International Monetary Fund (IMF) lowered its projection for global growth in 2012 and 2013 to 3.3 per cent and 3.6 per cent, respectively. It is now forecasting that the emerging economies will grow by 5.3 per cent in 2012, while in the advanced economies, activity is projected to expand by 1.3 per cent.

The **United States (US)** economy continued its moderate pace of recovery during 2012, despite concerns about the looming fiscal cliff and the US Presidential elections. According to the IMF, economic activity in the US is forecast to increase by 2.2 per cent in 2012, a faster pace when compared with economic growth of 1.8 per cent in 2011. There was some improvement in labour market conditions as the gain in nonfarm payroll employment was slightly higher, but the unemployment rate remained elevated at 7.9 per cent in October 2012. Since mid-2012, the US housing market has shown a better-than-anticipated performance, which to a large extent, reflected the historically low rates offered on mortgage loans. Meanwhile, consumer prices trended downwards, measuring 2.2 per cent in October 2012, compared with 3.5 per cent one year earlier. Given that inflation has remained relatively subdued, the Federal Reserve left the target range for the federal funds rate unchanged at 0 to 0.25 per cent and indicated that the economic conditions are likely to warrant exceptionally low interest rate levels until mid-2015.

In an effort to promote a stronger economic recovery, the Federal Reserve adopted other monetary policy measures during 2012 including the continuation of its "Operation Twist" programme for an additional six months and the commencement of a new round of quantitative easing, which involves the purchases of agency mortgage-backed securities at a pace of US$40 billion per month.

In the **Euro zone**, the ongoing sovereign debt crisis and banking sector funding pressures fuelled uncertainty in financial markets and dampened business and consumer confidence. These challenges caused the major international rating agencies to lower the credit rating of a number of countries and financial institutions and much of the attention for the year focused on Greece and Spain. In February 2012, the Euro zone finance ministers approved a EUR 130 billion bailout package for Greece, while Spain is expected to make a formal request for financial assistance to recapitalize its banking sector. Economic conditions remained weak in the Euro zone where GDP contracted for a second consecutive quarter in September 2012 and is forecast to decline by 0.4 per cent for 2012. The region's strongest economy, Germany was projected to grow by 0.9 per cent in the 12 months to December 2012. Euro area employment and manufacturing indicators were also disappointing as labour market conditions worsened and manufacturing activity declined for the fourteenth consecutive month in September 2012. The unemployment

Investment Report

rate rose to unprecedented levels, reaching 11.6 per cent in September 2012, up from 10.3 per cent one year earlier. Among the member states, Spain and Greece recorded the highest unemployment rates which were in excess of 25 per cent.

Against this backdrop, the European Central Bank (ECB) implemented a series of policy measures throughout the year aimed at preserving the euro, averting a rapid escalation of the crisis and stimulating growth. Some of these actions included the lowering of policy rates, injecting liquidity to ease bank funding pressures, and the buying of short-term government bond through the "Outright Monetary Transactions" (OMT) programme. This programme is geared towards reducing the borrowing costs of highly indebted Euro zone member states. While these policy measures alleviated tensions in some financial markets, their effects were generally short-lived as they failed to fully boost business confidence in the region.

According to the IMF, real GDP in the **United Kingdom** (UK) is projected to contract by 0.4 per cent in 2012. However, the latest available GDP data indicated that the economy came out of recession during the third quarter of 2012, when it expanded by 1 per cent, following contractions in the prior three quarters. This expansion reflected in part, activities related to the Summer Olympic Games. In the manufacturing sector, output continued to contract as production and new export orders declined. Meanwhile, inflationary pressures eased gradually in 2012, measuring 2.7 per cent in the twelve months to October, compared with 5 per cent for the corresponding period in 2011. In an effort to stimulate the economy, the Bank of England kept its benchmark interest rate low at 0.5 per cent and increased the size of its asset purchase programme by GBP 50 billion on two occasions during 2012.

In **Japan**, real GDP contracted by 0.9 per cent in the third quarter of 2012 after expanding during the prior two quarters. This downturn resulted from weak consumer spending and the fall-off in overseas demand. Indicators of industrial and manufacturing activities also declined sharply during the September 2012 quarter. In addition, the economy experienced falling consumer prices for the fourth consecutive month in September 2012. Given the economic and price developments, the Bank of Japan maintained an accommodative monetary stance throughout the year.

Investment Report

Table 1

**GDP GROWTH: SELECTED DEVELOPED ECONOMIES
QUARTER OVER QUARTER**

/PER CENT/

PERIOD	US*	EURO ZONE	UK	JAPAN
Mar-09	-5.3	-2.8	-1.5	-4.0
Jun-09	-0.3	-0.3	-0.2	1.5
Sep-09	1.4	0.4	0.4	0.2
Dec-09	4.0	0.4	0.4	1.7
Mar-10	2.3	0.5	0.6	1.3
Jun-10	2.2	1.0	0.7	1.2
Sep-10	2.6	0.4	0.6	1.1
Dec-10	2.4	0.3	-0.4	-0.3
Mar-11	0.1	0.6	0.5	-2.1
Jun-11	2.5	0.2	0.1	-0.5
Sep-11	1.3	0.1	0.5	2.3
Dec-11	4.1	-0.3	-0.4	-0.3
Mar-12	2.0	0.0	-0.3	1.3
Jun-12	1.3	-0.2	-0.4	0.1
Sep-12	2.0	-0.1	1.0	-0.9

Source: Bloomberg. *US Data are annualised.

Investment Report

Table 2

UNEMPLOYMENT AND INFLATION RATES:
SELECTED DEVELOPED ECONOMIES UNEMPLOYMENT RATES

/PER CENT/

PERIOD END	US	EURO ZONE	UK	JAPAN
Mar-09	8.7	9.3	7.1	4.8
Jun-09	9.5	9.6	7.8	5.2
Sep-09	9.8	9.9	7.9	5.3
Dec-09	9.9	10.1	7.8	5.2
Mar-10	9.8	10.1	8.0	5.1
Jun-10	9.4	10.1	7.9	5.1
Sep-10	9.5	10.1	7.7	5.1
Dec-10	9.4	10.1	7.8	4.9
Mar-11	8.9	9.9	7.8	4.7
Jun-11	9.1	9.9	7.9	4.7
Sep-11	9.0	10.3	8.3	4.2
Dec-11	8.5	10.7	8.4	4.5
Mar-12	8.2	11.0	8.2	4.5
Jun-12	8.2	11.4	8.0	4.3
Sep-12	7.8	11.6	7.8	4.2

Source: Bloomberg

Investment Report

INFLATION RATES
YEAR-ON-YEAR

/PER CENT/

PERIOD END	US	EURO ZONE	UK	JAPAN
Mar-09	-0.4	0.6	2.9	-0.3
Jun-09	-1.4	-0.1	1.8	-1.8
Sep-09	-1.3	-0.3	1.1	-2.2
Dec-09	2.7	0.9	2.9	-1.7
Mar-10	2.3	1.4	3.4	-1.1
Jun-10	1.1	1.4	3.2	-0.7
Sep-10	1.1	1.8	3.1	-0.6
Dec-10	1.5	2.2	3.7	0.0
Mar-11	2.7	2.7	4.0	-0.5
Jun-11	3.6	2.7	4.2	-0.4
Sep-11	3.9	3.0	5.2	0.0
Dec-11	3.0	2.7	4.2	-0.2
Mar-12	2.7	2.7	3.5	0.5
Jun-12	1.7	2.4	2.4	-0.2
Sep-12	2.0	2.6	2.2	-0.3

Source: Bloomberg.

