HSF

Trinidad and Tobago Heritage and Stabilisation Fund

Annual Report 2011

50 YEARS OF INDEPENDENCE

TRINIDAD & TOBAGO

P U R P O S E

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, for the purpose of saving and investing 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-renewal 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.

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CHAIRMAN'S FOREWORD

Ms. Avyann Ferguson

The past year was indeed a challenging year for the Heritage and Stabilisation Fund (HSF). It was a year in which significant volatility was experienced in international financial markets; which in turn affected the returns on Fund assets.

The HSF is invested entirely outside of Trinidad and Tobago and in so doing was exposed to the fluctuations experienced in these capital markets. Consequently, after what may be considered a robust return to the first three quarters of the year, sharp declines in global equities markets in the fourth quarter negatively impacted the Fund's performance. As result of the Fund's exposure to these international equities, it recorded a modest return of 0.79 per cent for the year. This modest return, however, must be read in the context of the Fund's long-term investment horizon. The Fund's annualised return to September 30, 2011 is 3.80 per cent compared to a benchmark return of 3.87 per cent.

Relatively high oil and gas prices during the year facilitated deposits to Fund. For the fiscal year 2011 a total of $451.4 million was transferred to Fund. This compares with US$477.3 million contribution made by the Government during the previous year. As such the Fund ended the fiscal year with a market value of US$4,084 million, up from US$3,619.7 million for the year ended 2010.

The Heritage and Stabilisation Act provides for a review after five years which is scheduled for March 2012. In preparation for this review the Board arranged a forum in September 2011. This forum garnered wide participation from business, labour and government representatives. Parties benefited from reviews and analyses which were prepared by the World Bank, International Monetary Fund and the Central Bank of Trinidad and Tobago. Coming out of this Forum, recommendations will be considered to govern the operations of the Fund in the next few years.

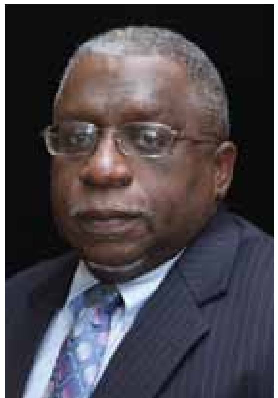
In the year ahead, the Fund's performance will be affected by the following key developments. Firstly, we expect global growth to slow further and uncertainty to prevail in global financial markets. The latest IMF projection (January 2012) of global growth is 3.25 per cent which is slower than 3.8 per cent estimated in 2011. Secondly, we anticipate that the ongoing Euro Zone crisis will continue to weigh heavily on market confidence, presenting challenges for equity and bond markets. We however, believe that the sooner there is an agreement on a credible plan for the resolution of the European debt crisis the sooner financial markets would be stabilized. In light of the foregoing, the outlook for the Fund in 2012 is similar to the experience of 2011, continued volatility with markets very sensitive to headline news in a backdrop of reduced momentum of growth in the global economy.

In closing, I wish to thank my fellow Governors for their dedicated support and our Secretariat for its assistance throughout the tenor of the Board's term. On behalf of the Board, I extend sincere appreciation to the Honourable Minister of Finance and all Stakeholders for their continued support of the Fund.

Ms. Avyann Ferguson
– Chairman

BOARD OF GOVERNORS

Ms. Avyann Ferguson
Chairman



Mr. Ewart S. Williams
Member

Mrs. Enid Zephyrine
Member

Mrs. Anushka Alcazar
Member

Board Secretariat:

Dr. Michelle Scobie – Secretary to the Board (November 2007 – August 2011)

Mr. Michael L. Raymond – Economic Policy Analyst, Ministry of Finance assigned to perform duties as Corporate Secretary HSF temporarily (September 2011 – present)

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 has the responsibility for the management of the Fund. Section 10, however, provides for the Board to delegate its management responsibility to the Central Bank of Trinidad and Tobago.
- The Board decides on the investment objectives and approves the manner in which the funds are to be invested by the Central Bank.
- The Board submits to the Minister of Finance quarterly and annual investment reports on the operation and performance 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 and is responsible for approving deposits and withdrawals from the Fund in accordance with the provisions of the Act.

The Trinidad and Tobago Parliament

- Parliament passed the enabling legislation and continues to have ultimate oversight of the Fund which 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.

The Management of the Fund

- The Central Bank is responsible for the day-to-day management of the Fund (to meet Investment Objectives of the Board) and reports quarterly and annually to the Board.
- The Schedule to the Act details the responsibilities of the Central Bank.

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

Withdrawals

Section 15 of the Act outlines the conditions under which revenues 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.

Speakers and Participants at the HSF Round Table 2011

Ms. Avyann Ferguson, Chairman HSF

The Hon. Winston Dookeran, Minister of Finance

Mr. Ewart Williams, Governor of the Central Bank

O V E R V I E W   O F   A C T I V I T I E S

Reports to Parliament

In keeping with the HSF Act, the Audited Financial Statements for the period ending September 30th, 2010 were presented to the Parliament in January, 2011. The 2010 Annual Report for the corresponding period was laid in Parliament simultaneously.

Americas Government Funds Roundtable

Two members of the Board of Governors of the Heritage and Stabilisation Fund (Chair Avyann Ferguson and Governor Anushkar Alcazar) participated in the Institutional Investor Americas Government Funds Roundtable in September 2011. Discussions at the two-day meeting centered on: Approaches to Portfolio Diversification, the Future of the Euro zone and US Fiscal Crisis. These sessions were instructive in providing the Governors with an understanding of the international environment in which policy decisions for Sovereign Wealth Funds had to be made. The seminar was instructive in outlining what would the critical challenges for the Board moving forward.

Deposits to the Fund

The Fund began the fiscal year with a Net Asset Value of US$3,622 million. Over the period, the Government made two deposits[1] to the Fund as follows:

1. US$139.9 million on July 27, 2011; and
2. US$311.5 million on September 30, 2011.

For fiscal year 2011, a total of US$451.4 million was deposited to the Fund.

[1] Source: Budget Division, January 2011.

HSF Round Table 2011

On September 9th, the Board in conjunction with the World Bank (Treasury Division) hosted a one-day seminar on the HSF which was attended by key stakeholders from Government, the Central Bank, business, and relevant international organisations.

The main objective of the Round Table was to review the performance of the Fund, since inception, update the projections on expected oil revenue and discuss the Strategic Asset Allocation (SAA). The Round Table also included an Open Forum component where attendees posed questions on pertinent topics such as:

- The HSF Act Review 2012;
- Deposits to the Fund; and
- Increasing public awareness of the Fund

This Open Forum was quite useful as the Board was able to glean feedback from relevant Stakeholders. This feedback will be useful to the Board in its upcoming review of the HSF Act 2012.

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.

INVESTMENT REPORT

Executive Summary

Similar to other Sovereign Wealth Funds (SWFs), the Heritage and Stabilisation Fund's performance in 2011 was impacted by increased uncertainty in global economic and financial markets. While the prospects for the global economic recovery appeared promising towards the start of the 2010/2011 financial year, concerns about the mushrooming debt crisis in Europe and the impact of natural and nuclear disasters in Japan resulted in a major change in market sentiment which affected economic growth in the advances countries. The growth outlook provided pre-conditions for the respective Central Banks to maintain an accommodative monetary stance, in some cases through the introduction of new stimulus measures.

