Trinidad and Tobago

Heritage & Stabilisation Fund

QUARTERLY INVESTMENT REPORT

July to September 2011

Central Bank of Trinidad & Tobago

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EXECUTIVE SUMMARY

The global economic environment weakened dramatically during the third quarter of 2011 as economic indicators were generally disappointing, renewing fears that the global economy may fall back into a recession. Over the quarter, there were heightened concerns about the sovereign debt situation in Europe which was accompanied by the downgrade of sovereign debt credit ratings for several economies including the United States (US), Italy and Japan. These developments drove the prices of risky assets lower as investors increased their demand for relatively safer assets. As such, equity markets in the US and other developed markets posted double-digit losses.

Given the substantial downside risk to growth, the major Central Banks maintained an accommodative monetary stance as they kept their respective benchmark interest rates unchanged at their most recent policy meetings while introducing various monetary stimulus measures.

During the quarter, the HSF Investment Portfolio lost 4.82 per cent, compared with a loss of 4.28 per cent for the SAA benchmark, reflecting the poor performance in equity markets. The equity portion of the Fund detracted 6.47 per cent from total returns. This loss was partially offset by a modest contribution from the fixed income portion of the Fund which added 1.65 per cent.

As at September 30 2011, the total market value of the HSF portfolio was US$4,084.0 million, up from US$3,825.6 million at the end of June 2011. The fixed income mandates accounted for 61.7 per cent of the investment portfolio, the equity mandates represented 30.7 per cent, while the remaining 7.6 per cent represented the cash contribution made by the Government on September 30, 2011.

During the quarter, the Government made two cash contributions to the Fund which totalled US$451.4 million. On the first occasion, the contribution amounted to US$139.9 million in respect of the second quarter of 2011, while the second contribution of US$311.5 million was deposited on September 30 for the third quarter of 2011.

SECTION 1 – INTERNATIONAL ECONOMIC ENVIRONMENT

United States

Preliminary GDP data for the US indicated that the economy continued its sluggish growth during the third quarter of 2011, expanding by an annualised rate of 2.5 per cent compared with growth of 1.3 per cent in the prior three months. During the quarter, other economic indicators signaled that unemployment remained elevated, consumer confidence declined, while manufacturing activities slowed. The Federal Reserve Bank acknowledged that the US economic recovery has been "considerably slower" than expected and decided to employ further monetary policy measures to boost the economy.

Following the historic downgrade of the US Sovereign debt credit rating on August 05, by S&P from "AAA" to "AA+", the Federal Open Market Committee (FOMC) indicated later that month, that the current economic environment is likely to warrant exceptionally low rates at least through to mid-2013. Moreover, at its September meeting, the Committee declared its intention to employ another accommodative policy measure known as the "***Operation Twist***," This measure is expected to extend the average maturities of Treasuries securities held in the Federal Reserve Bank's portfolio and simultaneously put downward pressure on long-term interest rates. Under this stimulus measure, the Federal Reserve Bank would sell $400 billion of Treasury securities with remaining maturities of 3 years or less and use the proceeds to buy an equal amount of longer-term bonds with remaining maturities of 6 years to 30 years by the end of June 2012. In keeping with the accommodative monetary policy stance, the FOMC kept its benchmark interest rate unchanged at the range 0 to 0.25 per cent.

Euro zone

The sovereign debt crisis in Europe intensified during the third quarter of 2011, as the possibility of Greece defaulting on its debt obligations resurfaced and the contagion risk to other debt-laden European countries increased. Greece's sovereign credit rating was downgraded by the three major credit rating agencies during July 2011. Meanwhile, the Euro Area Summit agreed on a new financial assistance package for Greece and on lower interest rates on loans from the European Financial Stability Facility (EFSF) for Greece, Portugal and Ireland.

