Trinidad and Tobago

Heritage & Stabilisation Fund

QUARTERLY INVESTMENT REPORT

April to June 2011

CENTRAL BANK OF
TRINIDAD & TOBAGO

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EXECUTIVE SUMMARY

During the second quarter of 2011, economic growth in the developed world showed signs of a slowdown. In the three months to June, the major economies were challenged by the effects of the March disaster in Japan, the debt crisis in Europe and disappointing economic data. In the **United States (US)**, manufacturing activity decelerated amidst supply chain disruptions, a contraction in consumer spending and continued labour and housing market weakness. However, market analysts consider the current state of the US economy as transitory and expect growth to gain momentum during the second half of the year.

In the **Euro zone**, the major downside risk to growth continued to be the sovereign debt challenges facing the region's periphery nations. Bailout packages were approved for Portugal and Greece in the amounts of EUR 78 billion and EUR 109 billion, respectively. These nations along with Ireland were also downgraded by ratings agencies during the quarter. After increasing its benchmark interest rate by 25 basis points in April, the European Central Bank (ECB) carried out a similar policy action on July 07 2011, in an effort to address the region's relatively high inflation rate.

The **United Kingdom (UK)** economy appeared to have maintained a fragile footing in the second quarter as growth in the manufacturing sectors slowed, and domestic demand weakened on account of declining government expenditure and elevated inflation. Unlike the ECB, the Bank of England's Monetary Policy Committee left its benchmark interest rate unchanged despite the high risk of inflation.

The effects following the events of the March 11 earthquake in **Japan** continued to have an adverse impact on the economy during the quarter ending in June. However, recent statements by the Bank of Japan suggests that supply constraints have started to ease and that growth should return to positive territory during the third quarter of calendar 2011.

Given the recent economic developments across regions, financial markets were somewhat volatile as investor uncertainty increased markedly over the review period. In the US, the various sectors of the fixed income market posted gains, while equities returned losses due in part to the poor performance of the financial and energy sectors.

During the period April to June 2011, the Investment Portfolio returned 1.88 per cent, compared with a return of 1.81 per cent for the SAA benchmark. The fixed income portion of the Fund contributed 1.23 per cent to total returns, while the equity portion added 0.65 per cent. As at June 30 2011, **the total market value of the HSF portfolio was US$3,825.6 million, up from US$3,759.7 million at the end of March 2011.** The fixed income mandates accounted for 64 per cent of the investment portfolio, while the equity mandates accounted for the remaining 36 per cent as at the end of the quarter.

SECTION 1 – INTERNATIONAL ECONOMIC ENVIRONMENT

United States

According to preliminary GDP data, the US economy grew at an annualised rate of 1.3 per cent compared with revised growth of 0.4 per cent (from 1.9 per cent) for the first quarter of 2011. The acceleration in real GDP reflected lower imports and increased federal government spending. Despite this trend, US growth was still sluggish and economic and financial indicators were generally lack-luster over the period. The growth in retail sales slowed considerably during the second quarter to 0.2 per cent, from 2.8 per cent in the March quarter. On the manufacturing front, the Institute of Supply Management's Purchasing Managers Index[1] (PMI) revealed that the sector expanded modestly between April and June 2011, as the index averaged 56.4 per cent over the three months. However, the rate of growth in the manufacturing sector lagged that of the previous quarter, when the index averaged 61.1 per cent.

The depressed state of the labour and housing markets continued to underscore the challenges facing the US economy. There was a marked slowdown in job creation in the June quarter resulting in an increase in the unemployment rate to 9.2 per cent, up from 8.8 per cent in March 2011. Meanwhile, the housing market remained weak as the annual rate of housing starts for the second quarter averaged 576,000, 1.2 per cent lower than the average for the first quarter of 2011.

Inflationary pressures mounted during the quarter, mainly as a result of rising energy prices. The year-on-year inflation rate measured 3.6 per cent in June 2011, the highest rate since October 2008 and was 0.9 percentage points higher than the inflation rate for

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

the previous quarter. The core inflation rate, which strips out the impact of energy and food prices also increased, reaching its highest level since January 2010. In the twelve months to June 2011, core inflation measured 1.6 per cent, up from the 1.2 per cent posted three months earlier.

At the June 2011 meeting, the Federal Open Market Committee (FOMC) indicated that the recent increase in consumer prices was transitory and that longer-term inflation expectations continued to be stable. As such, the Committee decided to maintain the target range for the Federal Funds rate between 0 and 0.25 per cent. In addition, the Federal Reserve completed its purchase of $600 billion in longer-term Treasury securities (QE2) at the end of June 2011, and maintained its existing policy of reinvesting principal payments from its securities holdings.

In other developments to late July 2011, the Congress was yet to reach an agreement over the increasing of the government's statutory debt limit above the current ceiling of US$14.3 trillion. Failure to raise this limit in a timely manner can have negative implications for the US economy. These include defaulting on its debt which comes due as early as August 02 2011, likely credit rating downgrades, higher interest rates, weakening of the US dollar and financial market turmoil.

Euro zone

Concerns about the potential fallout from the severe debt and fiscal problems of the Euro area periphery nations dominated the headlines during the June quarter. Bailout packages were approved for Portugal and Greece by the EU, ECB and the IMF, in the amounts of EUR 78 billion and EUR 109 billion, respectively. The sovereign credit ratings of some EU Member States were also subjected to negative rating actions with Ireland, Portugal and

Greece all being downgraded by international ratings agencies. In addition, Italy's debt outlook was placed on negative watch.

In other news, the Euro area's output expanded by 0.8 per cent during the first quarter of 2011, compared with growth of 0.3 per cent in the fourth quarter of 2010. Increased consumption, business investment and accelerated export growth were the major contributors to this outturn. On a country specific level, Germany and France were the leaders in the region's growth, as these economies expanded by 1.5 per cent and 1.0 per cent respectively, during the quarter. Recent data however, pointed towards a deceleration in economic activity in the second quarter of 2011.