Financial markets in the US and Europe displayed higher than normal volatility during the financial year, particularly in the quarter ending in September 2011, when market volatility peaked. The equity markets were most affected. After posting double digit returns in the first six months of the financial year, these markets lost momentum in the quarter ended June and weakened further in the last quarter. For the twelve-month period to September 2011, equity markets posted negative returns while fixed income securities ended the year in positive territory as investors sought safe havens in an uncertain investment climate. Even in the face of the Standard and Poor's credit downgrade of the US debt rating, investors bought into US treasuries in the midst of heightened uncertainty in Europe. The reduced yields saw most fixed income benchmarks gaining moderate returns over the year.

Following an aggregate return of 5.90 per cent through June 2011, the whole year return for the Fund declined to 0.79 per cent. This was attributable to the poor performance of the equity markets which caused the overall portfolio to lose 4.82 per cent in the final quarter of the financial year. The aggregate return for the year ended September 2011 was the lowest since the inception of the Fund and compared with a return of 6.07 per cent in the previous year. For the year as a whole, the equity portfolio lost 5.30 per cent while the fixed income gained 3.74 per cent.

As an indication of the intra-year volatility, in the first three quarters of the financial year the equity portfolio yielded a return of 15.00 per cent and the fixed income portfolio recorded a return of 1.10 per cent. The corresponding returns for the fourth quarter of the financial year were negative 17.66 per cent and 2.61 per cent, respectively.

As at the end of September 2011, the net asset value of the Fund was US$4,084 million, an increase of US$462 million from the value one year earlier. Over the year, the Government made contributions to the Fund totaling US$451.4 million.

1. Macroeconomic Environment

Against the backdrop of adverse shocks to the international economy in 2011, global economic activity weakened and has become more uneven across regions, with risks remaining on the downside. The March earthquake and tsunami in Japan resulted in supply chain disruptions, the unrest in the

Middle East and North Africa curtailed oil supply and contributed to the surge in oil prices, and heightened concerns about the euro area sovereign debt crisis added to financial strains. These developments contributed to an uncertain economic environment and a marked decline in investor sentiment. According to the IMF's projections, global growth is likely to slow to 4 per cent in 2011. Although robust growth is expected to continue in emerging market economies, it will be slightly lower at around 6.4 per cent in 2011. In advanced economies, it is estimated to be more subdued at 1.6 per cent. The growth outlook for 2012 is anticipated to be lower than in 2011 due to ongoing developments in the Euro Zone. In an effort to bolster growth and increase employment, the Central Banks of most developed economies have employed a variety of monetary stimulus measures.

In the United States (US), the sluggish pace of growth, congressional policy indecision, growing concerns about the elevated rate of unemployment and the weak state of the housing market have exacerbated investor uncertainty. Growth is forecast to slow to around 1.5 per cent in 2011 following the strong recovery in 2010. As at December 22, GDP growth for the third quarter of 2011 was revised to 1.8 per cent from the earlier 2 per cent. The high unemployment rate remains a concern, although it declined slightly in November 2011. Hence, despite the uptick in inflation, the Federal Reserve has kept the target range for the federal funds rate unchanged at 0 to 0.25 per cent since 16 December 2008, in support of economic recovery.

In August 2011, Standard and Poor's announced a downgrade of the US sovereign credit rating from "AAA" to "AA+". In response to the announcement the Federal Reserve Board indicated its intention to keep short-term interest rates at exceptionally low levels at least through to mid-2013, and to take steps to restructure its balance sheet towards longer duration assets.

The economic situation in the Euro zone is tenuous, given the sovereign debt crisis and related financial disruptions. The rising uncertainty over the exposure of banks to Euro area sovereigns has given rise to funding pressures for banks in the Euro zone. Bailout packages were approved by the European Union (EU), the European Central Bank (ECB) and the IMF for Portugal, Ireland and Greece, while the sovereign debt ratings of these countries, in addition to Italy, were downgraded by international ratings agencies. The Euro zone has experienced a marked slowdown in economic activity during 2011, with real GDP growth rates of 0.2 per cent in both the second and third quarters. This anemic economic performance was mainly driven by the 0.5 per cent growth realised by Germany in the third quarter. The unemployment rate in the Euro zone has drifted above 10 per cent, but the disparity among countries is wide, with Greece and Spain exhibiting unemployment rates of 22.6 per cent and 17.6 per cent, respectively, as at end of September. Although inflation has been trending upward, the ECB reduced its benchmark interest rate to 1.25 per cent in November 2011.

Economic activity in 2011 was weaker in Japan and the UK than in the US and European Economic Area. In the UK, the fiscal austerity measures had a dampening effect on domestic demand, with the economy expanding marginally by 0.1 per cent in the second quarter of 2011 and at a slightly higher pace of 0.5 per cent in the third quarter. Moreover, unemployment rose during 2011, and as

INVESTMENT REPORT (CONTINUED)

at the end of September stood at 8.3 per cent. Inflation also picked up in 2011 and although the rate of increase slowed somewhat in October, it remains above the 2 per cent target set by the Bank of England. The Bank of England continued to keep the benchmark interest rate low at 0.5 per cent in support of the economic recovery.

In Japan, the earthquake and tsunami adversely affected exports and domestic private demand. During the three months to September 2011, the Japanese economy expanded by 1.5 per cent, after contracting in the prior three quarters. The unemployment rate has been on the decline, falling to 4.1 per cent at the end of September 2011 while inflation remained subdued.

Table 1
GDP Growth: selected developed economies
Quarter over quarter

/Per Cent/				
PERIOD	US*	EURO ZONE	UK	JAPAN
Mar-08	-1.8	0.6	0.0	0.8
Jun-08	1.3	-0.4	-1.3	-1.2
Sep-08	-3.7	-0.5	-2.0	-1.3
Dec-08	-8.9	-1.8	-2.2	-3.0
Mar-09	-6.7	-2.5	-1.5	-4.8
Jun-09	-0.7	-0.2	-0.2	2.0
Sep-09	1.7	0.4	0.2	-0.6
Dec-09	3.8	0.4	0.7	1.6
Mar-10	3.9	0.3	0.2	2.5
Jun-10	3.8	0.9	1.0	0.0
Sep-10	2.5	0.4	0.6	0.7
Dec-10	2.3	0.3	-0.5	-0.7
Mar-11	0.4	0.8	0.4	-0.7
Jun-11	1.3	0.2	0.1	-0.3
Sep-11	2.0	0.2	0.5	1.5

Source: Bloomberg. *US Data are annualised.