During the third quarter, economic indicators revealed that economic growth had moderated substantially across the region; manufacturing activity had been disappointing, consumer sentiments dropped sharply and consumer prices remained above the European Central Bank's (ECB) target rate of around 2 per cent. At the latest meeting of the Governing Council of the European Central Bank, the benchmark interest rate was kept unchanged at 1.50 per cent, while additional financing measures to provide further liquidity to the Euro zone were announced.

United Kingdom

Revised real GDP data for the UK revealed that the economy expanded by 0.1 per cent during the second quarter of 2011, down from the previous estimate of 0.2 per cent and from 0.5 per cent in the first quarter. This slowdown in economic growth is believed to be primarily reflective of the supply chain disruptions following the earthquake and tsunami in Japan. With the global recovery faltering, especially in the UK's main export markets, there is increased uncertainty about the country's growth prospects. In addition, the inflation risk to the economy increased over the quarter as consumer prices rose steadily mainly as a result of higher energy and commodity prices. In the twelve months to

September 2011, the inflation rate accelerated to 5.2 per cent, from 4.2 per cent in June 2011. However, the Bank of England (BOE) is of the view that inflation is more likely to fall below its 2 per cent target in the medium term.

At its October 2011 meeting, the Bank's Monetary Policy Committee, in an unexpected move, voted to increase the size of its asset purchase programme by £75 billion, to a total of £275 billion. At this meeting, the Bank also kept its benchmark rate unchanged at 0.5 per cent.

Japan

The Japanese economy contracted by 0.5 per cent in the second quarter of 2011, compared with a contraction of 0.9 per cent in the first quarter. This outturn reflected the fall-off in capital investment and net exports following the March 11 earthquake and tsunami. With regards to the latter half of 2011, the Bank of Japan (BOJ) has cautioned that overseas developments, such as the sovereign debt problems in Europe and the effects of balance sheet adjustments in the US economy, represent downside risks to the country's economic outlook.

In other developments, Moody's credit ratings agency lowered Japan's sovereign credit rating by one notch in August, citing that frequent changes in leadership, weak prospects for economic growth and its recent natural and nuclear disasters made it difficult for the government to reduce its debt burden.

At its late October meeting, the Policy Board of the BOJ kept its benchmark interest rate unchanged at the range of 0 to 0.1 per cent and increased their asset-buying programs by 5 trillion yen to 55 trillion yen.