Investment Report

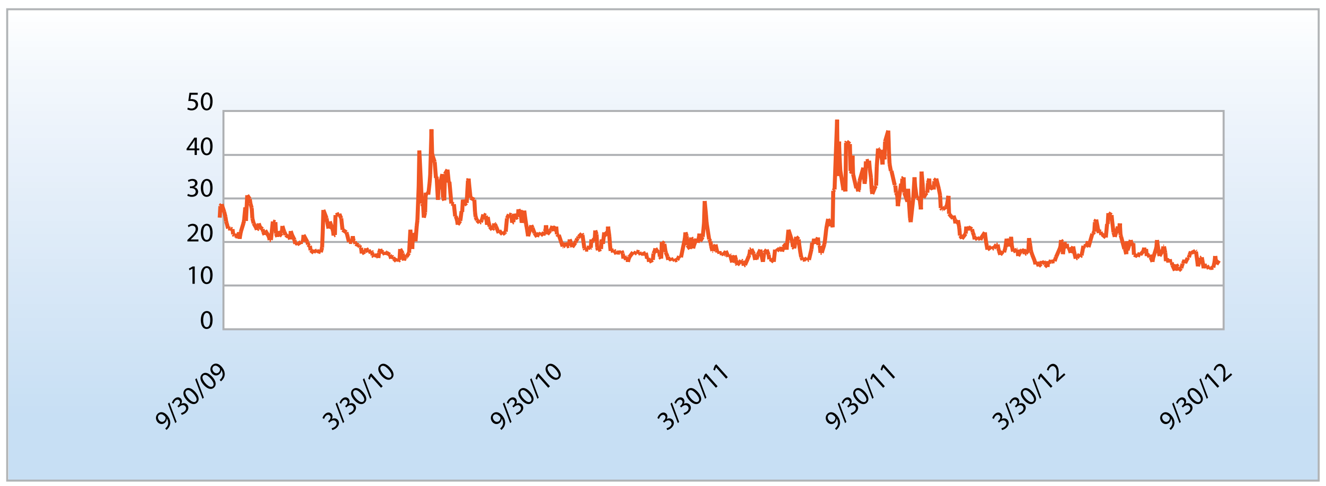
Financial Market Review

Developments in the global financial markets revolved around the Euro area sovereign debt crisis and the deceleration in economic recovery. At the start of financial year 2011/2012, a clear pattern emerged, whereby, political uncertainty and difficulties in meeting fiscal targets in a recessionary environment, pushed sovereign bond yields higher in some Euro zone countries. This highly volatile period spurred the ECB to take policy actions which partially calmed financial markets. Subsequently, investor scepticism over the adequacy of monetary actions contributed to another bout of increases in some governments' borrowing cost, leading investors to increase their demand for assets in "safe-haven" nations. Further monetary stimulus measures by the ECB and other major central banks during the second half of the financial year, eased tensions in financial markets once again, and provided the impetus for increased investor confidence which spurred double-digit returns in relatively riskier assets. As such, the credit-sensitive sectors of the fixed income market and equity securities posted strong returns.

The Chicago Board Options Exchange Volatility Index (VIX), which is a widely used measure of market risk and is often referred to as the "investor fear gauge", indicated that volatility in the US exhibited a gradual downward trend during the financial year despite increasing during the quarter ending June 2012. The VIX index fell to 15.7 points at the end of September 2012, from 42.9 points at the beginning of the financial year. However, over the twelve months to September 2012, the change in volatility was less evident as the Index averaged 21.1 points, compared with 21.5 points for the corresponding period one year earlier. (Chart 1).

Chart 1

VIX Index



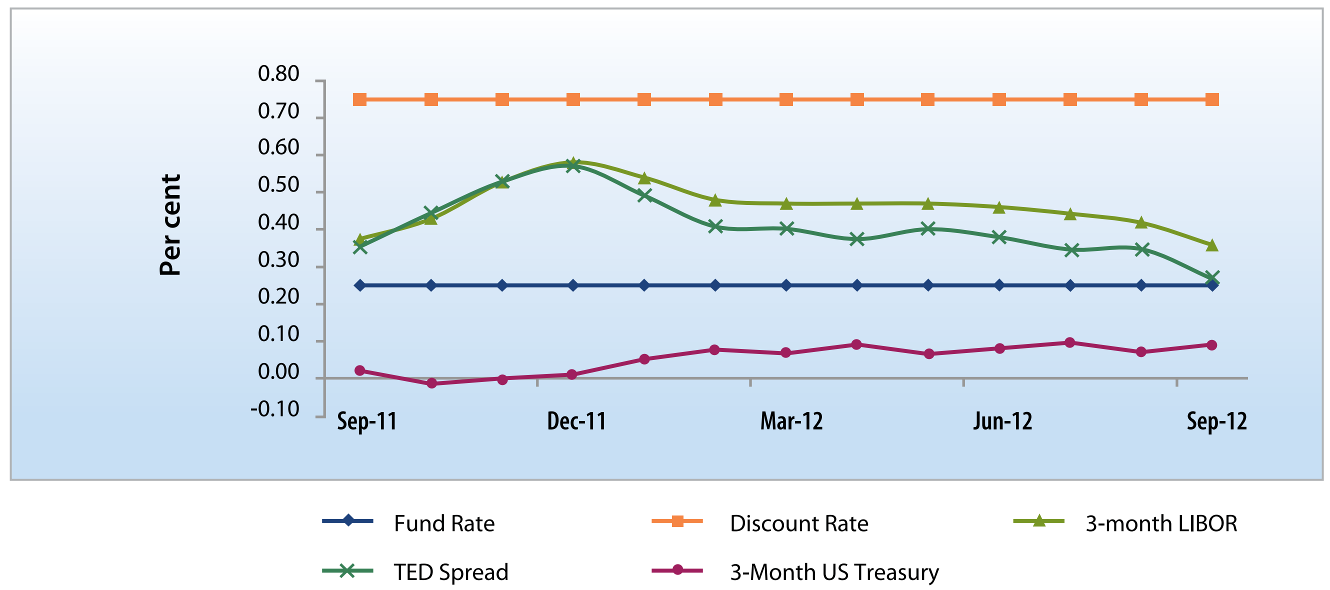
Investment Report

(a) Money Market

Money market yields remained relatively low over the financial year ended September 2012 given the accommodative monetary policy stance by central banks in the advanced economies. The Federal Funds rate remained in the range 0 to 0.25 per cent for the entire twelve-month period. Other short-term rates exhibited mixed movements. The US 3-month London Inter-Bank Offered Rate (LIBOR) declined marginally to 0.36 per cent, from 0.37 per cent in September 2011, whereas the US 3-month Treasury bill rate rose by 7 basis points to 0.09 per cent at the end of September 2012. Accordingly, the TED spread, which represents the difference between the 3-month US Treasury bill rate and the 3-month LIBOR rate, narrowed to 26 basis points from 35 basis points at the end of the financial year 2011/2012 (Chart 2).

Chart 2

Selected Money Market Rates in the US
per cent



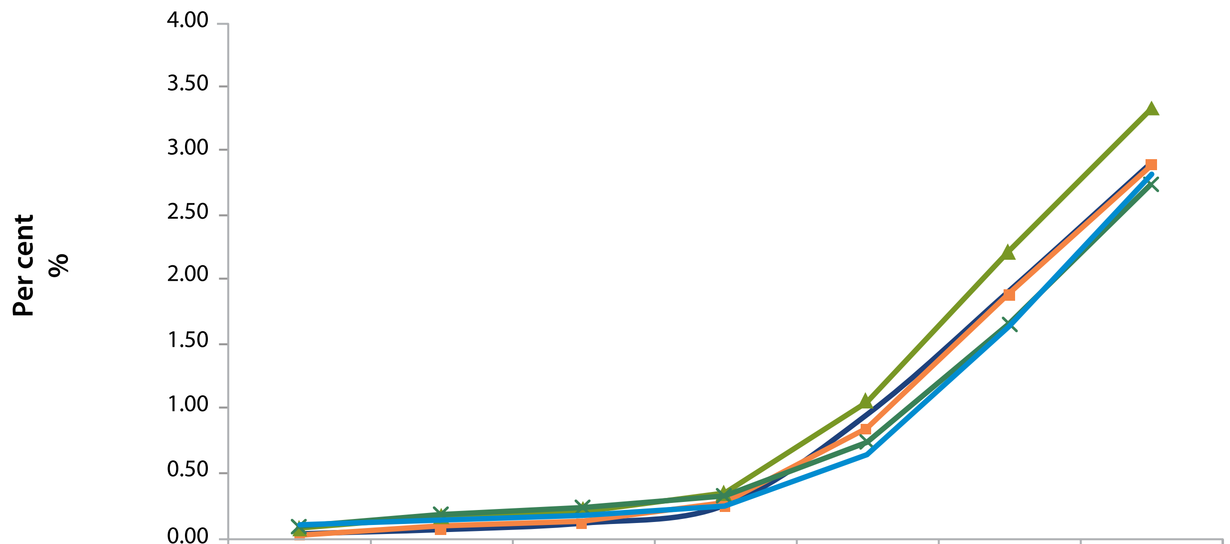
(b) Fixed Income Market

Over the financial year, the US Treasury curve flattened as yields on the very short end rose marginally while those between the 2-year to 30-year segment declined (See Chart 3). The sharpest movements in yields occurred at the intermediate portion of the curve, where the 5-year and 10-year rates fell 32 basis points and 29 basis points, respectively. This overall downward trend masked the fluctuations that occurred over the review period. During the first half of the financial year, signs of increased economic momentum in the US bolstered investor optimism and led to a selling off of Treasury securities. This resulted in an increase in yields across the curve. However, economic indicators for the second half of the year were generally less encouraging causing investors to demand perceived safer assets. The extension of the Federal Reserve's Operation Twist programme announced in June 2012 also placed downward pressure on longer-term rates.