INVESTMENT REPORT (CONTINUED)

Table 2
Unemployment and inflation rates:
Selected developed economies unemployment rates

/Per Cent/				
PERIOD END	US	EURO ZONE	UK	JAPAN
Mar-08	5.1	7.3	5.2	3.8
Jun-08	5.6	7.6	5.4	4.0
Sep-08	6.2	7.7	5.9	4.0
Dec-08	7.3	8.4	6.4	4.4
Mar-09	8.6	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	9.7	10.2	8.0	5.1
Jun-10	9.5	10.2	7.8	5.2
Sep-10	9.6	10.1	7.7	5.0
Dec-10	9.4	10.0	7.9	4.9
Mar-11	8.8	10.0	7.7	4.6
Jun-11	9.2	10.0	7.9	4.6
Sep-11	9.1	10.2	8.3	4.1

Inflation Rates

Year-on-Year /Per Cent/				
PERIOD END	US	EURO ZONE	UK	JAPAN
Mar-08	4.0	3.6	2.5	1.2
Jun-08	5.0	4.0	3.8	2.0
Sep-08	4.9	3.6	5.2	2.1
Dec-08	0.1	1.6	3.1	0.4
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

Source: Bloomberg.

50 YEARS OF INDEPENDENCE
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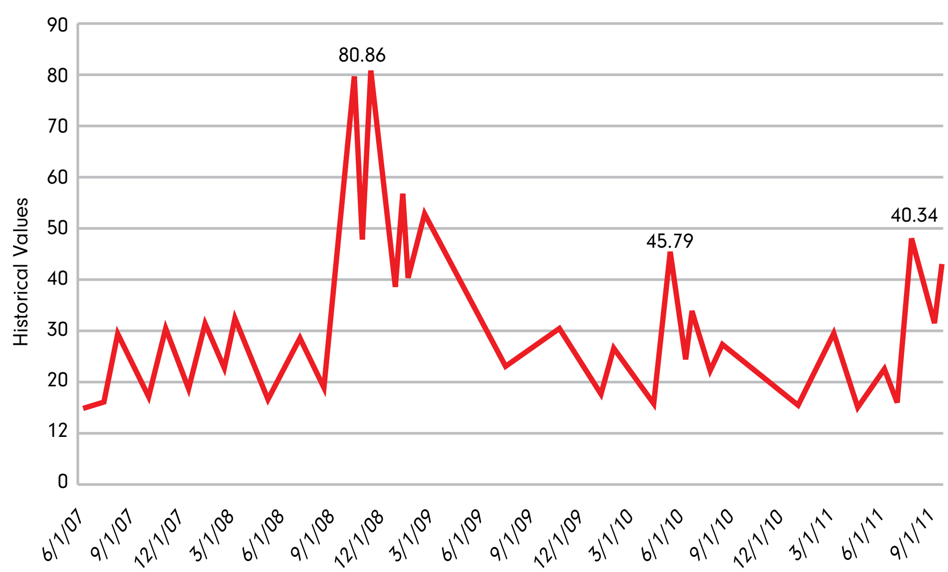
INVESTMENT REPORT (CONTINUED)

2. Financial Market Review

For the financial year ended September 2011, the world's financial markets experienced mixed results. The period started with encouraging economic data in the developed markets, indicative of continued economic recovery in the post financial crisis era. This was followed by growing concerns about the sovereign debt situation in Europe and progressively weaker economic data throughout the developed markets. These developments adversely affected market and investor sentiment.

Market volatility, which was relatively contained in the first three quarters of the financial year, heightened in the fourth quarter. This led to sharp movements in asset values throughout developed financial markets as investors sold equities and demanded relatively safer securities such as US Treasuries. The Chicago Board Options Exchange (CBOE) Volatility Index (VIX) which is a widely used measure of market volatility, increased to a 12-month high of 48 index points during August 2011. According to the VIX, the September 2011 quarter exhibited the highest level of volatility in more than two years, averaging 30.6 points, compared with 17.5 in the previous three months (Chart 1 refers).

Chart 1



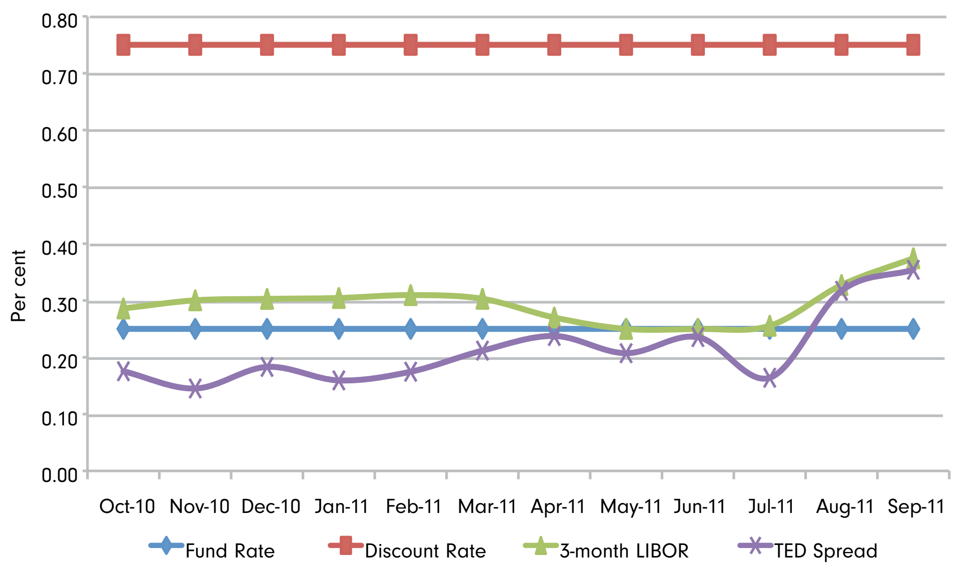
INVESTMENT REPORT (CONTINUED)

(a) Money Market

The US policy interest rate remained low throughout the 2010/2011 financial year, in the range 0 to 0.25 per cent. Meanwhile, the US one-month London Inter Bank Offered Rate (LIBOR) increased over the year to 0.37 per cent at the end of September 2011, from 0.26 per cent in September 2010. The rise in LIBOR was partly due to caution on the part of the banking sector with regard to inter-bank lending, given the European banking sector's exposure to the region's distressed sovereign debt. (Chart 2 refers)

The TED spread, which represents the difference between the 3-month Treasury bill rate and the 3-month London Inter-Bank Offered Rate (LIBOR), narrowed to 16 basis points in late July as the three-month Treasury bill rate increased in response to the approaching deadline for the United States to increase its debt ceiling or face possible default. Upon resolution of the impasse, the three-month Treasury bill rate reverted to its near zero levels, causing the TED Spread to end September at 35 basis points compared with 14 basis points one year earlier.

Chart 2
SELECTED US MONEY MARKET RATES
/per cent/



INVESTMENT REPORT (CONTINUED)

(b) Fixed Income Market

Following an increase in treasury yields during the first six months of the financial year, the US fixed income benchmarks benefited from the decline in yields in the latter six months, to post an overall positive return for the 2010/2011 financial year. The Barclays US Aggregate Index gained 6.20 per cent for the six months to September 2011, compared with a loss of 0.88 per cent in the previous six months. For the year as a whole, the US Treasuries sector of the Index[2] was the best performer, returning 5.97 per cent, followed by the US MBS sector which returned 5.56 per cent. The Corporate sector also performed satisfactorily, returning 4.40 per cent. (Chart 3 overleaf, refers). Among the Treasury securities, the longer-dated maturities exhibited the sharpest decline in yield during the second half of the year, as the yield on 30-year Treasury securities fell by 1.60 per cent, while the 10-year and 2-year yields declined by 1.55 per cent and 0.58 per cent, respectively.