SECTION 2 – CAPITAL AND MONEY MARKET REVIEW

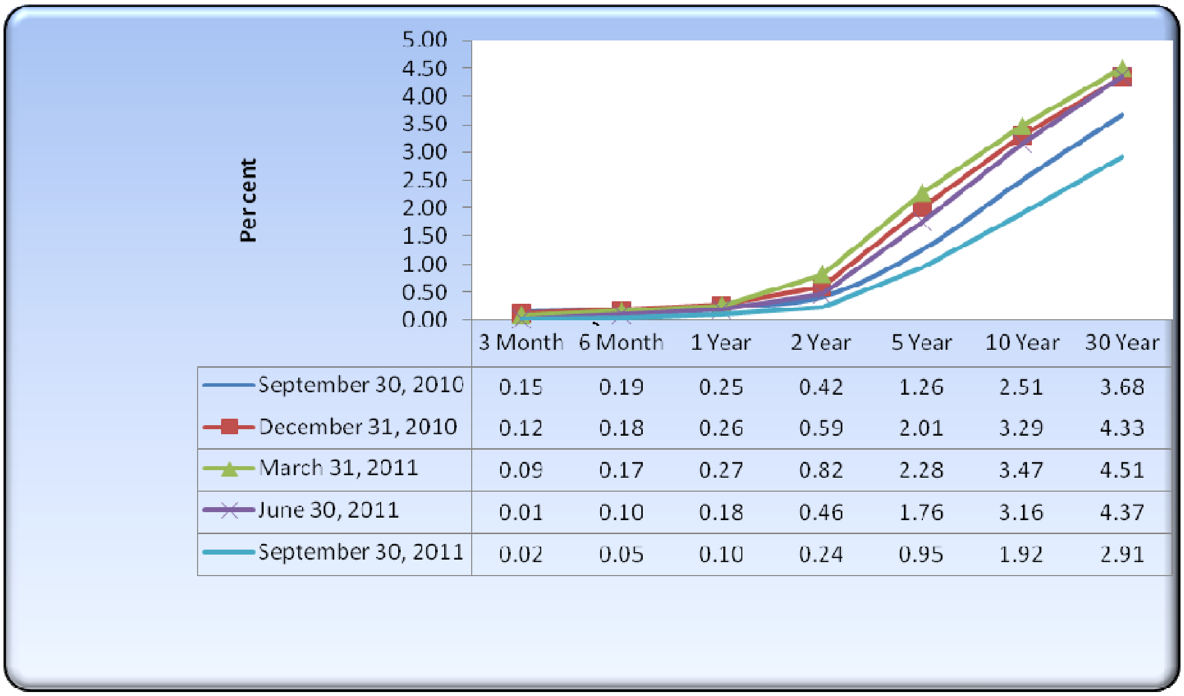
During the third quarter of 2011, financial markets experienced high levels of volatility as investors became increasingly concerned about the global growth prospects, particularly for the developed world. Moreover, concerns about the US increasing its debt ceiling and the contagion of the sovereign debt crisis in Europe, kept investor sentiment depressed for most of the quarter. Consequently, the market experienced an extended period of risk-off trades as investors sold equities and demanded safer securities such as US Treasuries. The Chicago Board Options Exchange (CBOE) Volatility Index (VIX), which is a widely used measure of market risk and is often referred to as the "investor fear gauge", increased markedly during the quarter, averaging 30.6 points, compared with 17.5 in the previous quarter. This was the highest quarterly average for the VIX in more than two years. Over the same period, there was also a widening of option adjusted spreads for US Corporate high yield fixed income securities-signaling that investors were not compensated for holding higher risk fixed income securities. In the foreign exchange markets, currency movements were also volatile as greater economic uncertainties unfolded throughout much of the developed economies. Over the quarter, the US dollar strengthened in value against the major currencies with the exception of the Japanese Yen.

Fixed Income

The fixed income market benefitted from the selling-off of equities as investors sought safety in Treasury securities and gold. In early August, the uncertainty surrounding the ability of the US government to honour its debt obligations, led S&P to lower the country's long-term sovereign credit rating to 'AA+' from 'AAA'. This downgrade however, did not adversely affect the demand for US Treasuries as this sector outperformed the other sectors within the fixed income space. In the US, Treasury yields declined across the curve with the exception of the three-month rate. The longer-dated maturities exhibited the sharpest downward trend, as the yield on 30-year Treasury securities declined by 1.46 per cent, while the 10-year and 2-year yields fell by 1.24 per cent and 0.24 per cent, respectively. (See figure 1, below).

Figure 1

US Treasury Yield Curve
/per cent/



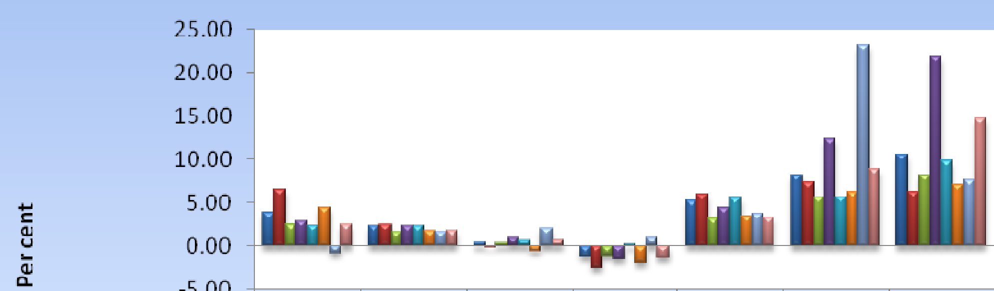
	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
September 30, 2010	0.15	0.19	0.25	0.42	1.26	2.51	3.68
December 31, 2010	0.12	0.18	0.26	0.59	2.01	3.29	4.33
March 31, 2011	0.09	0.17	0.27	0.82	2.28	3.47	4.51
June 30, 2011	0.01	0.10	0.18	0.46	1.76	3.16	4.37
September 30, 2011	0.02	0.05	0.10	0.24	0.95	1.92	2.91