In June 2011, the Euro zone's manufacturing purchasing managers' index, which provides a gauge of economic activity in the manufacturing sector, fell to its lowest posting in eighteen months at 52, though remaining in positive territory. This followed an eleven–year high of 59 in February.

Analysts forecast a weaker second quarter as governments implemented tough spending cuts to lower their budget deficits, while high energy costs exerted a downward pressure on consumer spending.

The employment rate in the region remained unchanged at 9.9 per cent in May compared with March 2011. Similarly, consumer prices rose by 2.7 per cent in the twelve months to June, matching the rate registered three months earlier. The unabated level of inflation reflected high commodity and energy prices. At the July 7, 2011 meeting, the Governing Council of the European Central Bank (ECB) responded to these developments by increasing the key ECB interest rates by 25 basis points, following a similar increase in April 2011. This move took the rate to 1.50 per cent.

United Kingdom

Real GDP in the UK expanded by 0.2 per cent in the second quarter 2011 compared with growth of 0.5 per cent in the previous quarter. This slowdown in growth reflected the fall-off in output from the production industries. Manufacturing activity contracted by 0.3 per cent, mining and quarrying declined 6.6 per cent and electricity, gas and water supply decreased by 3.2 per cent.

In the second quarter, the purchasing managers' index (PMI) for both the manufacturing and services sectors waned somewhat when compared to the previous quarter, but remained in positive territory at 51.3 and 53.9 respectively in June. These compare less than favourably to the 56.7 and 57.1 posted respectively in March. Meanwhile, the latest month-over-month data on industrial production revealed an increase of 0.9 per cent in May 2011, following a decrease of 1.7 per cent in April.

Inflationary pressures continued over the quarter as a result of high energy and commodity prices. The UK's inflation rate remained above the Bank of England's target rate of 2.0 per cent, measuring 4.2 per cent in the twelve months to June, up from 4.0 per cent in March 2011. Despite the elevated inflation rate, the Bank of England's Monetary Policy Committee decided at its July 2011 meeting to maintain the benchmark interest rate at 0.5 per cent, and to continue its asset purchase programme.

Japan

In the aftermath of the March 11 earthquake and tsunami, the Japanese economy nudged into a recession as real GDP declined by 0.9 per cent in the first quarter of 2011, following a decline of 0.7 per cent in the prior three months. Domestic spending on the part of consumers and businesses fell by 0.8 per cent over the quarter, amidst a sharp decline in sentiment indicators. In June, the International Monetary Fund downgraded its growth forecast for Japan in 2011 to negative 0.7 per cent, a revision to its April forecast of 1.4 per cent. However, recent indications from the Bank of Japan were somewhat upbeat as signs of a recovery emerged. Supply constraints appeared to have eased somewhat resulting in increased exports and domestic demand. While second quarter real GDP is expected to be negative, the Bank anticipates moderate growth of 1 per cent for the third quarter of 2011. In addition, the Bank has cautioned that overseas developments such as the debt situation in Europe and the weak performance of the US economy represent a downside risk to Japan's economic outlook.

In other news, Japan's unemployment rate measured 4.6 per cent in June 2011, the same rate registered three months earlier. Meanwhile, consumer prices rose to 0.2 per cent in the twelve months to June 2011.

At its June 14 meeting, the Bank of Japan's nine-member Policy Board kept its benchmark interest rate unchanged at the range of 0 to 0.1 per cent. In addition, the Board decided to offer commercial banks ¥500 billion in new credit, as part of a measure introduced in 2010 to stimulate economic growth. The low-interest lending facility is designed to encourage private banks to lend money to businesses in growth sectors such as energy, the environment, elderly care and tourism.

SECTION 2 – CAPITAL AND MONEY MARKET REVIEW

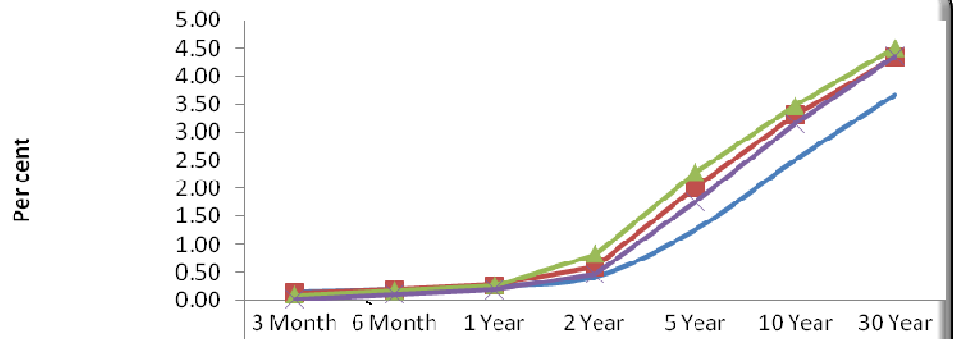
Financial markets were quite volatile during the second quarter of 2011 given concerns about the debt situation in selected European nations and the likely contagion risks, the US debt ceiling debate, and weak economic data across the major countries. These concerns resulted in mixed investor sentiments during the quarter. The uncertainty in the Euro area contributed to increased demand for US Treasury securities and a resultant decline in yields. Meanwhile, the equity market benefitted from the announcement of solid first quarter corporate earnings. This led to a robust performance of US equities in April before the market changed direction in May. The decline continued in June but was tempered over the last four days of the month when the index gained approximately 4 per cent.

Fixed Income

The fixed income market generated positive returns across the various sectors during the second quarter of 2011. With the sovereign debt crisis deepening and heightened fears of a further slowdown in US economic growth, investors sought safety in treasury securities whose yield trended downwards over the quarter. Two-year treasury yields declined by 36 basis points to 0.46 per cent as at June 30, 2011 while ten-year US Treasury yields fell 31 basis points to close the period at 3.16 per cent. (See figure 1, overleaf).