Investment Report

Chart 3

US Treasury Yield Curve



	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
September 30, 2011	0.02	0.05	0.10	0.24	0.95	1.92	2.91
December 31, 2011	0.01	0.06	0.10	0.24	0.83	1.88	2.89
March 31, 2011	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

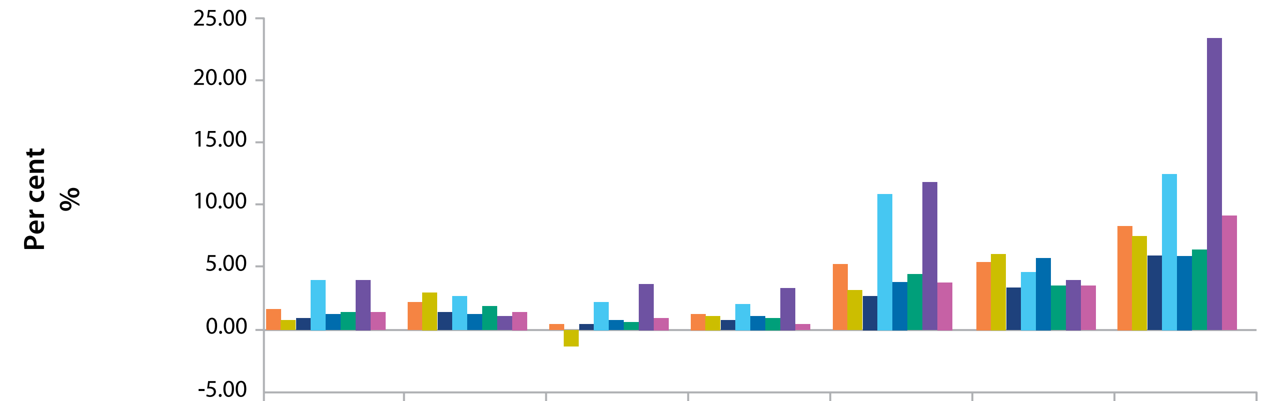
The broader US fixed income market, as represented by the Barclays US Aggregate Index , generated a total return of 5.2 per cent for the year ending September 30, 2012. The Commercial Mortgage Backed Securities (CMBS) sector was the best performing sector, returning 11.7 per cent, compared with a gain of 3.8 per cent in the previous year. The US Corporate sector also performed well, returning 10.8 per cent for the financial year 2011/ 2012. The US Treasury and Agency sectors did not fare as well as the other sectors in the index, yielding total returns of 3 per cent and 2.6 per cent, respectively (Chart 4).

[1] A market-value-weighted index of taxable investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage backed securities, with maturities of one year or more.

Investment Report

Chart 4

Returns on Fixed Income Indices



	QTR 4 11/12	QTR 3 11/12	QTR 2 11/12	QTR 1 11/12	FY 11/12	FY 11/12	FY 11/12
Barclays U.S. Aggregate	1.58	2.06	0.30	1.12	5.16	5.26	8.16
U.S. Treasuries	0.57	2.83	-1.29	0.89	2.99	5.97	7.32
U.S. Agencies	0.78	1.29	0.24	0.55	2.60	3.20	5.69
U.S. Corporate	3.83	2.52	2.08	1.93	10.76	4.40	12.27
U.S. MBS	1.13	1.08	0.57	0.88	3.71	5.56	5.71
G-7 Global Bonds (Hedged)	1.23	1.75	0.46	0.74	4.24	3.42	6.23
CMBS Index	3.83	0.86	3.46	3.11	11.71	3.76	23.23
ABS Index	1.23	1.33	0.83	0.23	3.67	3.34	8.88

(c) *Equity Market*

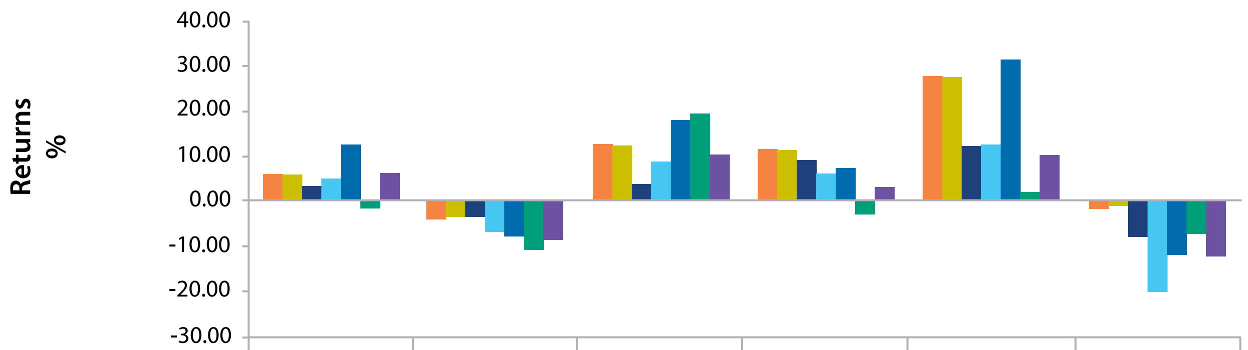
Global equity markets performed strongly over the financial year ended September 2012 after posting negative returns during the previous year. This improved performance was attributed in part to the monetary stimulus measures adopted by the major Central Banks, which increased investor optimism and appetite for risk. The highest returns were observed in the German and US markets, where the gains substantially outweighed the losses made in the prior year.

In the US, the Standard and Poor's (S&P) 500 and Russell 3000 Indices increased by 27.3 per cent and 27.5 per cent, respectively over the financial year 2011/2012, compared with declines of 0.9 per cent and 1.3 per cent, respectively for the corresponding period one year earlier. In Europe, the German DAX 30 Index performed significantly better than the other markets, posting gains of 31.2 per cent over the year. During the same period, the Japanese market, which was adversely impacted by the slowdown in the Chinese economy, was the worst performer as it returned a modest 2 per cent (Chart 5, refers).

Investment Report

Chart 5

Returns on Equity Indices



	QTR ended Sep-12	QTR ended Jun-12	QTR ended Mar-12	QTR ended Dec-11	FY 11/12	FY 10/11
Russell 3000	5.68	-3.65	12.32	11.50	27.53	-1.30
S&P 500	5.76	-3.29	12.00	11.15	27.33	-0.86
FTSE 100 - UK	3.07	-3.42	3.52	8.65	11.96	-7.57
CAC 40 - France	4.95	-6.63	8.35	5.96	12.50	-19.74
Dax 30 - Germany	12.47	-7.64	17.78	7.20	31.15	-11.67
Nikkei 225 - Japan	-1.52	-10.68	19.26	-2.82	1.95	-7.14
MSCI EAFE	6.14	-8.37	9.98	2.86	10.01	-12.02

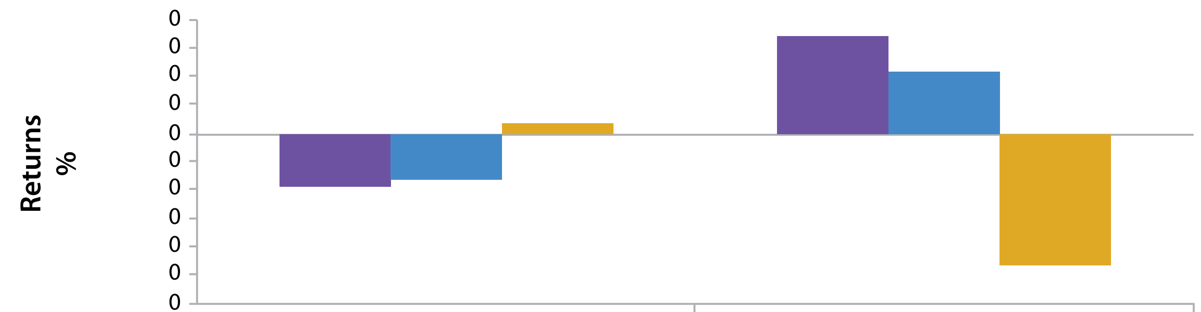
(d) Currency Market

The currency market exhibited high levels of volatility during the financial year 2011/2012 as the economic situation in the Euro area weighed heavily on investor sentiment. Intra period movements showed that the Euro weakened against the US dollar during periods of heightened uncertainty but strengthened when the ECB's actions brought some relief to the market. This latter trend was observed following the EU Summit, the Spanish bank bailout and the market-friendly Greek election results. Nonetheless, the Euro depreciated vis-à-vis the US dollar over the financial year. Similarly, the Japanese yen weakened against the US dollar but this movement was mainly because of the relatively unfavourable economic data from Japan, including the rising trend in the country's trade deficit during 2012. The Pound Sterling on the other hand, appreciated by 3.7 per cent vis-à-vis the US dollar over the financial year, recouping the loss of 0.8 per cent in the prior period.