Source: Bloomberg.

The Barclays US Aggregate Bond Index, which measures the performance of the US taxable bond market, gained 3.82 per cent during the third quarter of 2011, compared with 2.30 per cent in the prior quarter (See Figure 2). Similar to the prior quarter ending in June, US Treasuries generated the highest return among the sectors, gaining 6.48 per cent, while other low-to-medium risk sectors made fairly modest returns. Investment grade corporate bonds and mortgage back securities returned 2.85 per cent and 2.36 per cent, respectively, in the three months to September. Within the Barclay's Index, the only sector that posted negative returns was the Commercial Mortgage Backed Securities (CMBS) sector which lost 0.83 per cent during the quarter.

In line with the general sell-off of risky assets, spreads widened significantly for the US corporate high yield bonds relative to US Treasuries of similar maturities. These bonds lost 6.06 per cent over the quarter, compared with a gain of 1.05 per cent during the previous quarter.

Figure 2
Returns on Fixed Income Indices
/per cent/



	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
ABS Index	2.42	1.77	0.64	-1.48	3.34	8.88	14.68

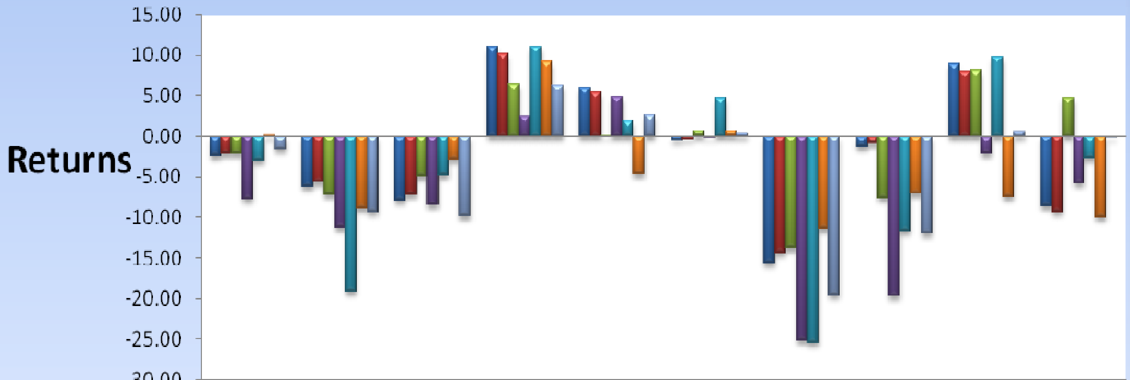
Source: Barclays Capital.

Yield movement in non-US developed markets was mixed over the three months to September 2011 as debt-laden countries such as Greece, Portugal and Italy saw increases in their ten-year bond yields, while similar yields in Germany, France, Spain, UK and Japan declined.

Equity Markets

The poor performance in equity markets during the latter half of the quarter ending in June continued into the third quarter of 2011. This bearish trend can be attributed in part to renewed fears of a global slowdown in growth, the worsening of the European sovereign debt crisis and political uncertainty with regards to the US increasing its federal debt limit. These developments appeared to have eroded investor confidence, causing a sharp sell-off of equity securities. In the US, the S&P 500 index lost 14.33 per cent and the Russell 3000 index fell 15.70 per cent over the quarter. These losses were broad-based as nine of the ten sector of the S&P 500 index posted negative returns. Meanwhile, in Europe, the German DAX dropped 25.41 per cent and in the UK, the FTSE 100 index declined 13.74 per cent.