Figure 1

US Treasury Yield Curve
/per cent/

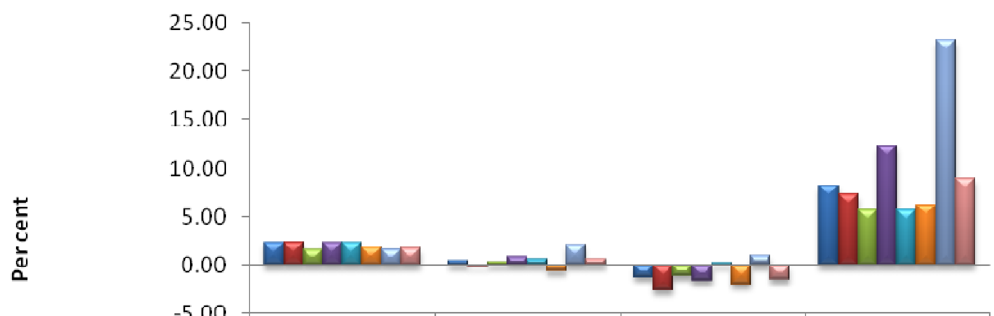


	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
September 30, 2010	0.15	0.19	0.25	0.42	1.26	2.51	3.68
December 31, 2010	0.12	0.18	0.26	0.59	2.01	3.29	4.33
March 31, 2011	0.09	0.17	0.27	0.82	2.28	3.47	4.51
June 30, 2011	0.01	0.10	0.18	0.46	1.76	3.16	4.37

Source: Bloomberg.

Over the quarter ending June 30, 2011, the Barclays US Aggregate Bond Index, which measures the performance of the US taxable bond market, posted a gain of 2.29 per cent compared with 0.42 per cent in the prior quarter (See Figure 2). US Treasuries were the best performers returning 2.39 per cent, followed by investment grade corporate bonds and Mortgage Backed Securities (MBS) which both returned 2.28 per cent. The Commercial Mortgage Backed Securities (CMBS) sector which exhibited the strongest performances for the year thus far generated only 1.63 per cent for the quarter. This sector underperformed treasury securities of a similar duration by an excess of 50 basis points. This was due in part to the increased volatility which was driven by slower-than-anticipated GDP growth and the apparent weaker economic fundamentals observed over the period.

Figure 2
Returns on Fixed Income Indices
/per cent/



	Qtr 3 10/11	Qtr 2 10/11	Qtr 1 10/11	FY 09/10
Barclays U.S. Aggregate	2.30	0.42	-1.30	8.16
U.S. Treasuries	2.39	-0.16	-2.64	7.32
U.S. Agencies	1.60	0.29	-1.11	5.69
U.S. Corporate	2.28	0.86	-1.61	12.27
U.S. MBS	2.28	0.58	0.24	5.71
G-7 Global Bonds (Hedged)	1.88	-0.61	-2.00	6.23
CMBS Index	1.63	2.05	0.91	23.23
ABS Index	1.77	0.64	-1.48	8.88

Source: Barclays Capital.

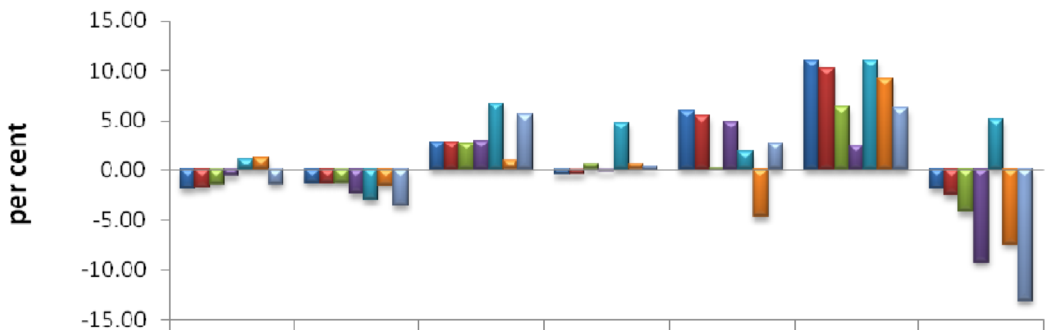
The performance of global bond markets was mixed during the quarter. In Europe, Greek government bond yields rose with the ten-year yield reaching 16.34 per cent at the end of June 2011, from 12.84 per cent at the end of March. Portuguese government bond yields also rose, reaching a new high at the end of June of 10.87 per cent from 8.41 per cent at the end of the previous quarter. Meanwhile, government bond yields in Germany and the UK exhibited a different trend over the quarter as their ten-year yields declined to 3.03 per cent and 3.38 per cent, respectively from 3.35 per cent and 3.69 per cent, respectively.

Equity Markets

After experiencing a relatively strong first quarter in 2011, US equity markets started the second quarter on a positive note only to be impeded by weak economic data which caused the markets to sell off in May and most of June. However, the expectation that Greece's fiscal austerity measures would be approved boosted capital market returns in the final trading days of June. In spite of this rebound, US equity markets were unable to recoup the losses made during the month. The S&P 500 index lost 0.39 per cent over the quarter compared with a return of 5.42 per cent for the prior three months. On a sectoral level, financials and energy stocks were the worst performers losing 6.27 per cent and 5.07 per cent, respectively. In contrast, health care and utilities stocks generated the highest returns, gaining 7.29 per cent and 5.01 per cent, respectively. Among the ten sectors, five returned losses while the other five posted gains over the quarter. Meanwhile, the Russell 3000 index lost 0.48 per cent compared with a return of 5.92 per cent in the March quarter.

The performance of the other developed equity markets during the second quarter was better than that of their US counterpart. In the Euro area, Germany's DAX returned 4.76 per cent while France's CAC 40 index lost 0.17 per cent. In the UK, the FTSE 100 index moved up 0.63 per cent, recording a similar gain as Japan's Nikkei 225 index.