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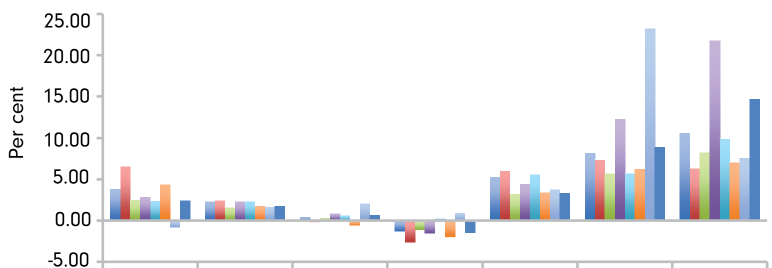
[2] A market-value-weighted index of taxable investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage backed securities, with maturities of one year or more.

Chart 3

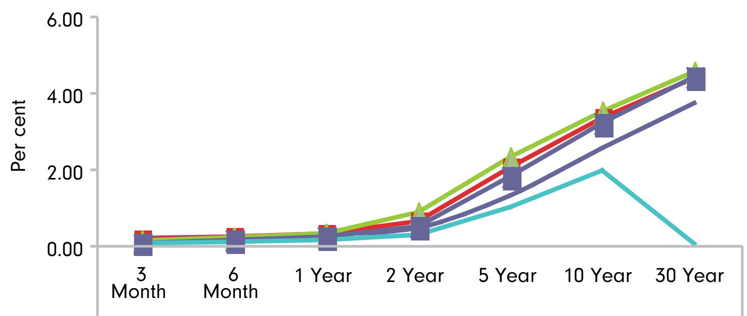
RETURNS ON FIXED INCOME INDICES



	Qtr 4 10/11	Qtr 3 10/11	Qtr 2 10/11	Qtr 1 10/11	FY 10/11	FY 09/10	FY 08/09
Barclays U.S. Aggregate	3.82	2.29	0.42	-1.30	5.26	8.16	10.56
U.S. Treasuries	6.48	2.39	-0.16	-2.64	5.97	7.32	6.26
U.S. Agencies	2.48	1.60	0.29	-1.11	3.20	5.69	8.21
U.S. Corporate	2.85	2.28	0.86	-1.61	4.40	12.27	21.77
U.S. MBS	2.36	2.28	0.58	0.24	5.56	5.71	9.85
G-7 Global Bonds (Hedged)	4.36	1.74	-0.61	-2.00	3.42	6.23	7.04
CMBS Index	-0.86	1.63	2.05	0.91	3.76	23.23	7.56

INVESTMENT REPORT (CONTINUED)

Chart 4
US TREASURY YIELD CURVE



	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
September 30, 2010	0.15	0.19	0.25	0.42	1.26	2.51	3.68
December 31, 2010	0.12	0.18	0.26	0.59	2.01	3.29	4.33
March 31, 2011	0.09	0.17	0.27	0.82	2.28	3.47	4.51
June 30, 2011	0.01	0.10	0.18	0.46	1.76	3.16	4.37
September 30, 2011	0.02	0.05	0.10	0.24	0.95	1.92	0.00

(c) Equity Market

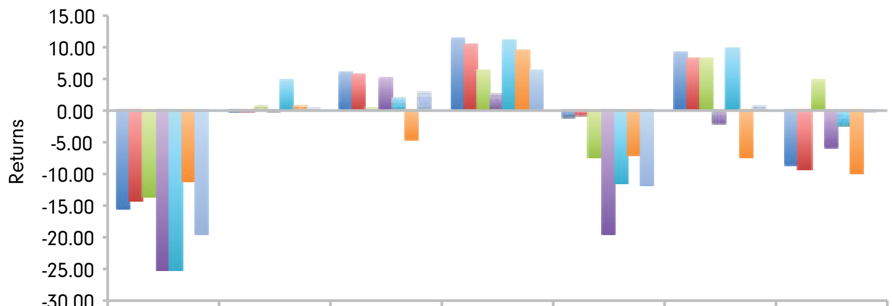
Global equity markets exhibited downward trends over the twelve months to September 2011. The US markets however, fared significantly better than those in other developed countries. The S&P 500 index and the Russell 3000 index lost 0.86 per cent and 1.30 per cent, respectively. By comparison, the MSCI EAFE index, which measures the performance of equities in Europe, Australia, New Zealand and the Far East, lost 12.02 per cent.

The first six months of the period under review were generally characterised by investor optimism related to continuing positive economic data in the US and other developed markets, as well as strong corporate profits. Macroeconomic events including the political conflicts in the Middle East, the tragic earthquake and tsunami in Japan and new European sovereign debt challenges emerged during the second quarter. While these events had a dampening effect on equity market returns, these markets, with the exception of Japan, remained in positive territory throughout the first half of the year. The returns for the S&P 500 index, the Russell 3000 index and the MSCI EAFE index for the six months ended March 31, 2011 were 16.17 per cent, 18.40 per cent and 9.07 per cent, respectively.

By the third quarter of the financial year, the global supply chain disruptions associated with the natural disasters in Japan, coupled with disappointing economic data across markets, dealt a severe blow to investor confidence. The momentum observed during the first part of the year had all but dissipated as stock markets in the US and France crept into negative territory, whilst others though positive, were generally lacklustre.

INVESTMENT REPORT (CONTINUED)

Chart 5
RETURNS ON EQUITY INDICES



	Q4 10/11	Q3 10/11	Q2 10/11	Q1 10/11	FY 10/11	FY 09/10	FY 08/09
Russell 3000	-15.70	-0.48	5.92	11.08	-1.30	8.85	-8.64
S&P 500	-14.33	-0.39	5.42	10.20	-0.86	7.96	-9.37
FTSE 100 - UK	-13.74	0.63	0.15	6.33	-7.57	8.08	4.72
CAC 40 - France	-25.12	-0.17	4.85	2.41	-19.74	-2.11	-5.87
DAX 30 - Germany	-25.41	4.76	1.84	11.00	-11.67	9.76	-2.67
Nikkei 225 - Japan	-11.37	0.63	-4.63	9.17	-7.14	-7.54	-10.01
MSCI EAFE	-19.60	0.32	2.67	6.23	-12.02	0.53	-0.02

The final three months of the financial year produced the second worst quarterly performance for equity markets since the beginning of the credit crisis in 2007. This poor performance contributed to the double-digit losses posted by the S&P 500 index, the Russell 3000 index and the MSCI EAFE index for the six months to September 30, 2011, which more than outweighed the gains made during the prior six months.