Figure 3
Returns on Equity Indices
/per cent/



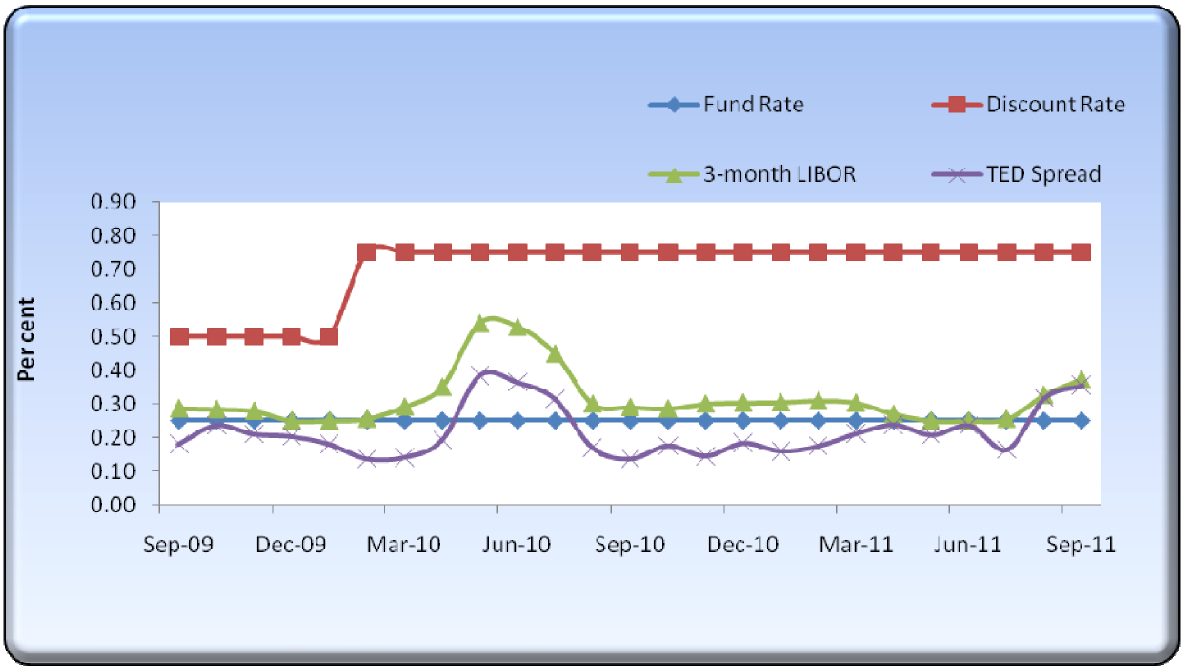
	Jul-11	Aug-11	Sep-11	Q1 10/11	Q2 10/11	Q3 10/11	Q4 10/11	FY 10/11	FY 09/10	FY 08/09
Russell 3000	-2.39	-6.22	-7.91	11.08	5.92	-0.48	-15.70	-1.30	8.85	-8.64
S&P 500	-2.15	-5.68	-7.18	10.20	5.42	-0.39	-14.33	-0.86	7.96	-9.37
FTSE 100 - UK	-2.20	-7.23	-4.93	6.33	0.15	0.63	-13.74	-7.57	8.08	4.72
CAC 40 - France	-7.81	-11.29	-8.44	2.41	4.85	-0.17	-25.12	-19.74	-2.11	-5.87
DAX 30 - Germany	-2.95	-19.19	-4.89	11.00	1.84	4.76	-25.41	-11.67	9.76	-2.67
Nikkei 225 - Japan	0.17	-8.93	-2.85	9.17	-4.63	0.63	-11.37	-7.14	-7.54	-10.01
MSCI EAFE	-1.65	-9.30	-9.86	6.23	2.67	0.32	-19.60	-12.02	0.53	-0.02

Source: Bloomberg.