Figure 3
Returns on Equity Indices
/per cent/



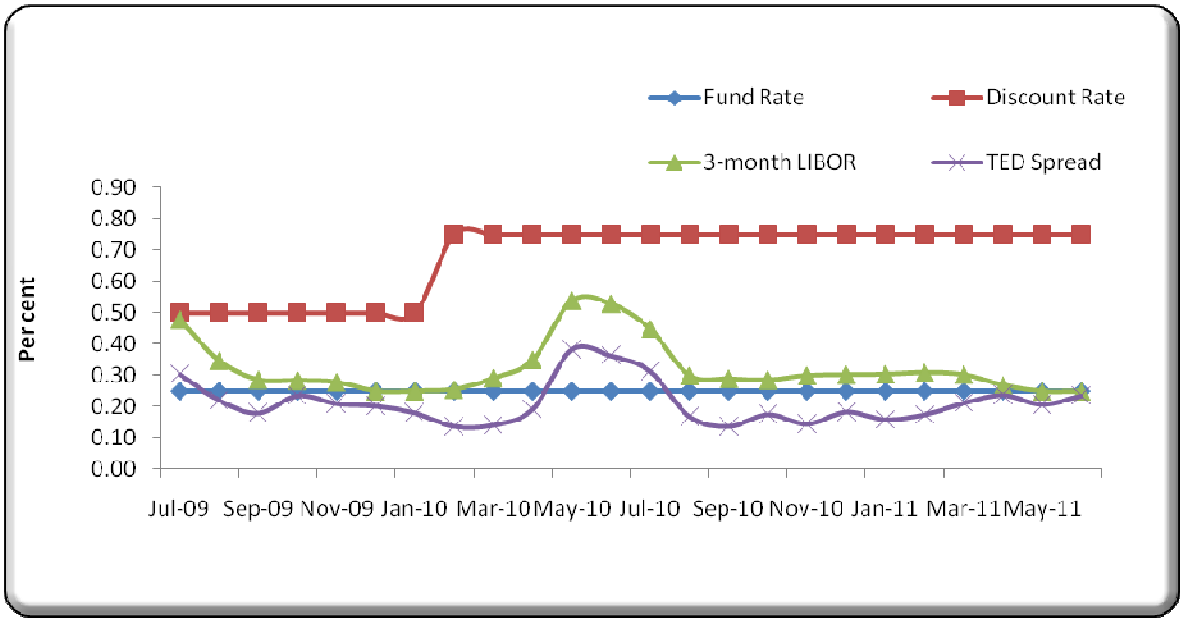
	Jun-11	May-11	Apr-11	Q3 10/11	Q2 10/11	Q1 10/11	FY 09/10
Russell 3000	-1.95	-1.34	2.87	-0.48	5.92	11.08	-1.93
S&P 500	-1.83	-1.35	2.85	-0.39	5.42	10.20	-2.49
FTSE 100 - UK	-1.42	-1.32	2.73	0.63	0.15	6.33	-4.23
CAC 40 - France	-0.62	-2.43	2.95	-0.17	4.85	2.41	-9.29
DAX 30 - Germany	1.13	-2.94	6.72	4.76	1.84	11.00	5.12

Source: Bloomberg.

Money Market

Money market yields declined over the quarter mimicking the general movement in treasury yields. The three-month treasury bill rate fell 6 basis points between March and June 2011 while the 3-month London Inter Bank Offered Rate (LIBOR) declined to 25 basis points at the end of June from 30 basis points three months earlier. The TED spread, which represents the difference between the 3-month Treasury bill rate and 3-month London Inter Bank Offered Rate (LIBOR), widened to 23 basis points as at the end of June 2011 compared with 21 basis points as at the end of the previous quarter.

Figure 4
US Money Market Rates
/per cent/

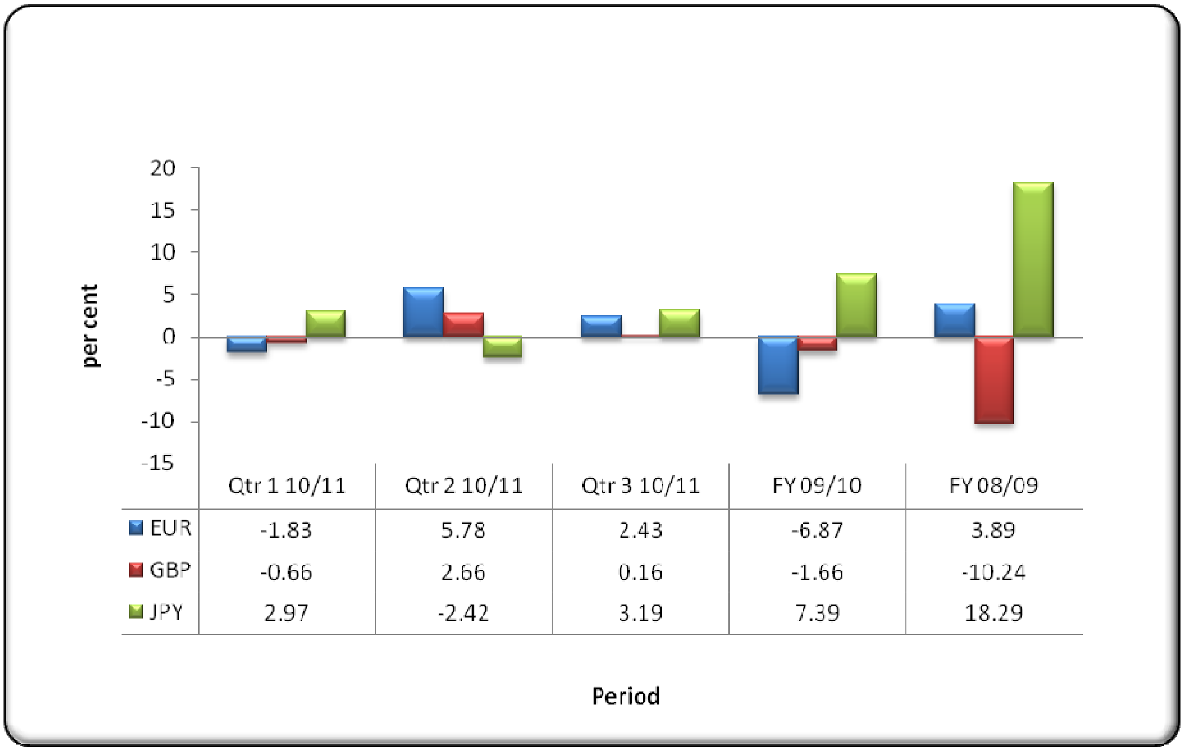


Source: Bloomberg.