(d) Currency Market

During the financial year, the foreign exchange market also experienced periods of heightened volatility. In the earlier part of 2011, the Japanese Yen appreciated significantly relative to the US Dollar, while the Euro and the Pound Sterling posted moderate gains. These movements reflected investors' anticipation that the European Central Bank and the Bank of England would increase their key policy rates in an effort to curb rising inflation. In addition, the Japanese Yen and Swiss Franc were considered to be safe haven currencies in periods of heightened volatility during the year when investors sought to reduce risk. The Japanese Yen and Swiss Franc therefore experienced rapid appreciation, particularly during the last quarter of the financial year when the European sovereign debt dilemma had financial markets in extreme turmoil. However, the upward trajectory of the Yen was temporarily halted when the Bank of Japan intervened in the currency market. Over the financial year, the Bank of Japan intervened in the market on three occasions.

The Swiss National Bank (SNB) also employed measures to stem the appreciation of its currency, by imposing a ceiling of 1.20 francs per Euro on September 06, 2011. This was the first such measure to be adopted by the Swiss authorities in over three decades, amid concerns that the overvaluation of the Swiss franc posed a severe threat to the Swiss economy.

The US Dollar, which weakened in value against other major currencies for most of the year, regained some strength during the highly volatile fourth quarter of the financial year. The strengthening of the US Dollar vis-à-vis the Pound Sterling and the Euro more than compensated for the loss in value in the prior months. In the twelve months to September 2011, the US Dollar appreciated against these currencies while it depreciated against the Japanese Yen.

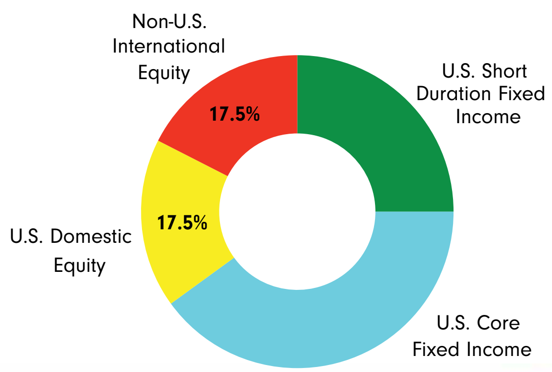
3. Strategic Asset Allocation

a) Portfolio Transitioning

The portfolio's planned transition from being entirely invested in money market instruments to the Strategic Asset Allocation (SAA)[3] which began in August 2009, was completed in January 2011. When the SAA target was attained, the Fund's investment portfolio was fully invested in the four major asset classes shown in Chart 6 below.

[3] 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

Chart 6
THE FUND'S STRATEGIC ASSET ALLOCATION



INVESTMENT REPORT (CONTINUED)

b) Fund Value

The net asset value of the Fund was US$4,084 million as at the end of September 2011 compared with US$3,622 million one year earlier. This increase in value reflected the positive return on investments in addition to contributions made by the Government. During the financial year, the Government contributed US$451 million to the Fund, of which US$311.46 million was deposited on September 30 2011. These deposits were in accordance with the provisions of Section 14 (1) of the Heritage and Stabilisation Fund Act, 2007, which states that "a minimum of sixty per cent of the aggregate of the excess revenues shall be deposited to the Fund during a financial year." In the budget the oil price was $65 per barrel while the average (West Texas Intermediate) price of $92.80 was received over the twelve months to September 2011.

c) Portfolio Composition

At the end of the September 2011, approximately sixty-two per cent (62%) of the investment portfolio was held in fixed income securities while equity investments accounted for almost 31 per cent. The remaining portion (7 per cent) represented the Government's contribution to the Fund made on last day of the financial year, which was placed on deposit. From time to time, the composition of the portfolio is expected to deviate from the SAA weighting due to changes in assets' market values and as a result of contributions or withdrawals by the Government. The Fund's SAA and the portfolio composition over the 2010/2011 financial year are shown below (Table 4, refers).

Table 4

Portfolio composition relative to the approved SAA

/Per Cent/

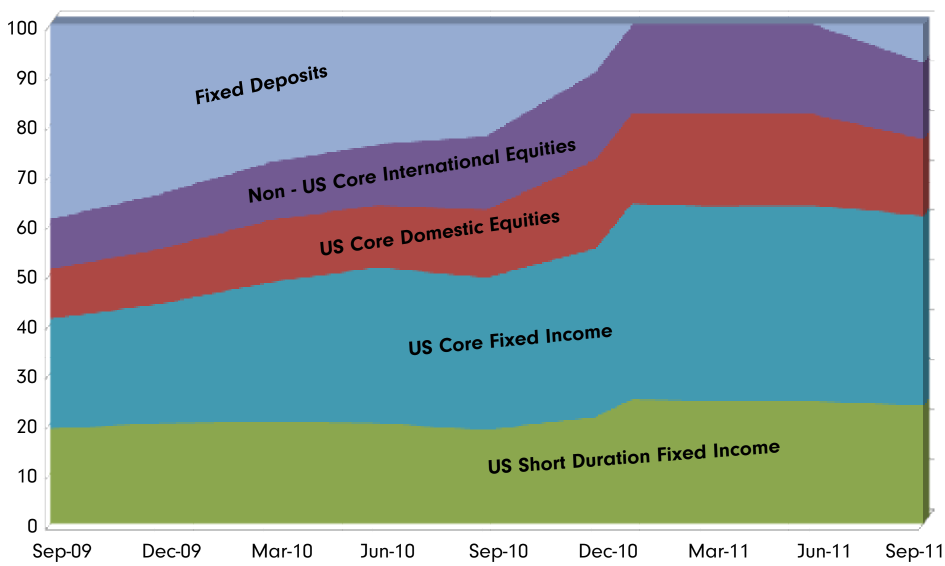
	Asset Class	Target Weight SAA	Dec-10 Actual % of Fund	Mar-11 Actual % of Fund	Jun-11 Actual % of Fund	Sep-11 Actual % of Fund
Portfolio Weights	US Deposits	0.00	22.26	0.00	0.00	7.63*
	US Short Duration Fixed Income	25.00	18.72	24.57	24.44	23.59
	US Core Domestic Fixed Income	40.00	30.22	39.11	39.29	38.11
	US Core Domestic Equity	17.50	13.57	18.54	18.30	15.45
	Non-US Core International Equity	17.50	14.90	17.78	17.97	15.22

*These deposits represent the cash contribution made by the Government on September 30, 2011.

50 YEARS OF INDEPENDENCE
TRINIDAD & TOBAGO

I N V E S T M E N T   R E P O R T   (C O N T I N U E D)

Chart 7
ASSET COMPOSITION OF THE HSF PORTFOLIO
/per cent/



50 YEARS OF INDEPENDENCE
TRINIDAD & TOBAGO

INVESTMENT REPORT (CONTINUED)

4. Portfolio Performance

For the financial year ended September 30, 2011, the Fund's investment portfolio returned 0.79 per cent, compared with 1.14 per cent for the composite benchmark and 6.07 per cent for the previous financial year. Within the Fund the US Core Fixed Income portfolio was the best performer, adding 1.89 per cent to the Fund's composite return. Conversely, the Non-US International Equity portfolio exhibited the weakest performance, losing 1.66 per cent. Generally all mandates underperformed their respective benchmarks over the financial year. (Table 5, refers).