Investment Report

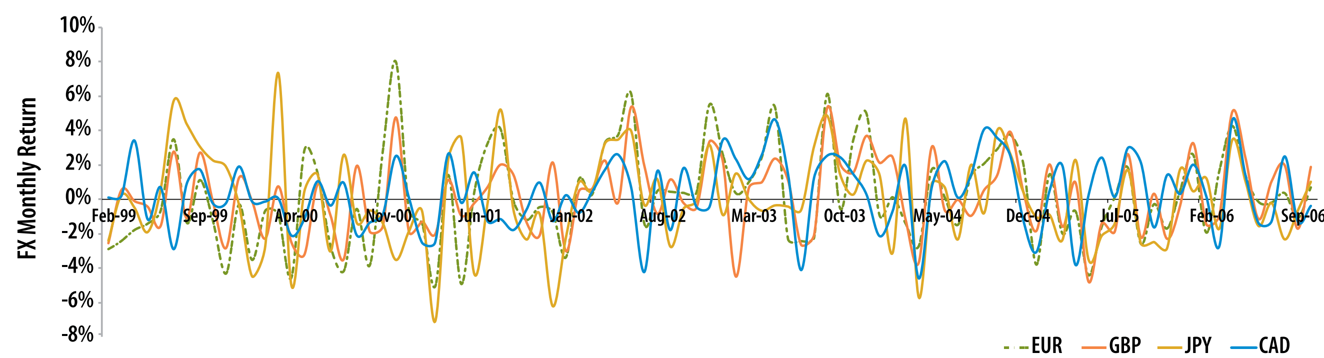
Chart 6

Foreign Exchange Returns:
Major Currencies Vis-à-vis the US Dollar
per cent



	QTR ended Dec-11	FY 11/12
EUR	-0.84%	1.64%
GBP	-0.79%	1.04%
SAA Benchmark Return	0.12%	-2.32%

FX Monthly Return for Major Currency Pairs
(Jan. 2000-Sept. 2007)



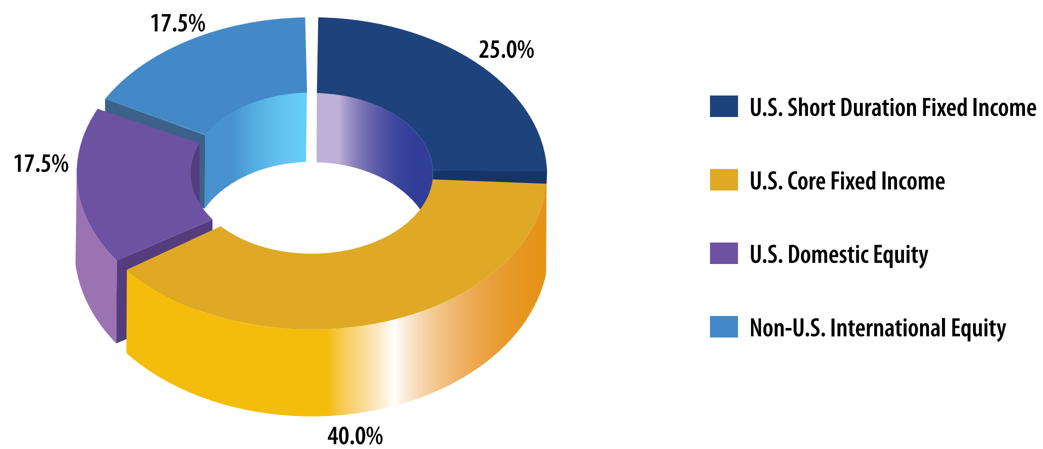
Investment Report

Strategic Asset Allocation

Portfolio Desired Allocation
In 2008, the Board of Governors approved the Strategic Asset Allocation (SAA)[2] for the Fund. Given the onset of the financial crisis, the three-year implementation of the SAA was delayed until August 2009. By January 2011, the Fund's investment portfolio[3] was fully invested in the four major asset classes shown in Chart 7 below.

Chart 7

The Fund's Strategic Asset Allocation



Portfolio Composition
For most of the financial year ended September 2012, the asset classes of the Fund deviated from their Strategic Asset Allocation (SAA), but these deviations were all within the allowable range in which the asset weights can vary. Indeed, the composition of the portfolio is expected to diverge from the SAA from time to time, due to changes in assets' market values and as a result of contributions to or withdrawals from the Fund by the Government. Throughout the financial year, the Fund had an overweight allocation to US Core Domestic Equities relative to its SAA weight. As at the end of September 2012, this overweight position was 1.3 per cent. The other asset classes carried allocations below their target weights but these were magnified by the Government's contribution at the end of the financial year, which accounted for 2.4 per cent of the Fund's net asset value. The Fund's SAA and the portfolio composition over the 2011/2012 financial year are shown in Table 3.

[2]The approved Strategic Asset Allocation (SAA) is considered to be the optimal mix of assets that is expected to meet the long term investment objective of the Fund, both in terms of risk and return.
[3]Section 4 of the HSF Operational and Investment Policy states that the Central Bank may hold cash and cash equivalent in order to cover day-to-day liquidity needs and the remaining portion called the Investment Portfolio would be invested in accordance with the strategic asset allocation (SAA) approved by the Board.

Investment Report

Table 3

PORTFOLIO COMPOSITION RELATIVE TO THE APPROVED SAA

/PER CENT/

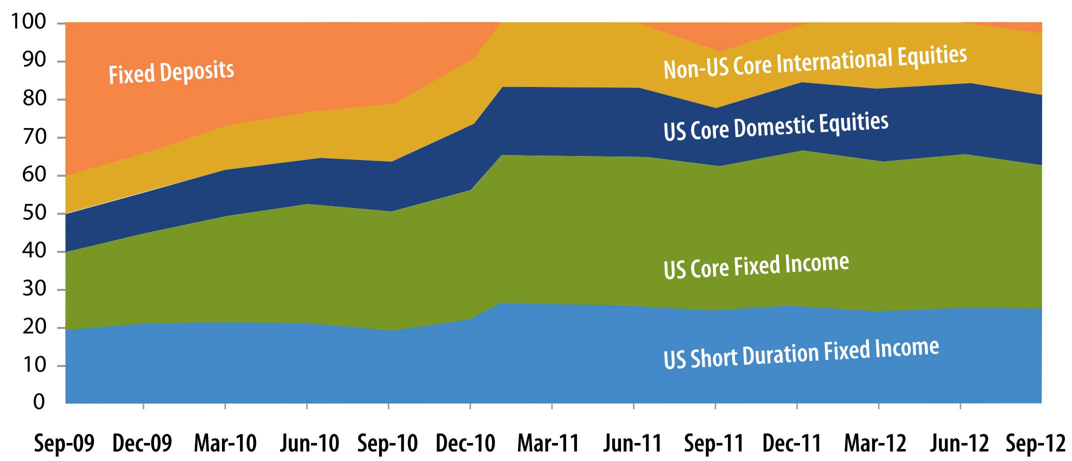
	ASSET CLASS		Dec-11	Mar-12	Jun-12	Sep-12
		Target Weight SAA	Actual % of Fund	Actual % of Fund	Actual % of Fund	Actual % of Fund
PORTFOLIO WEIGHTS	Cash	0.00	0.00	0.00	0.00	2.37*
	US Short Duration Fixed Income	25.00	24.86	23.70	24.26	23.46
	US Core Domestic Fixed Income	40.00	40.46	38.83	40.16	38.13
	US Core Domestic Equity	17.50	17.98	19.72	18.99	18.82
	Non-US Core International Equity	17.50	16.70	17.75	16.59	17.22

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

Investment Report

Chart 8

Asset Composition of the HSF Portfolio
per cent



Fund Value
Over the financial year 2011/2012, the value of the Fund increased on account of the investment returns and deposits made by the Government into the Fund. As at September 30 2012, the Fund's Net Asset Value stood at US$4,712.4 million, compared with US$4,084 million as at the end of September 2011. During the financial year, the Government made three contributions to the Fund totaling US$207.5 million. In April 2012, US$26.2 million was deposited for the quarter ending in March. A second contribution in the amount of US$69.4 million was made in July in respect of the June quarter, while a final contribution of US$111.9 million was made on September 28, 2012.