Currency Markets

The major currencies appreciated against the US Dollar during the second quarter of 2011 amidst weaker than expected US economic data. (Figure 5 refers). Relative to the Euro and Pound, the Yen had the strongest appreciation in value, gaining 3.19 per cent. This gain more than offset the 2.42 depreciation in the previous quarter. The Euro fluctuated during the quarter between $1.4088 and $1.4830 before closing June at $1.4502. The currency's strengthening during April may have been as a result of the ECB's decision to raise its benchmark interest rate. This was short-lived as the negative news in Europe placed downward pressure on the currency. However, towards the end of the quarter, the Euro rallied versus the US dollar following Greece Parliament's approval of the austerity plans for their country and the increased likelihood of a rate hike by the ECB in early July. There was also a slight appreciation of the Pound Sterling against the US dollar by 0.16 per cent over the quarter.

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



Source: Bloomberg.

SECTION 3 – PORTFOLIO PERFORMANCE

Strategic Asset Allocation

During the quarter ended June 30 2011, the Fund was slightly overweight relative to the Strategic Asset Allocation (SAA) in the equity portion of the Fund (Table 1 below refers). When the SAA was implemented in January 2011, the investment portfolio was invested in four major asset classes in the following proportions:

i.	*US Short Duration Fixed Income Mandate*	*25.0%*
ii.	*US Core Domestic Fixed Income Mandate*	*40.0%*
iii.	*US Core Domestic Equity Mandate*	*17.5%*
iv.	*Non US Core International Equity Mandate*	*17.5%*

At the end of June 2011, the market value of the Fund was US$3,825.6 million, compared with US$3,759.7 million at the end of March 2011. Of this total, the investment portfolio, which is managed entirely by external asset managers, was valued US$3,823.7 million. The remaining portion is held in cash to meet the day-to-day expenses that arise from the management of the Fund. As at June 30 2011, the cash balance stood at US$1.9 million.

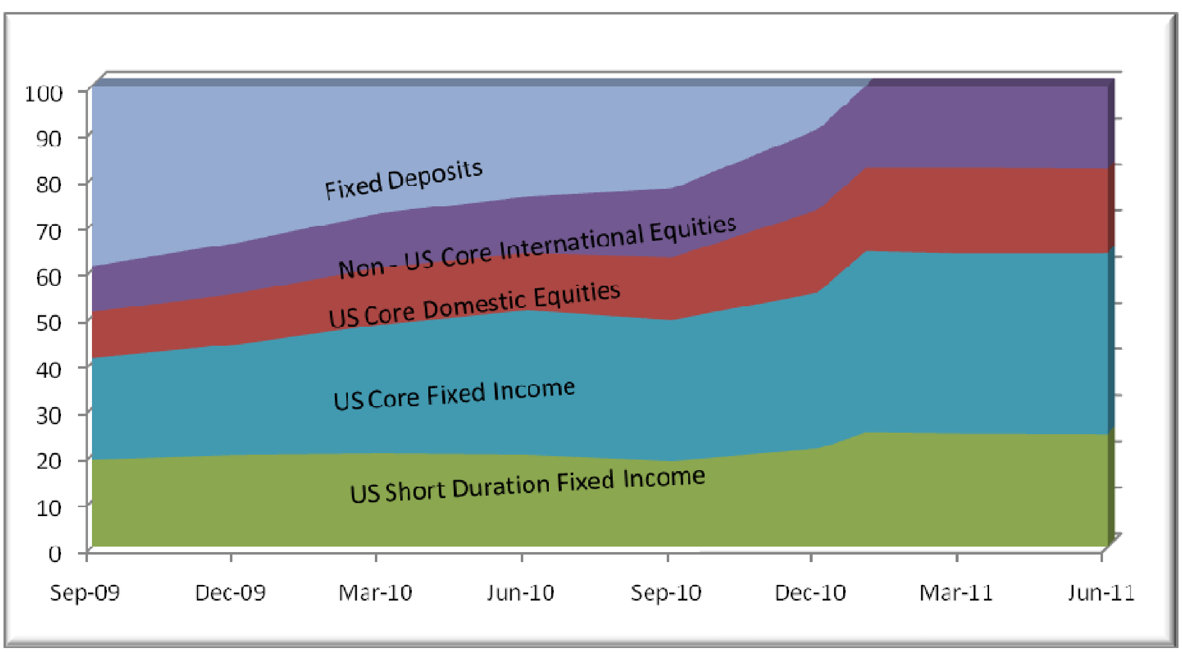
During the period April to June 2011, the Government made no cash contribution to the Fund. In July 2011 however, the Government deposited US$139.9 million into the Fund in respect of the second quarter of 2011. The Fund's target asset allocation and the portfolio weighting for the period December 31 2010 to June 30 2011 are shown below in Table 1 and Figure 6.

Table 1
Portfolio Transition Towards Target SAA
/per cent/

Portfolio Weights	Asset Class	Dec-10		Mar-11		Jun-11	
		Target Transition SAA	*Actual % of Fund*	*Target Weight SAA*	*Actual % of Fund*	*Target Weight SAA*	*Actual % of Fund*
	US Fixed Deposits*	6.00	9.50	0.00	0.00	0.00	0.00
	US Short Duration Fixed Income	23.50	21.32	25.00	24.57	25.00	24.44
	US Core Domestic Fixed Income	37.60	33.81	40.00	39.11	40.00	39.29
	US Core Domestic Equity	16.45	17.93	17.50	18.54	17.50	18.30
	Non-US Core International Equity	16.45	17.44	17.50	17.78	17.50	17.97

*From January 2011, US Fixed Deposits was no longer part of the HSF Strategic Asset Allocation.