Table 5
Portfolio performance: FY 2010/2011
/per cent/

	Percentage of Portfolio as at September 30 2011	HSF Mandate Contribution to Total Return	Benchmark Contribution to Total Return	Excess Return
Composite Portfolio	100.00	0.79	1.14	-0.35
• Money Market**	7.63*	0.01	0.00	0.01
Fixed Income:				
• US Short Duration Fixed Income	23.59	0.54	0.58	-0.04
• US Core Fixed Income	38.11	1.89	2.17	-0.28
Equity:				
• US Core Domestic Equity	15.45	0.04	0.05	-0.01
• Non US Core International Equity	15.22	-1.66	-1.63	-0.03

* These deposits represent the cash contribution made by the Government on September 30, 2011.
** Money Market deposits were not held for most of the financial year.

The Fixed Income portion of the Fund benefitted from the decline in US Treasury yields over the financial year as investors shied away from European sovereign securities given the debt crisis in the EU. The net aggregate asset value of the two fixed income mandates stood at US$2,518.6 million by the end of September 2011, up from US$1,784.6 million one year earlier. This increase in value mainly reflected the transfer of US$644.3 million to this mandate during the financial year.

I N V E S T M E N T   R E P O R T   (C O N T I N U E D)

The US Short Duration Fixed Income sub-component gained 2.18 per cent over the twelve months to September 2011, underperforming the Bank of America Merrill Lynch 1-5 year US Treasury Index by 7 basis points. This underperformance was due largely to the shorter duration of the portfolio versus the benchmark. This underweight of the duration meant that the portfolio did not benefit as much as the benchmark, as treasury yields declined over the period. (Table 6, refers).

Table 6

Key Performance Data FY 2010/2011

Market Value as at September 30, 2011	PORTFOLIO SIZE /US-Dollars/	PORTFOLIO RETURN /per cent/	BENCHMARK RETURN /per cent/
TOTAL / COMPOSITE	4,084,016,158	0.79	1.14
US Deposits	313,827,866	0.01	0.00
US Short Duration Fixed Income Portfolio	962,952,843	2.18	2.25
US Core Fixed Income Portfolio	1,555,606,283	4.72	5.29
US Core Equity Portfolio	630,417,597	-0.35	-0.09
Non US Core International Equity Portfolio	621,211,569	-10.16	-9.87

The US Core Domestic Fixed Income sub-component returned 4.72 per cent versus a return of 5.29 per cent for the benchmark, the Barclays Capital US Aggregate Bond Index. The portfolio's underperformance was attributed in part to its shorter duration relative to the benchmark, as well as its overweight exposure to the corporate credit sector. Corporate credit was among the worst performing sectors in the Barclay's bond Index.

The Equity portfolios, which recorded positive returns in the first half of the financial year, gave up these gains in the second half of the year. The aggregate market value of the combined equity mandates was US$1,251.6 million as at the end of September 2011, compared with US$1,031.3 million as at September 30, 2010. This increase in value reflected the transfer of US$299.7 million to this mandate during the financial year.

The US Core Domestic Equity sub-component lost 0.35 per cent, underperforming its benchmark, the Russell 3000 ex Energy Index, by 26 basis points. The lower return of the portfolio relative to the benchmark was on account of stock selection decisions. Allocations were made to some stocks that performed less than the average of their respective sectors. (Table 6, refers).

The other equity mandate, the Non-US International Equity sub-portfolio, lost 10.16 per cent compared with a loss of 9.87 per cent for the MSCI EAFE ex Energy Index. The portfolio's underperformance can be mainly attributed to the unfavourable country and security selection decisions made during the

INVESTMENT REPORT (CONTINUED)

quarter ending September 2011. The gains from security selection in the Financials and Utilities sectors were more than outweighed by the losses on the weaker security selections including the Information Technology and Consumer Staples sectors. On a regional level, stock selection in Europe and Asia ex-Japan detracted the most from relative performance.

As the investment portfolio was transitioning to achieve its target SAA, money market deposits were held for the first three months of the financial year. These deposits returned 2 basis points over the period versus 1 basis point for its LIBID benchmark. The market value of the US dollar deposits was US$313.8 million as at September 30, 2011, mainly reflecting the Government's contribution to the Fund.

5. Portfolio Risks

The main risks for the HSF portfolio are Credit, Concentration, Interest rate and Currency risks. Below indicates how these risks are mitigated.

(a) Credit Risk

For the money market portion of the Fund, Credit risk is minimised 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 5.00 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. The Average Credit Quality was "AAA" and "AA" for the US Short Duration and US Core Fixed Income Portfolios, respectively.

For the equity portfolios, Credit risk is managed by imposing a maximum percentage holding of 3.00 per cent of any security's outstanding shares, as well as a maximum sector deviation relative to the benchmark of 5.00 per cent.

(b) 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. Asset classes in which the Fund invests react differently under a given market condition and when one asset class has strong returns, another may have lower returns. The Fund's investments are also diversified across a number of assets with the aim of securing a positive return under a range of market conditions and to lower the total risk of the portfolio.

(c) 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 7 shows the weighted average duration for the US Short Duration and US Core Domestic Fixed Income portfolios as at September 30, 2011.

(d) Currency Risk

Currency risk is managed by containing and managing the exposure to non-US dollar instruments. The Fund is invested in thirteen currencies in addition to the US dollar. These currencies include the Euro, Japanese Yen, Pound Sterling, Australian dollar, Canadian 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.

Table 7

Weighted average duration

/Years/

Mandate	Portfolio	Benchmark
US Short Duration	2.63	2.59
US Core Domestic Fixed Income	4.41	4.47

INVESTMENT REPORT (CONTINUED)

Table 8
Implied currency exposure

CURRENCY	Per Cent
US DOLLAR	85.42
EURO CURRENCY	4.35
POUND STERLING	3.00
JAPANESE YEN	2.51
AUSTRALIAN DOLLAR	1.26
HONG KONG DOLLAR	0.96
SWISS FRANC	0.88
SWEDISH KRONA	0.39
SINGAPORE DOLLAR	0.30
NORWEGIAN KRONE	0.35
CANADIAN DOLLAR	0.20
NEW ZEALAND DOLLAR	0.19
ISRAELI SHEKEL	0.16
DANISH KRONE	0.03
COMPOSITE TOTAL	100.00

APPENDICES

Appendix I
Transition Plan: Asset Allocation
/per cent/

	Asset Class	Jun-09	Sep -09	Oct -09	Jan-10	Apr-10	Jul-10	Oct-10	Jan-11
Portfolio Weights	US Fixed Deposits	95.00	46.00	38.00	30.00	22.00	14.00	6.00	0.00
	Bank of America/Merrill Lynch US 1-5year Treasury Index	5.00	13.50	15.50	17.50	19.50	21.50	23.50	25.00
	Fixed Income (Barclays US Aggregate)	0.00	21.60	24.80	28.00	31.20	34.40	37.60	40.00
	US Equities (Russell 3000 ex-Energy)	0.00	9.45	10.85	12.25	13.65	15.05	16.45	17.50
	Non-US Equities (MSCI EAFE ex-Energy)	0.00	9.45	10.85	12.25	13.65	15.05	16.45	17.50

Appendix II
Heritage and Stabilisation Fund
Financial Year Portfolio Valuation
/USD/

Valuation Date	Net Asset Value	Financial Year Income	Accumulated Surplus & Unrealised 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

Appendix III

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

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%).