Investment Report

Portfolio Performance

The financial year 2011/2012 has been a milestone for the HSF as the Fund's investment portfolio posted its first double-digit annual return. The investment portfolio generated a gain of 10.7 per cent, compared with returns of 10.2 for the SAA benchmark and 0.8 per cent for the previous financial year. The strong performance of equity markets, particularly US equities, was the main driver of the overall portfolio return. Accordingly, the equity portfolios contributed the bulk of the total return. Meanwhile, the fixed income portion posted a modest performance, adding approximately 3 per cent to total return.

Table 4

CONTRIBUTION TO ANNUAL RETURN
FY 2011/2012

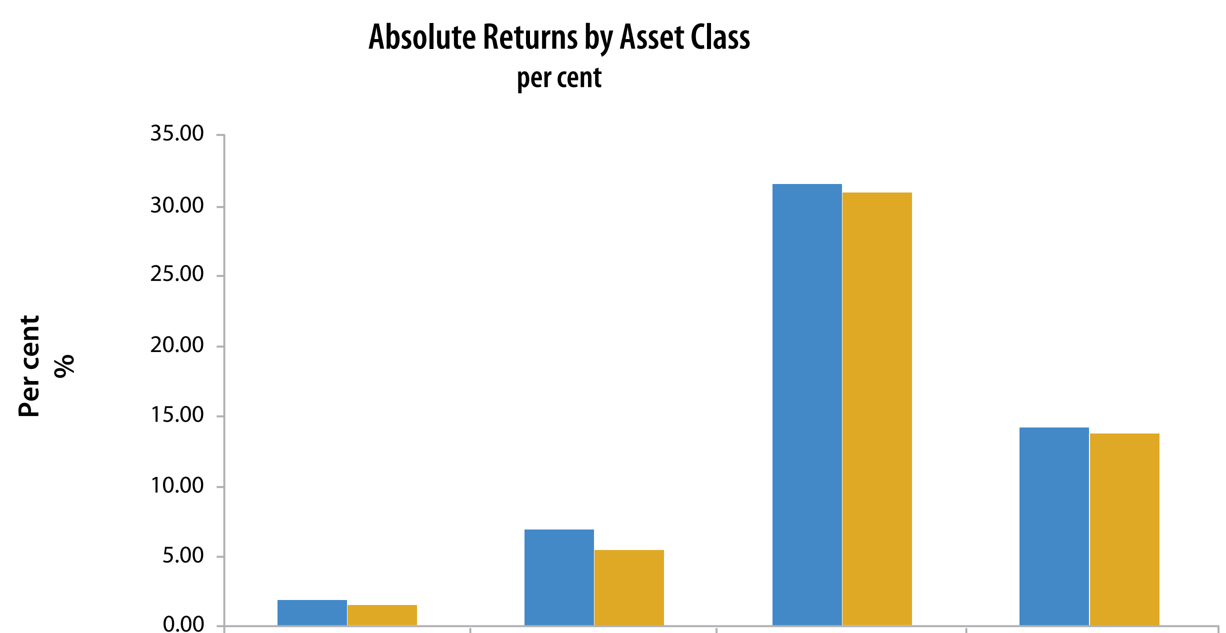
/PER CENT/

	Percentage of Portfolio as at September 30 2012	Portfolio Weighted Return	Benchmark Weighted Return
COMPOSITE PORTFOLIO	100.00	10.73	10.18
Cash	2.37*	0.00	0.00
FIXED INCOME:			
US Short Duration Fixed Income	23.46	0.38	0.32
US Core Fixed Income	38.13	2.64	2.04
EQUITY:			
US Core Domestic Equity	18.82	5.07	4.97
Non US Core International Equity	17.22	2.28	2.53

*These deposits represent the cash contribution made by the Government on September 28, 2011.
**Portfolio and Benchmark returns may not sum to the Composite Return as they geometrically-linked.

Investment Report

Chart 10



	US Short Duration	US Core Fixed Income	US Core Domestic Equities	Non US Core International Equities
Composite Portfolio Return	1.58	6.73	31.39	14.07
SAA Benchmark Return	1.30	5.17	30.68	13.58

Mandate

The **Equity holdings** in the Fund registered solid gains over the financial year 2011/2012 as the uncertain environment was generally supportive to investors who were willing to take risk. Both the US and Non-US equity portfolios generated double-digit returns in addition to outperforming their respective benchmarks over the financial year. As at the end of September 2012, the net asset value of the equity holdings were US$1,697.6 million, compared with US$1,251.6 million one year earlier. This increase in value reflected in part, the transfer of US$32 million to the equity portion of the Fund during the year.

The **US Core Domestic Equity** portfolio generated a robust return of 31.4 per cent, compared with a return of 30.7 per cent for its benchmark, the Russell 3000 ex Energy Index. This outperformance was due to managers' selection of stocks which gained more than those in the benchmark. The greatest contribution to performance came from stock selection within the consumer discretionary, health care and information technology sectors. The gains made on these selections more than compensated for the negative contribution from other stock selection decisions.

The other equity mandate which is comprised of **Non-US International Equities** returned 14.1 per cent over the financial year, compared with a gain of 13.6 per cent for its benchmark, the MSCI EAFE ex Energy Index. This relatively better performance mainly reflected favourable security selection decisions, since those stocks which

Investment Report

were chosen for the portfolio generated higher returns than the average return of the stocks in the benchmark. On a regional level, stock selection in the Euro area and in Asia ex Japan made the greatest contribution to excess returns.

The **Fixed Income portion** of the Fund also posted positive returns over the financial year as US Treasury yields between the 2-year and 30-year segment of the curve declined. While US Treasury securities gained modestly over the period, exposure to spread products proved beneficial for the sub-portfolios. As at the end of September 2012, the net asset value of the two fixed income mandates totaled US$2,900.8 million, up from US$2,518.6 million one year earlier. This increase in value reflected in part, the transfer of US$62 million of the government's contribution to this mandate during the financial year.

The **US Short Duration Fixed Income** mandate returned 1.6 per cent, compared with 1.3 per cent for its benchmark, the Bank of America Merrill Lynch 1- 5 year US Treasury Index. In the main, this outperformance came from the portfolio's exposure to agency mortgages and foreign government securities whose spreads, relative to US Treasuries, tightened over the financial year.

The longer duration **US Core Domestic Fixed Income** portfolio generated a return of 6.7 per cent for the financial year, outperforming its benchmark, the Barclays Capital US Aggregate Bond Index, which gained 5.2 per cent. The portfolio's overweight exposure to the commercial mortgage backed securities and corporate bonds were the primary contributors to excess returns. These two sectors of the Barclays Aggregate bond index were the best performers, posting gains of 11.7 per cent and 10.8 per cent, respectively.

The cash in the investment portfolio represented the contribution made by the Government on September 28, 2012, the end of the financial year. This along with the cash balance held to meet the day-to-day expenses arising from the management of the Fund, amounted to US$113.9 million as at September 30, 2012.

Portfolio Risks

The main risks for the HSF portfolio are Credit, Concentration, Interest rate, and Currency risks. Below indicates 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. Over the financial year, the average credit quality was "AA+" and "AA-" for the US Short Duration and US Core Fixed Income Portfolios, respectively.

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

Investment Report

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 benchmarks. Table 5 shows the weighted average duration for the **US Short Duration** and **US Core Domestic Fixed Income** portfolios as at September 30, 2012.