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



Performance of the Investment Portfolio

Despite the volatility in the financial markets, the HSF investment portfolio performed creditably during the second quarter of 2011 returning **1.88 per cent,** to outperform the SAA benchmark[2] which returned **1.81 per cent**. The fixed income portion of the Fund contributed 1.23 per cent to total return while the equity portfolios added 0.65 per cent. During the period, the former asset class accounted for approximately 64 per cent of the investment portfolio with the latter accounting for the remaining 36 per cent.

The two fixed income mandates generated positive absolute returns in the three months to June 2011 despite underperforming their respective benchmarks. The **US Core Fixed Income** portfolio returned 2.27 per cent versus 2.30 per cent for the Barclays Capital US Aggregate index. The underperformance of this mandate reflected the substantial overweight allocation to the corporate credit sector which experienced a widening of spreads versus duration-matched treasuries. In addition, the short duration positioning of the portfolio versus that of the benchmark also detracted from returns as bond yields declined over the quarter. For the financial year to June 2011, this mandate returned 1.28 per cent compared with 1.41 per cent for the benchmark. The market value of this portfolio as at June 30 2011 was **US$1,502.4 million** compared with US$1,469.8 million at the end of March 2011.

The other fixed income mandate, the **US Short Duration Fixed Income** portfolio, also underperformed its benchmark, the Bank of America Merrill Lynch US Treasury 1-5 Year index. This portfolio returned **1.38 per cent** over the quarter, underperforming the benchmark by 12 basis points. The short duration position of the portfolio versus the

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[2] The SAA benchmark is a blended benchmark which comprises, Bank of America/Merrill Lynch US Treasury 1-5 Years Index (25%), Barclays US Aggregate Bond Index (40%), Russell 3000 ex Energy Index (17.5%), and MSCI EAFE ex Energy Index (17.5%).

benchmark detracted from performance but this was partially offset by the portfolio overweight exposure to agencies and government-guaranteed debt which contributed modestly to returns as their spreads versus duration-like Treasuries tightened over the period. For the financial year to June 2011, this mandate matched the benchmark, returning 0.84 per cent. The market value of this portfolio as at June 30 2011 was **US$934.4 million** compared with US$923.7 million at the end of March 2011.

Similar to the fixed income portfolios, the two equity mandates generated positive absolute returns for the second quarter. These mandates did not reflect the losses returned by the energy sector as was the case for some broad market indices over the quarter. The **US Core Domestic Equity** portfolio returned **0.53 per cent**, underperforming its benchmark, the Russell 3000 ex Energy Index, by 17 basis points. The portfolio's underweight allocations relative to the benchmark in the health care sector was the largest detractor from performance. This sector exhibited the strongest performance during the quarter. Meanwhile, the gains made from the underweight allocation to the worst performing sector, financial services, was unable to compensate for the losses made on other security selection decisions. For the financial year to June 2011, this mandate returned 17.06 per cent, outperforming the benchmark which returned 16.92 per cent. The market value of the US Core Domestic Equity Portfolio as at June 30 2011 was **US$699.6 million**, up from US$697.1 million at the end of March 2011.

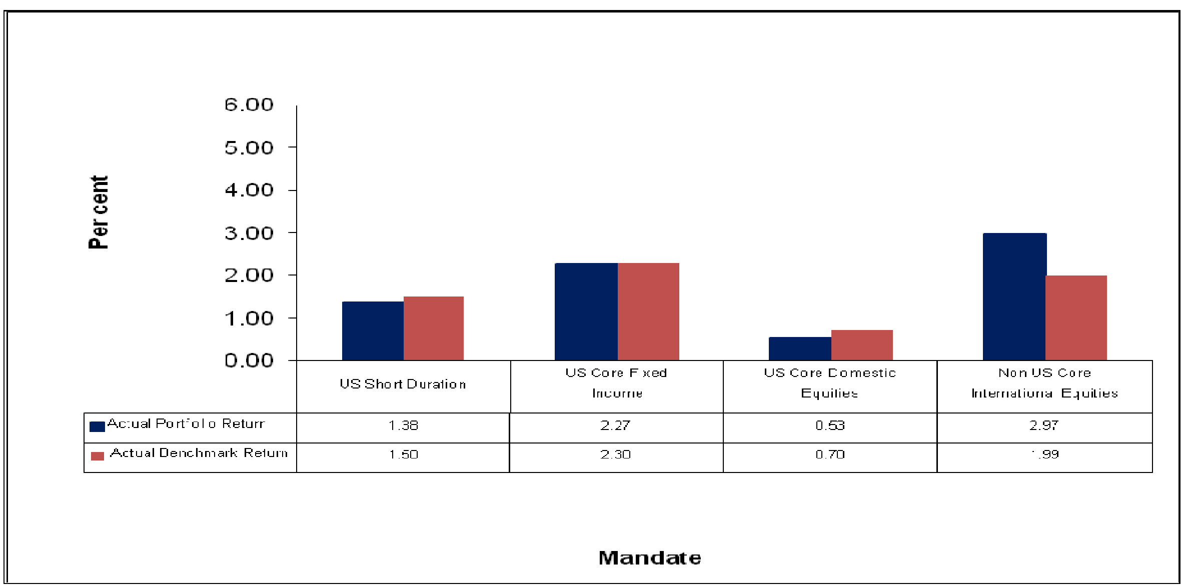
The **Non-US International Equity** portfolio was the only mandate to outperform its benchmark during the second quarter of 2011. This portfolio returned 2.97 per cent compared with 1.99 per cent for the MSCI EAFE ex Energy index, an excess return of 98 basis points. The overweight exposure to stocks in sectors that exhibited the strongest performance during the quarter such as consumer discretionary and utilities was the major contributor to excess returns. For the financial year to June 2011, this mandate returned 12.93 per cent, outperforming the benchmark which returned 11.37 per cent. As at June 30 2011, the market value of the Non-US Core International Equity mandate was **US$687.2 million,** compared with US$668.5 million at the end of March 2011.