REPUBLIC OF TRINIDAD AND TOBAGO
AUDITOR GENERAL'S DEPARTMENT

REPORT OF THE AUDITOR GENERAL

ON THE FINANCIAL STATEMENTS OF THE HERITAGE AND STABILISATION FUND OF THE REPUBLIC OF TRINIDAD AND TOBAGO

FOR THE YEAR ENDED

2011 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 2011 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 2011 September 30 have been audited. The Statements comprise a Statement of Financial Position as at 2011 September 30, a Statement of Comprehensive Income, a Statement of Changes in Equity and a Statement of Cash Flows for the year ended 2011 September 30 and Notes to the Financial Statements numbered 1 to 12.

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 generally accepted Auditing Standards. 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 2011 September 30 and its financial performance and its cash flows for the year ended 2011 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.'

REPUBLIC OF TRINIDAD AND TOBAGO
2011 11 30
AUDITOR GENERAL

2011 November 30

MAJEED ALI
ACTING AUDITOR GENERAL

STATEMENT OF FINANCIAL POSITION

for the year ended 30 September 2011

(Expressed in United States Dollars)

	Notes	Sep-11 $	Restated Sep-10 $	Restated Sep-09 $
ASSETS				
Current assets				
Cash and cash equivalents	4	525,732,797	933,227,253	1,283,692,830
Investments	5	3,652,929,887	2,784,387,736	1,795,717,463
Accounts receivable and prepayments	6	310,543,278	236,082,395	165,372,284
TOTAL ASSETS		4,549,205,962	3,954,297,384	3,244,782,577
LIABILITIES				
Current liabilities				
Accounts payable	7	468,325,456	334,533,238	280,008,155
TOTAL LIABILITIES		468,325,456	334,533,238	280,008,155
NET ASSETS		4,080,880,506	3,619,764,146	2,964,774,422
PUBLIC EQUITY				
Contributed capital		3,706,803,439	3,255,402,920	2,778,058,656
Available-for-sale financial assets revaluation reserve		(34,879,596)	132,396,508	42,682,244
Accumulated surplus		408,956,663	231,964,718	144,033,522
TOTAL EQUITY		4,080,880,506	3,619,764,146	2,964,774,422

Avyann Ferguson
(Chairperson)

Ewart Williams

Enid Zephyrine

Anushka Alcazar

REPUBLIC OF TRINIDAD AND TOBAGO
2011.11.30
AUDITOR GENERAL

The accompanying notes from an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2011

(Expressed in United States Dollars)

	Note	Sep-11	Restated Sep-10
		$	$
Income			
Investment income	8	99,488,411	69,751,377
Investment expenses		(18,510,964)	(15,248,450)
Gain on sale of investments		267,184,722	101,545,318
Loss on sale of investments		(167,874,381)	(66,116,648)
Income from investments		180,287,788	89,931,597
Other income		77,925	3,876
Total income		180,365,713	89,935,473
Operating expenses			
Management fees		1,142,303	936,188
Subscription fees		13,680	9,000
Bank charges		-	391
Audit fees		6,846	7,567
License fees		5,167	3,000
Total operating expenses		1,167,996	956,146
Net profit for the year before tax		179,197,717	88,979,327
Withholding tax expense		2,205,772	1,048,131
Net profit for the year after tax		176,991,945	87,931,196
Other comprehensive income:			
Available-for-sale financial assets			
- Unrealised (loss)/gain from fair value changes		(167,276,104)	89,714,264
Other comprehensive income for the year		(167,276,104)	89,714,264
Total comprehensive income for the year		9,715,841	177,645,460

The accompanying notes from an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2011

(Expressed in United States Dollars)

	Contributed Capital	Available-for-Sale Financial Assets Revaluation Reserve	Accumulated Surplus	Total
	$	$	$	$
Balance as at 1 October 2009	2,778,058,656	42,682,244	144,033,522	2,964,774,422
Contributions from Government for the year	477,344,264	-	-	477,344,264
Total comprehensive income for the year	-	89,714,264	87,931,196	177,645,460
Balance as at 30 September 2010	3,255,402,920	132,396,508	231,964,718	3,619,764,146
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

The accompanying notes from an integral part of these financial statements

STATEMENT OF CASH FLOWS

for the year ended 30 September 2011

(Expressed in United States Dollars)

	Note	Sep-11 $	Restated Sep-10 $
Cash flows from operating activities			
Net profit for the year		176,991,945	87,931,196
Adjustments			
Interest income		(61,721,861)	(49,297,139)
Dividend income		(37,766,550)	(20,454,238)
Net realised gain from sale of investment		(99,310,341)	(35,428,670)
Cash flows before changes in operating assets and liabilities		(21,806,807)	(17,248,851)
Changes in operating assets and liabilities			
(Increase) in accounts receivable		(71,024,748)	(68,197,505)
Increase in accounts payable		133,792,218	54,525,083
Net cash flows from/(used in) operating activities		40,960,663	(30,921,273)
Cash flows from investing activities			
Interest received		59,414,952	47,934,583
Dividend received		36,637,324	19,304,188
Purchase of Investments		(1,036,505,674)	(1,081,211,107)
Proceeds from sale of investments		100,069,647	217,710,554
Net cash (used in) investing activities		(840,383,751)	(796,261,782)
Cash flows from financing activities			
Contributed capital		451,400,519	477,344,264
Net cash flow from financing activities		451,400,519	477,344,264
Effects of exchange rate changes on cash and cash equivalent		(71,887)	(26,786)
Net (decrease) in cash and cash equivalents		(348,094,456)	(349,865,577)
Cash and cash equivalents, beginning of year		933,827,253	1,283,692,830
Cash and cash equivalents, end of year	4	585,732,797	933,827,253

The accompanying notes from an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2011

(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 friture 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.

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 financial statements' date.

50 YEARS OF INDEPENDENCE
TRINIDAD & TOBAGO

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 30 September 2011

(Expressed in United States Dollars)

2. Accounting Policies (cont'd)

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.

Unrealised gains and losses on these investments are recognised in Equity (Other Comprehensive Income) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 30 September 2011

(Expressed in United States Dollars)

2. Accounting Policies (cont'd)

e) Premium/Discount

A premium arises when a bond or treasury bill price is higher than its par value. This occurs because 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 is treated as an asset on the Statement of Financial Position, due to the future economic benefit expected from the bond or treasury bill. Similarly, a discount is treated as a liability on the Statement of Financial Position.

f) 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.

g) Expenses

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

h) 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.

i) Accounts receivable

Accounts receivable are stated at their expected realisable value.

j) Accounts payable

Accounts payable are stated at their expected amounts.

k) Comparative information

When necessary, comparative data have been adjusted to conform with changes in presentation in the current year.