Table 5

WEIGHTED AVERAGE DURATION

/Years/

Mandate	Portfolio	Benchmark
US Short Duration	2.68	2.67
US Core Domestic Fixed Income	4.72	4.67

Currency Risk
Currency risk is managed by containing and managing the exposure to non-US dollar instruments. The Fund is invested in twelve currencies in addition to the US dollar. These currencies include the Euro, Japanese Yen, Pound Sterling, Australian dollar, Swiss Franc dollar and Swedish Krona. For the Fixed Income and US Core Domestic Equity mandates, no more than 10 per cent of the market value of the portfolio can be invested in securities which are denominated in currencies other than the US Dollar. The Non-US Core International Equity Portfolio is comprised primarily of non-US dollar denominated securities, and the Fund accepts the currency risk inherent in the relevant benchmark. For this mandate, currency hedging is permitted up to 15 per cent of the market value of the portfolio using the US dollar as the base currency.

Investment Report

Table 6

IMPLIED CURRENCY EXPOSURE

CURRENCY	Per Cent
US DOLLAR	83.02
EURO CURRENCY	5.18
POUND STERLING	3.44
JAPANESE YEN	3.24
SWISS FRANC	1.34
AUSTRALIAN DOLLAR	1.06
HONG KONG DOLLAR	0.95
SWEDISH KRONA	0.74
DANISH KRONE	0.56
SINGAPORE DOLLAR	0.34
NEW ZEALAND DOLLAR	0.06
ISRAELI SHEKEL	0.05
NORWEGIAN KRONE	0.02
COMPOSITE TOTAL	**100.00**

Appendices

Petrotrin Continuous Catalytic Regeneration Plant

Appendices

Appendix I

Heritage and Stabilisation Fund
Financial Year Portfolio Valuation

/USD/

Valuation Date	Net Asset Value	Financial Year Income	Accumulated Surplus & Unrealized Capital Gains/Losses	Contributions
September 30, 2007	1,766,200,701	42,217,837	41,966,361	321,706,043
September 30, 2008	2,888,421,556	67,894,134	110,379,131	1,054,174,457
September 30, 2009	2,964,686,478	35,807,757	186,755,766	-
September 30, 2010	3,621,984,041	88,381,935	364,361,226	477,344,263
September 30, 2011	4,084,016,158	179,748,798	374,074,067	451,400,519
September 30, 2012	4,712,376,278	125,221,977	794,770,772	207,550,846

Appendices

Appendix II

HSF Portfolio

Historical Performance Since Inception

Financial Year End	Financial Year Return			Annualised Return Since Inception		
	Portfolio %	Benchmark %	Excess bps	Portfolio %	Benchmark %	Excess bps
September 2007*	2.97	2.95	1.89	5.48	5.44	3.50
September 2008	3.62	3.50	12.12	4.34	4.25	9.37
September 2009	2.80	3.18	-37.81	3.81	3.91	-10.01
September 2010	6.07	5.75	31.93	4.61	4.59	2.29
September 2011	0.79	1.14	-34.89	3.80	3.87	-7.13
September 2012	**10.73**	**10.18**	**55.01**	**5.38**	**5.33**	**5.20**

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

1. In May 2008, US Treasury instruments were added to the HSF portfolio. As a result, the performance benchmark for the HSF portfolio became a blended benchmark which comprised of 2.5% Merrill Lynch US Treasury 1-5 Years Index and 97.5% US One-month LIBID Index.

2. In August 2009, International Equities and Fixed Income Securities were added to the HSF portfolio. The performance benchmark for the HSF portfolio became a blended benchmark which comprise, Bank of America/Merrill Lynch US Treasury 1-5 Years Index, US One-month LIBID Index, Barclays US Aggregate, Russell 3000 ex Energy, and MSCI EAFE ex Energy.

3. In January 2011, the HSF Portfolio achieved its Strategic Asset Allocation where the portfolio was invested in four assets classes. US Short Duration Fixed Income (25%), US Core Fixed Income (40%), US Equity (17.5%) and Non-US International Equity (17.5%).

Report of the Auditor General

Trinmar Operations

REPUBLIC OF TRINIDAD AND TOBAGO
AUDITOR GENERAL'S DEPARTMENT

REPORT
OF THE
AUDITOR GENERAL

ON THE FINANCIAL STATEMENTS OF THE HERITAGE AND STABILISATION FUND

FOR THE YEAR ENDED

2012 September 30

REPORT OF THE AUDITOR GENERAL OF THE REPUBLIC OF TRINIDAD AND TOBAGO ON THE FINANCIAL STATEMENTS OF THE HERITAGE AND STABILISATION FUND OF THE REPUBLIC OF TRINIDAD AND TOBAGO FOR THE YEAR ENDED 2012 SEPTEMBER 30

The accompanying Financial Statements of the Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago (the Fund) for the year ended 2012 September 30 have been audited. The Statements comprise a Statement of Financial Position as at 2012 September 30, a Statement of Comprehensive Income, a Statement of Changes in Equity and a Statement of Cash Flows for the year ended 2012 September 30 and Notes to the Financial Statements numbered 1 to 13.

MANAGER'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

2. The Central Bank of Trinidad and Tobago as Manager of the Fund is responsible for the preparation and fair presentation of these Financial Statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. It is my view that the audit evidence obtained is sufficient and appropriate to provide a basis for the comments made at paragraphs 5 and 6 of this Report.

OPINION

5. In my opinion, the Financial Statements as outlined at paragraph one above present fairly, in all material respects, the financial position of the Heritage and Stabilisation Fund as at 2012 September 30 and its financial performance and its cash flows for the year ended 2012 September 30 in accordance with International Financial Reporting Standards.

EMPHASIS OF MATTER

6. Without qualifying the above opinion, attention is drawn to the following matter which was raised in the Auditor General's Report on the financial statements of the Fund for the year ended 2008 September 30 and which has not been resolved. At paragraph 6 of that Report it was stated as follows:

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

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

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

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

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

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

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

2012 November 30

Sharman Ottley

SHARMAN OTTLEY
AUDITOR GENERAL

HERITAGE AND STABILISATION FUND OF THE REPUBLIC OF TRINIDAD AND TOBAGO

FINANCIAL STATEMENTS
for the year ended 30 September 2012

Statement of Financial Position
as at 30 September 2012
(Expressed in United States Dollars)

	Notes	Sep-12 $	Restated Sep-11 $	Restated Sep-10 $
ASSETS				
Current assets				
Cash and cash equivalents	4,13	309,586,644	579,244,185	933,401,445
Investments	5	4,495,884,008	3,652,929,887	2,784,387,736
Accounts receivable and prepayments	6,13	770,000,462	317,031,890	236,678,835
TOTAL ASSETS		**5,575,471,114**	**4,549,205,962**	**3,954,468,016**
LIABILITIES				
Current liabilities				
Accounts payable	7	866,346,057	468,325,456	334,533,238
Bank overdraft	4,13	-	-	170,632
TOTAL LIABILITIES		**866,346,057**	**468,325,456**	**334,703,870**
NET ASSETS		**4,709,125,057**	**4,080,880,506**	**3,619,764,146**
PUBLIC EQUITY				
Contributed capital		3,914,354,285	3,706,803,439	3,255,402,920
Available-for-sale financial assets revaluation reserve		260,592,132	(34,879,596)	132,396,508
Accumulated surplus		534,178,640	408,956,663	231,964,718
TOTAL EQUITY		**4,709,125,057**	**4,080,880,506**	**3,619,764,146**

AYYANN FERGUSON
(Chairperson)

JWALA RAMBARRAN

RAMCHARAN KALICHARAN

ANUSHKA ALCAZAR

REPUBLIC OF TRINIDAD AND TOBAGO
2012 NOV 30
AUDITOR GENERAL

The accompanying notes form an integral part of these financial statements

Statement of Comprehensive Income
for the year ended 30 September 2012
(Expressed in United States Dollars)

	Note	Sep-12 $	Restated Sep-11 $
Income			
Investment income	8	112,797,578	99,488,411
Investment expenses		(22,094,419)	(18,571,853)
Gain on sale of investments		215,593,411	267,173,268
Loss on sale of investments		(178,083,269)	(167,802,038)
Income from investments		**128,213,301**	**180,287,788**
Other income		244,116	77,925
Total income		**128,457,417**	**180,365,713**
Operating expenses			
Management fees		1,312,389	1,142,303
Subscription fees		13,770	13,680
Audit fees		8,210	6,846
License fees		4,000	5,167
Total operating expenses		**1,338,369**	**1,167,996**
Net profit for the year before tax		**127,119,048**	**179,197,717**
Withholding tax expense		1,897,071	2,205,772
Net profit for the year after tax		**125,221,977**	**176,991,945**
Other comprehensive income:			
Available-for-sale financial assets - Unrealised gain/(loss) from fair value changes		295,471,728	(167,276,104)
Other comprehensive income for the year		**295,471,728**	**(167,276,104)**
Total comprehensive income for the year		**420,693,705**	**9,715,841**