Table 2
Contribution to Quarterly Return,
For the period April 2011 – June 2011
/per cent/

	Weighting as at 30-Jun-2011	Weighted Return HSF	Weighted Return Benchmark	Excess Return
Composite Portfolio	100.00	1.88	1.81	0.07
US Core Domestic Fixed Income	39.29	0.88	0.92	-0.04
US Core Domestic Equity	18.30	0.11	0.13	-0.02
Non US Core International Equity	17.97	0.54	0.38	0.16
US Short Duration Fixed Income	24.44	0.34	0.37	-0.03

*Differences in totals are due to rounding.

Figure 7
Absolute Returns by Asset Class
For the period April 2011 – June 2011
/per cent/



SECTION 4 –COMPLIANCE AND PORTFOLIO RISKS

Compliance

During the quarter ended June 2011, there was no breach of the Investment Guidelines.

Portfolio Risks

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

Credit Risk

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

For Fixed Income Instruments, Credit risk is mitigated by having strict credit concentration limits as well as minimum credit quality ratings. The Fund requires its core fixed income managers to invest in bonds that have an implied investment grade rating as defined by Standard and Poor's, Moody's or Fitch. Should the required ratings on an existing fixed income security fall below the minimum standards, the security must be sold within an agreed upon timeframe. Table 3 below shows the Average Credit Quality of the US Short Duration and US Core Fixed Income Portfolios as at June 30 2011.

Table 3
Average Credit Rating

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

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

Interest Rate Risk

Interest Rate Risk is managed using a weighted average effective duration limit on the respective portfolios, with an allowable range of one (1) year longer or shorter than the weighted average duration of the respective benchmark. Table 4 shows the Fund's US Short Duration and US Core Domestic Fixed Income duration as at June 30 2011.

Table 4
Weighted Average Duration
/Years/

Mandate	Portfolio	Benchmark
US Short Duration	2.37	2.63
US Core Domestic Fixed Income	4.84	4.88

Concentration Risk

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

Currency Risk

For the Fixed Income and US Core Domestic Equity mandates, no more than 10 per cent of the market value of the portfolio can be invested in securities denominated in currencies other than the US Dollar. For the Non-US Core International Equity mandates, currency hedging is allowed up to a maximum of 15 per cent of the portfolio's market value, with the base currency being the US Dollar. During the quarter, the portfolios were within these limits. At the end of June 2011, the currency exposure for this portfolio was 98 per cent of its market value.

Appendix I
HSF Portfolio
Historical Performance since Inception

Quarter End	Current Returns			Fiscal YTD			Annualised Return Since Inception		
	Portfolio %	Benchmark %	Excess bps	Portfolio %	Benchmark %	Excess bps	Portfolio %	Benchmark %	Excess bps
FY 2008									
June	0.73	0.63	10.36						
September	0.68	0.59	9.27	**3.61**	**3.49**	**12.30**	**4.33**	**4.24**	**9.48**
FY 2009									
December	0.76	0.99	-22.54	0.76	0.98	-22.49	4.19	4.24	-5.25
March	0.08	0.07	0.62	0.84	1.06	-21.88	3.71	3.72	-4.30
June	0.02	0.03	-0.69	0.86	1.09	-22.60	3.32	3.36	-4.15
September	1.90	2.07	-16.05	**2.78**	**3.18**	**-39.26**	**3.80**	**3.91**	**-10.62**
FY 2010									
December	0.96	0.89	6.65	0.96	0.89	6.65	3.84	3.91	-6.56
March	1.61	1.68	-6.26	2.59	2.58	0.44	4.12	4.20	-8.40
June	-1.83	-1.90	6.28	0.71	0.64	6.87	3.18	3.23	-5.47
September	5.33	5.08	24.71	**6.07**	**5.75**	**31.96**	**4.61**	**4.59**	**2.29**
FY 2011									
December	2.29	2.23	5.89	2.29	2.23	5.89	5.01	4.97	4.00
March	1.62	1.54	7.64	3.95	3.81	13.79	5.18	5.12	6.06
June	1.88	1.81	6.68	**5.90**	**5.67**	**20.99**	**5.41**	**5.33**	**7.69**

Note:

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

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

(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%).

Appendix II
Heritage and Stabilisation Fund
Quarterly Portfolio Valuation (USD)

Valuation Date	Net Asset Value	Quarterly Income	Accumulated Surplus & Unrealized Capital Gains/Losses	Contributions
March 15, 2007	1,402,178,155	0	0	
March 31, 2007	1,405,448,567	3,270,412	3,270,412	-
June 30, 2007	1,424,094,965	18,646,398	21,916,810	-
September 30, 2007	1,766,200,701	20,301,027	41,966,361	321,706,043
December 31, 2007	1,788,304,749	22,204,785	64,035,501	-
March 31, 2008	1,804,531,743	16,631,853	80,514,798	-
June 30, 2008	1,997,251,772	13,715,988	93,124,304	180,210,617
September 30, 2008	2,888,421,556	15,341,508	110,379,131	873,963,840
December 31, 2008	2,909,717,167	16,296,264	131,638,985	-
March 31, 2009	2,911,075,318	4,492,667	133,066,161	-
June 30,2009	2,912,040,600	3,621,489	133,909,143	-
September 30, 2009	2,964,686,478	11,397,337	186,755,766	-
December 31, 2009	2,992,717,167	19,444,496	214,699,141	-
March 31, 2010	3,038,173,194	17,674,928	259,925,615	-
June 30, 2010	3,083,272,124	23,694,244	199,004,184	103,843,621
September 30, 2010	3,621,984,041	27,568,267	364,361,226	373,500,642
December 31, 2010	3,701,961,347	33,317,910	443,906,745	-
March 31, 2011	3,759,689,344	45,854,060	500,513,925	-
June 30, 2011	3,825,639,556.32	70,691,561	567,222,023	-