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TRINIDAD & TOBAGO

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 30 September 2011

(Expressed in United States Dollars)

2. Accounting Policies (cont'd)

l) 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.

m) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 30 September 2011

(Expressed in United States Dollars)

3. Financial Risk Management

a) Portfolio Performance

The portfolio performance for the twelve months ended 30 September 2011 was as follows:

12 Months Performance			
Portfolio	Fund	Benchmark Return	Benchmark Composition
Composite	0.79%	1.16%	Merrill Lynch US Government
			Treasury 1-5 Years Index US 1-
			month LIEU), Barclays Capital US
			Aggregate Bond Index, Russell 3000
			(ex Energy), MS CI EAFE (Ex Energy)
Money Market	0.01%	0.00%	US 1-month LIBID
US Short Duration Fixed Income Portfolio	0.54%	0.58%	Merrill Lynch US Government Treasury 1-5 Years Index
US Core Fixed Income	1.89%	2.17%	Barclays Capital US Aggregate Bond Index
US Core Domestic Equity	004%	0.07%	Russell 3000 (ExEnergy)
Non US Core International Equity	-1.66%	-1.63%	MSCIEAPE (ExEnergy)

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 counter party to 5% of the Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 30 September 2011

(Expressed in United States Dollars)

3. Financial Risk Management (cont'd)

b) Portfolio Risk (continued)

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.

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 of two years, with an allowable range of one (1) year longer or shorter than the weighted average duration of the respective Benchmark.

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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 30 September 2011

(Expressed in United States Dollars)

3. Financial Risk Management (cont'd)

Market Risk (continued)

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 (CONT'D)

for the year ended 30 September 2011

(Expressed in United States Dollars)

4. Cash and cash equivalents

	Sep-11 $	Restated Sep-10 $	Restated Sep-09 $
Fixed deposits	-	175,736,057	1,017,934,322
Cash at bank	316,019,306	180,707,916	10,634,186
Cash at broker	6,904,742	-	
US Government Money Market	262,906,450	577,409,094	255,123,350
	585,830,498	933,853,067	1,283,691,858
Net effect of exchange rate changes	(97,701)	(25,814)	972
	585,732,797	933,827,253	1,283,692,830

5. Investments

	Sep-11 $	Restated Sep-10 $	Restated Sep-09 $
Available-for-sale financial assets			
Amortised Cost	3,688,525,365	2,652,009,195	1,753,047,444
Net (Depreciation)/Appreciation	(35,595,478)	132,378,541	42,670,019
	3,652,929,887	2,784,387,736	1,795,717,463
Represented by:			
Fixed income investments			
Amortised Cost	2,369,810,699	1,714,911,091	1,198,275,229
Net Appreciation in Market Value	57,186,725	53,589,303	12,753,647
	2,426,997,424	1,768,500,394	1,211,028,876
Equity			
Cost	1,318,714,666	937,098,104	554,772,215
Net (Depreciation)/Appreciation in Market Value	(92,782,203)	78,789,238	29,916,372
	1,225,932,463	1,015,887,342	584,688,587
Total	3,652,929,887	2,784,387,736	1,795,717,463

50 YEARS OF INDEPENDENCE
TRINIDAD & TOBAGO

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 30 September 2011

(Expressed in United States Dollars)

6. Accounts receivable and prepayments

	Sep-11 $	Restated Sep-10 $	Restated Sep-09 $
Trade Receivables	292,453,988	223,260,157	155,976,095
Interest Receivable	11,568,515	9,261,606	7,899,050
Dividends Receivable	3,765,163	2,635,937	1,485,887
Other Receivables	2,755,612	924,695	11,252
	310,543,278	236,082,395	165,372,284

Accounts receivable at 30 September 2011 includes Pending Trades - Investments and Foreign Currency Sold in the amounts of USD 261,953,363 and USD 30,500,625 respectively which will subsequently be settled during the period October - November 2011.

7. Accounts payable

	Sep-11 $	Restated Sep-10 $
Pending Trades	459,875,927	331,918,390
Accruals	3,140,076	2,223,159
Other Payables	5,302,453	391,689
Amount due to Central Bank of Trinidad and Tobago	1,000	-
	468,325,456	334,533,238

As at 30 September 2011 there were Pending Trade - Investments and Foreign Currency Purchased of USD 430,243,456 and USD 29,632,471. Subsequent settlement will occur during the period October - November 2011.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 30 September 2011

(Expressed in United States Dollars)

8. Investment income

	Sep-11	Restated Sep-10
	$	$
Interest Income		
Cash at bank	7,353	6,529
Fixed deposits	217,298	1,738,339
Available-for-sale financial assets	59,349,895	43,940,983
Amortisation of bond discount	2,147,315	3,607,847
Short term security	-	3,441
	61,721,861	49,297,139
Dividend income	37,766,550	20,454,238
Total	99,488,411	69,751,377

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 (m)). During the current financial year ended 30 September 2011 capital contributions of USD 451,400,519 were received.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 30 September 2011

(Expressed in United States Dollars)

12. Comparative figures

The restated Statement of Financial Position and Statement of Comprehensive Income for the years ended 30 September, 2010 and 30 September, 2009 resulted from the re-classification of some items in order to achieve a clearer or more transparent presentation. These changes commenced in August 2009.

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	933,853,067	933,827,253	(25,814)
Investments	2,784,405,703	2,784,387,736	(17,967)
Accounts receivable and prepayments	236,040,232	236,082,395	42,163
Net restatement of assets	3,954,299,002	3,954,297,384	(1,618)

Restatement of Statement of Comprehensive Income Items for the year ended 30 September 2010	Audited Sep-10 $	Restated Sep-10 $	Movement Sep-10 $
Income			
Investment income	-	69,751,377	(69,751,377)
Interest income	49,297,139	-	49,297,139
Dividend Income	20,454,238	-	20,454,238
Net restatement of investment income	69,751,377	69,751,377	-
Net restatement of profit for the year after tax	-	-	-

50 YEARS OF INDEPENDENCE
TRINIDAD & TOBAGO

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 30 September 2011

(Expressed in United States Dollars)

12. Comparative figures (continued)

Restatement of Statement of Financial Position Items As at 30 September 2009	Audited Sep-09 $	Restated Sep-09 $	Movement Sep-09 $
ASSETS			
Current assets			
Cash and cash equivalents	1,283,691,858	1,283,692,830	972
Investments	1,795,729,687	1,795,717,463	(12,224)
Accounts receivable and prepayments	165,361,032	165,372,284	11,252
Net restatement of assets	3,244,782,577	3,244,782,577	-

Restatement of Statement of Comprehensive Income Items for the year ended 30 September 2009	Audited Sep-09 $	Restated Sep-09 $	Movement Sep-09 $
Income			
Investment income	-	32,720,257	(32,720,257)
Interest income	30,424,168	-	30,424,168
Dividend Income	2,296,089	-	2,296,089
Net restatement of investment income	32,720,257	32,720,257	-
Net restatement of profit for the year after tax	-	-	-

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