The accompanying notes form an integral part of these financial statements

Statement of Changes in Equity
for the year ended 30 September 2012
(Expressed in United States Dollars)

	Contributed Capital	Available-for-Sale Financial Assets Revaluation Reserve	Accumulated Surplus	Total
	$	$	$	$
Balance as at 1 October 2010	**3,255,402,920**	**132,396,508**	**231,964,718**	**3,619,764,146**
Contributions from Government for the year	451,400,519	-	-	**451,400,519**
Total comprehensive income for the year	-	(167,276,104)	176,991,945	**9,715,841**
Balance as at 30 September 2011	**3,706,803,439**	**(34,879,596)**	**408,956,663**	**4,080,880,506**
Balance as at 1 October 2011	**3,706,803,439**	**(34,879,596)**	**408,956,663**	**4,080,880,506**
Contributions from Government for the year	207,550,846	-	-	**207,550,846**
Total comprehensive income for the year	-	295,471,728	125,221,977	**420,693,705**
Balance as at 30 September 2012	**3,914,354,285**	**260,592,132**	**534,178,640**	**4,709,125,057**

The accompanying notes form an integral part of these financial statements

Statement of Cash Flows
for the year ended 30 September 2012
(Expressed in United States Dollars)

	Note	Sep-12	Restated Sep-11
		$	$
Cash flows from operating activities			
Net profit for the year		125,221,977	176,991,945
Adjustments			
Interest income		(65,971,103)	(61,721,861)
Dividend income		(46,826,475)	(37,766,550)
Net realised gain from the sale of investments		(37,510,142)	(99,371,230)
Cash flows before changes in operating assets and liabilities		**(25,085,743)**	**(21,867,696)**
Changes in operating assets and liabilities			
Increase in accounts receivable		(449,624,423)	(76,916,920)
Increase in accounts payable		398,020,601	133,792,218
Net cash flows (used in)/from operating activities		**(76,689,565)**	**35,007,602**
Cash flows from investing activities			
Interest received		63,943,873	59,414,952
Dividend received		45,509,555	36,637,324
Purchase of investments		(545,768,621)	(1,036,505,674)
Proceeds from sale of investments		35,752,150	100,130,536
Net cash used in investing activities		**(400,563,043)**	**(840,322,862)**
Cash flows from financing activities			
Contributed capital		207,550,846	451,400,519
Net cash flows from financing activities		**207,550,846**	**451,400,519**
Effects of exchange rate changes on cash and cash equivalents		**44,221**	**(71,887)**
Net decrease in cash and cash equivalents		(269,657,541)	(353,986,628)
Cash and cash equivalents, beginning of year		579,244,185	933,230,813
Cash and cash equivalents, end of year	4	**309,586,644**	**579,244,185**

The accompanying notes form an integral part of these financial statements

Notes to the Financial Statements
for the year ended 30 September 2012
(Expressed in United States Dollars)

1. Incorporation and Principal Activities

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

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

a) The Central Bank; and

b) The Ministry of Finance.

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

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

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

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

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

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

The resources of the Fund consist of:-

a) monies transferred from the Interim Revenue Stabilisation Fund;

b) petroleum revenues deposited into the Fund; and

c) assets acquired and earned from investments.

Notes to the Financial Statements
for the year ended 30 September 2012 (continued)
(Expressed in United States Dollars)

2. Accounting Policies

a) Basis of accounting
The Financial Statements of the Fund have been prepared in accordance with International Financial Reporting Standards and the Act. The Financial Statements have been prepared under the Historical Cost Convention as modified by the revaluation of available-for-sale financial assets.

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

c) Foreign currency translation

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

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

d) Investments
The Fund classifies its investment securities in the category "Available-for-Sale".

Available-for-sale Financial Assets

These investments are intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or to meet the goals of the strategic asset allocation approved by the Fund's Board.

i. Measurement
Available-for-sale financial assets are initially recognised at fair value, (which includes transaction costs) and are subsequently re-measured at fair value. Regular purchases and sales are recognized on the trade date. Thus, any agreements made before the Statement of Financial Position date, with expectations of settlement thereafter, will give rise to both a financial asset and financial liability which is recognised in the Statement of Financial Position.

2. Accounting Policies (continued)

d) Investments (continued)

Available-for-sale Financial Assets (continued)

i. ***Measurement (continued)***
Unrealised gains and losses on these investments are recognised in Equity in the Available-for-Sale Financial Assets Revaluation Reserve.

When the securities are disposed of, the related accumulated fair value adjustments are included in the Statement of Comprehensive Income as realised gains and losses from investment securities.

ii. ***Fair value estimation***
The fair value of quoted financial assets in active markets is based on current bid prices. For unlisted financial assets and those where the market is not active, the Fund establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, pricing models and other valuation techniques commonly used by market participants.

Fair value through profit or loss

Financial assets at fair value through profit or loss may only be made if the financial asset either contains an embedded derivative or will be managed on a fair value basis in accordance with a documented risk management strategy, or if designating it (and any financial liability) at fair value will reduce an accounting mismatch.

Derivatives are initially recognised in the Statement of Financial Position at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, or valuation techniques, as appropriate. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received).

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

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

2. Accounting Policies (continued)

d) Investments (continued)

Fair value through profit or loss (continued)

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

iii. it is settled at a future date.

e) Collateralised Securities
The Margin used for futures contracts can be in the form of either cash or securities held at a Broker. For all balances held at a Broker where collateralised securities are used, these are reported as either a receivable or payable.

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

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

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

g) Income and Dividends
Interest income is accounted for on the accruals basis.

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

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

(Expressed in United States Dollars)

2. Accounting Policies (continued)

h) *Expenses*
Expenses are recognised on the accrual basis, i.e. in the period when they were incurred.

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

j) *Accounts receivable*
Accounts receivable are stated at their expected realisable value.

k) *Accounts payable*
Accounts payable are stated at their expected amounts.

l) *Comparative information*
When necessary, comparative data have been adjusted to conform with changes in presentation in the current year.

m) *Statement of cash flows*

- **Operating activities** include all activities other than investing and financing activities. The cash inflows include all receipts from the sources of revenue that support the Fund's operating activities. Cash outflows include payments made to suppliers.

- **Investing activities** are those activities relating to the acquisition and disposal of current and non-current securities and any other non-current assets. Investments include securities not falling within the definition of cash.

- **Financing activities** are those activities relating to changes in equity of the Fund and those activities relating to the cost of servicing the Fund's equity capital.

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

2. Accounting Policies (continued)

n) *Capital contributions*
In accordance with Section 14 of the Act:

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

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

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

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

3. Financial Risk Management

a) *Portfolio Performance*

The portfolio performance for the twelve months ended 30 September 2012 was as follows:

12 Months Performance			
Portfolio	**Fund**	**Benchmark Return**	**Benchmark Composition**
Composite	10.73%	10.18%	Merrill Lynch US Government Treasury 1-5 Years Index , US 1-month LIBID, Barclays Capital US Aggregate Bond Index, Russell 3000 (ex Energy), MSCI EAFE (Ex Energy)
US Short Duration Fixed Income Portfolio	0.38%	0.32%	Merrill Lynch US Government Treasury 1-5 Years Index
US Core Fixed Income	2.64%	2.04%	Barclays Capital US Aggregate Bond Index
US Core Domestic Equity	5.07%	4.97%	Russell 3000 (Ex Energy)
Non US Core International Equity	2.28%	2.53%	MSCI EAFE (Ex Energy)

Notes to the Financial Statements
for the year ended 30 September 2012 (continued)
(Expressed in United States Dollars)

3. Financial Risk Management (continued)

b) Portfolio Risk

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

Credit Risk
This is the risk that a third party will default on its obligation to the Fund, causing the Fund to incur a loss.

Credit risk is mitigated by the establishment of ratings standards. These standards require money-market counterparts to have a minimum credit rating of A1 from Standard and Poor's, or P1 from Moody's. Credit risk is also managed by limiting the exposure of a single counterparty to 5% of the Fund.