Appendix III
Summary Characteristics of Composite Benchmarks

Fixed Income Benchmarks

Key Characteristics	Barclays US Aggregate Index	Merrill Lynch 1-5 Index
Total Holdings	7,896	110
Coupon (%)	4.20	2.14
Duration (Years)	4.88	2.55
Average Life (Years)	6.45	2.64
Yield to Maturity (%)	2.63	0.75
Option Adjusted Spread (bps)	49	-2
Average Rating	AAA	AAA

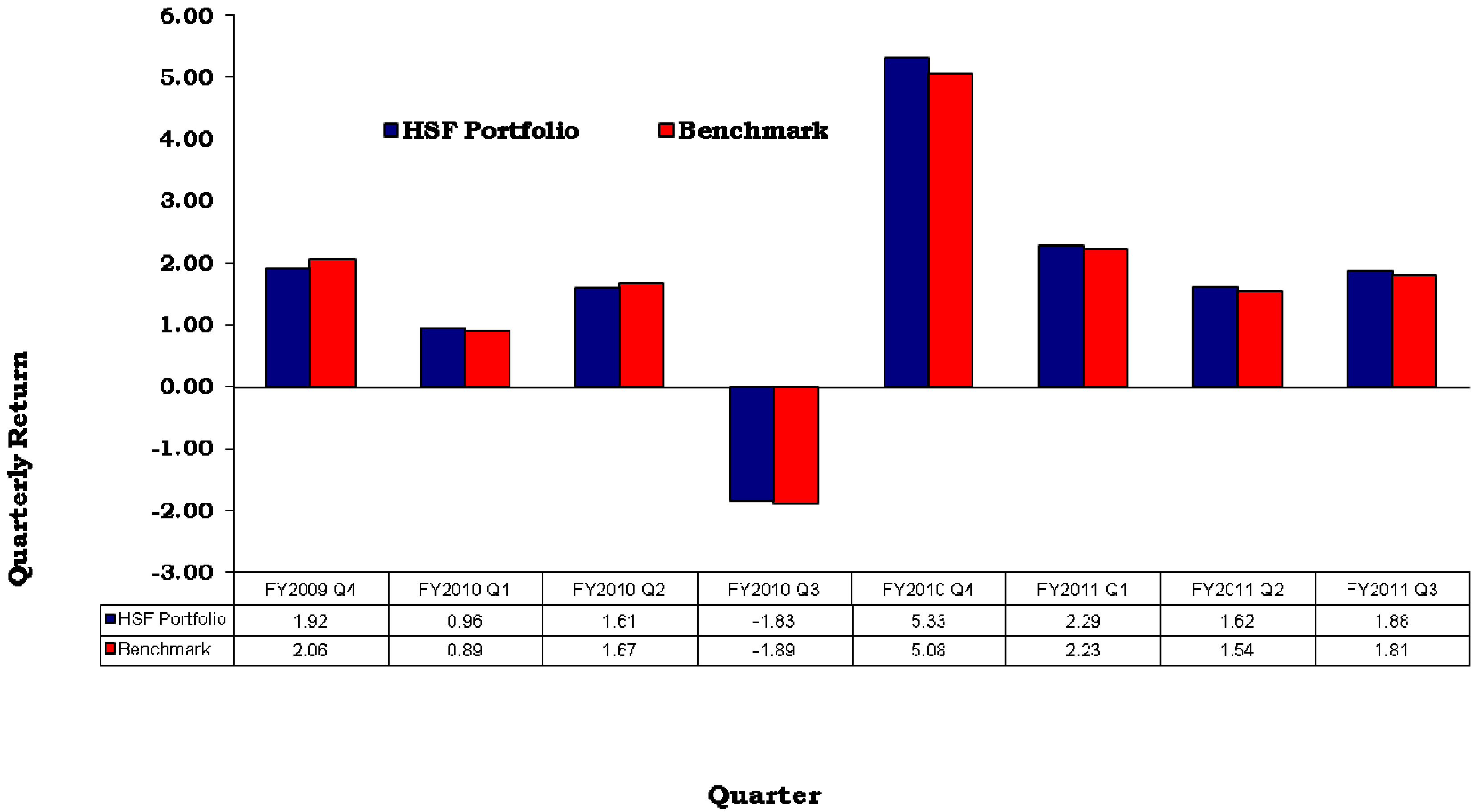
Equity Benchmarks

Key Characteristics	Russell 3000 (ex energy)	MSCI EAFE (ex energy)
Total Holdings	2,780	893
Earnings Per Share (EPS Growth 3-5y fwd) (%)	11.7	14.78
Price Earnings (P/E fwd)	13.6	12.20
Price / Book (P/B)	2.4	1.50
Market Capitalization (Bn)	$61.7	$54.7

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

	September 2010	**December 2010**	**March 2011**	**June 2011**
Total Fund Value	**3,622**	**3,702**	**3,760**	**3,826**
Total Value of Equity	**1,031**	**1,310**	**1,365**	**1,387**
US Core Domestic Equity	491	664	697	700
Non-US Core International Equity	540	646	668	687
Total Value of Fixed Income	**1,785**	**2,040**	**2,394**	**2,437**
US Short Duration Fixed Income	678	789	924	934
US Core Domestic Fixed Income	1,107	1,251	1,470	1,503
Total Value of Cash or Cash Equivalents	**806**	**352**	**1**	**2**

Appendix V
HSF Portfolio Quarterly Returns
/per cent/



	FY2009 Q4	FY2010 Q1	FY2010 Q2	FY2010 Q3	FY2010 Q4	FY2011 Q1	FY2011 Q2	FY2011 Q3
HSF Portfolio	1.92	0.96	1.61	-1.83	5.33	2.29	1.62	1.88
Benchmark	2.06	0.89	1.67	-1.89	5.08	2.23	1.54	1.81