Concentration Risk
Concentration risk is the risk of loss attributable to holding investments in a single or to limited number investment style or class. The Strategic Asset Allocation (SAA) reduces this risk by ensuring the Fund's assets are invested across various asset classes and styles. The SAA is invested across four asset classes:- US Short Duration Fixed Income Mandate, US Core Domestic Fixed Income Mandate, US Core Domestic Equity Mandate, Non US Core International Equity Mandate. Each asset class that the Fund invests in reacts differently under the same market conditions, and usually when one asset class has strong returns another will have lower returns. The Fund's investments are also diversified across a number of asset types to better ensure a positive return under a range of market conditions, thus lowering the total risk of the portfolio.

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

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

For the Fixed Income and US Core Domestic Equity mandates, no more than 10% of the market value of the portfolio can be invested in securities denominated in currencies other than the US Dollar. For the Non US Core International Equity mandate, currency hedging is allowed for up to 15% of the market value of the portfolio, with the base currency being the US Dollar.

Notes to the Financial Statements
for the year ended 30 September 2012 (continued)
(Expressed in United States Dollars)

3. Financial Risk Management (continued)

b) Portfolio Risk (continued)

Market Risk (continued)

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

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.

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

The Fund measures both absolute and relative market risk. Absolute risk is estimated on the basis of the actual portfolio, while relative risk is estimated as the standard deviation of the difference between the return on the actual portfolio and the return on the benchmark portfolio.

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

Management's guiding policies are to maintain conservative levels of liquidity to ensure that the Fund has the ability to meet its obligations at short notice and in accordance with the Act.

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

Notes to the Financial Statements
for the year ended 30 September 2012 (continued)
(Expressed in United States Dollars)

4. Cash and cash equivalents

	Sep-12 $	Restated Sep-11 $	Restated Sep-10 $
Fixed deposits	-	-	175,736,057
Cash at bank	122,334,770	316,019,306	179,866,014
Cash at broker	-	416,129	416,093
US Government Money Market	187,305,353	262,906,450	577,409,095
	309,640,123	**579,341,885**	**933,427,259**
Net effect of exchange rate changes	(53,479)	(97,700)	(25,814)
	309,586,644	**579,244,185**	**933,401,445**
Bank overdraft	-	-	170,632
	309,586,644	**579,244,185**	**933,230,813**

5. Investments

	Sep-12 $	Sep-11 $
Available-for-sale financial assets		
Cost/Amortised Cost	4,234,402,982	3,688,525,365
Net Appreciation/(Depreciation)	261,481,026	(35,595,478)
	4,495,884,008	**3,652,929,887**
Represented by:		
Fixed income investments		
Amortised Cost	2,760,107,365	2,369,810,699
Net Appreciation in Market Value	78,876,081	57,186,725
	2,838,983,446	**2,426,997,424**
Equity		
Cost	1,474,295,617	1,318,714,666
Net Appreciation/(Depreciation) in Market Value	182,604,945	(92,782,203)
	1,656,900,562	**1,225,932,463**
Total	**4,495,884,008**	**3,652,929,887**

Notes to the Financial Statements
for the year ended 30 September 2012 (continued)
(Expressed in United States Dollars)

6. Accounts receivable and prepayments

	Sep-12 $	Restated Sep-11 $	Restated Sep-10 $
Trade Receivables	745,050,109	292,453,988	223,260,157
Interest Receivable	13,595,744	11,568,515	9,261,606
Dividends Receivable	5,082,083	3,765,163	2,635,937
Other Receivables	6,272,526	9,244,224	1,521,135
	770,000,462	**317,031,890**	**236,678,835**

Accounts receivable at 30 September 2012 includes Pending Trades – Investments and Foreign Currency Sold in the amounts of USD665,320,122 and USD79,729,987 respectively which will subsequently be settled during the period October - November 2012.

7. Accounts payable

	Sep-12 $	Restated Sep-11 $
Pending Trades	862,445,595	459,875,927
Accruals	3,256,644	3,140,076
Other Payables	643,818	5,308,453
Amount due to Central Bank of Trinidad and Tobago	-	1,000
	866,346,057	**468,325,456**

As at 30 September 2012 there were Pending Trades – Investments and Foreign Currency Purchased of USD781,897,736 and USD80,547,859. Subsequent settlement will occur during the period October - November 2012.

Notes to the Financial Statements
for the year ended 30 September 2012 (continued)
(Expressed in United States Dollars)

8. Investment income

	Sep-12 $	Sep-11 $
Interest Income		
Cash at bank	2,490	7,353
Fixed deposits	4,507	217,298
Available-for-sale financial assets	64,197,912	59,349,895
Amortisation of bond discount	1,763,562	2,147,315
Short term securities	2,632	-
	65,971,103	**61,721,861**
Dividend income	46,826,475	37,766,550
Total	**112,797,578**	**99,488,411**

9. Asset management agreements

Under Section 10(2) of the Act, the Bank as Manager of the Fund is responsible for the management of the assets and other resources of the Fund.

10. Board and other expenses

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

11. Capital contributions

Capital contributions are calculated based on criteria set out under Sections 13(1) and 14 of the Act, (see Note 2 (n)). During the current financial year ended 30 September 2012 capital contributions of USD 207,550,846 were received.

Notes to the Financial Statements
for the year ended 30 September 2012 (continued)
(Expressed in United States Dollars)

12. Collateral

At 30 September 2012, the investments pledged as collateral were as follows:

Investment Category	Carrying Amount $
Cash	6,285,038
Fixed Income - Security	1,419,558
	7,704,596

13. Comparative figures

At 30 September 2011 and 30 September 2010, there were balances at brokers in the amounts of USD6,488,612 and USD596,440 respectively, which were guaranteed by securities and previously classified as cash and cash equivalents. As stated, for all balances where collateralised securities are held, these are reported as either a receivable or payable. At 30 September 2011, there were balances for commission expenses previously classified as gain/loss on sale of investments for the net amount of USD60,889 which have been reclassified to investment expenses.

These restated Statements of Financial Position and the restated Statement of Comprehensive Income for the year ended 30 September 2011 were made in order to achieve a more transparent presentation.

Restatement of Statement of Financial Position Items As at 30 September 2011	Audited Sep-11 $	Restated Sep-11 $	Movement Sep-11 $
ASSETS			
Current assets			
Cash and cash equivalents	585,732,797	579,244,185	(6,488,612)
Accounts receivable and prepayments	310,543,278	317,031,890	6,488,612
Net restatement of assets	**896,276,075**	**896,276,075**	-

Restatement of Statement of Comprehensive Income Items for the year ended 30 September 2011	Audited Sep-11 $	Restated Sep-11 $	Movement Sep-11 $
Income			
Investment expenses	(18,510,964)	(18,571,853)	(60,889)
Gain on sale of investments	267,184,722	267,173,268	(11,454)
Loss on sale of investments	(167,874,381)	(167,802,038)	72,343
Net restatement of investment income	**80,799,377**	**80,799,377**	-
Net restatement of profit for the year after tax	-	-	-

Notes to the Financial Statements
for the year ended 30 September 2012 (continued)
(Expressed in United States Dollars)

13. Comparative figures (continued)

Restatement of Statement of Financial Position Items As at 30 September 2010	Audited Sep-10 $	Restated Sep-10 $	Movement Sep-10 $
ASSETS			
Current assets			
Cash and cash equivalents	933,827,253	933,401,445	(425,808)
Accounts receivable and prepayments	236,082,395	236,678,835	596,440
Net restatement of assets	**1,169,909,648**	**1,170,080,280**	**170,632**
LIABILITIES			
Current liabilities			
Bank overdraft	-	170,632	170,632
Net restatement of liabilities	**-**	**170,632**	**170,632**

Graphic Design: Design Workshop

Photography: Apoesho Mutope

Printing: Caribbean Print Technologies Ltd.

Photos Courtesy: BP Trinidad and Tobago
Methanex Methanol Complany Lmited Trinidad
Petroleum Company of Trinidad and Tobago Limited ("PETROTRIN")
BHP Billiton Trinidad and Tobago

A PUBLICATION OF
THE BOARD OF GOVERNORS OF
THE TRINIDAD AND TOBAGO HERITAGE AND STABILISATION FUND

Level 11, Ministry of Finance Building
Eric Williams Financial Complex
Port-of-Spain,
Trinidad, West Indies
Tel No: (868) 627-9700 ext 5129 Fax No: (868) 624-8886
www.finance.gov.tt E-mail: hsf@gov.tt