Money Market

Short-term yields increased over the quarter, in stark contrast to the movement in longer-term rates. This movement reflected increased caution on the part of the banking sector with regards to inter-bank lending. As such, the 3-month London Inter-Bank Offered Rate (LIBOR) increased to 37 basis points at the end of September, up from the 25 basis points posted three months earlier. Meanwhile, the three-month Treasury bill rate rose 1 basis point between June and September 2011. The TED spread, which represents the difference between the 3-month Treasury bill rate and the 3-month London Inter-Bank Offered Rate (LIBOR), widened to 35 basis points as at the end of September 2011 compared with 23 basis points as at the end of June.

Figure 4
US Money Market Rates
/per cent/

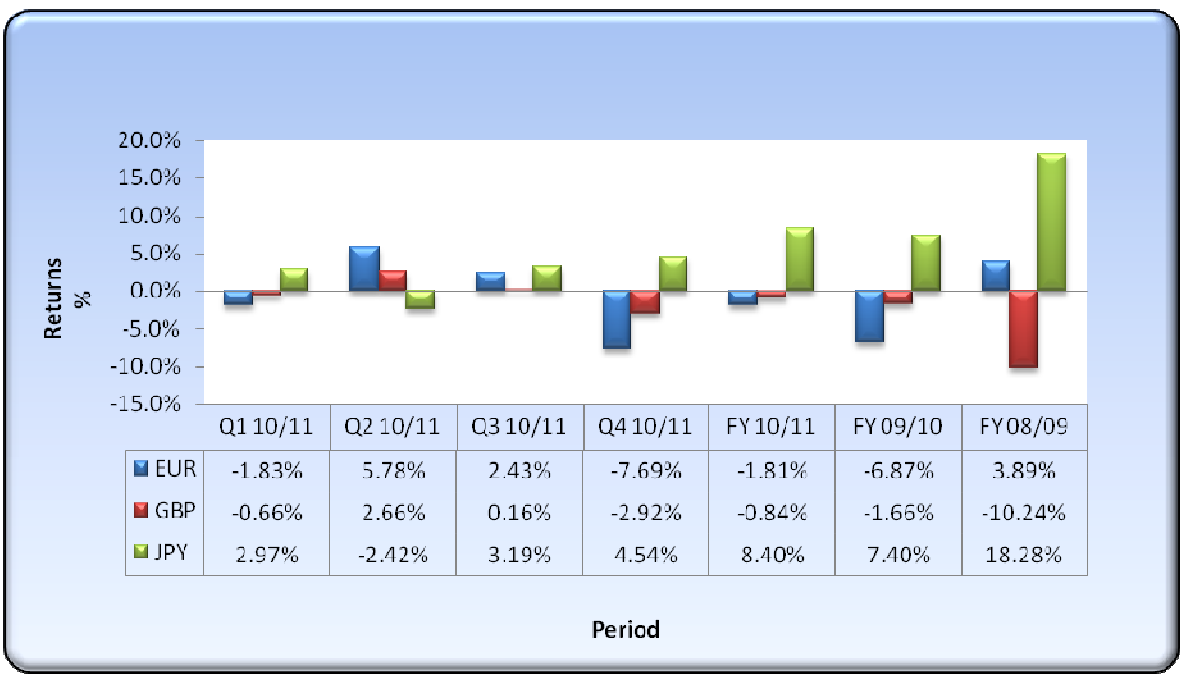


Source: Bloomberg.

Currency Markets

After weakening against the major currencies during the prior quarter, the US Dollar regained some strength during the highly volatile third quarter. Heightened market uncertainty contributed to an increase in the demand for US Dollar-denominated assets. The US Dollar appreciated vis-à-vis the Pound Sterling (by 2.92 per cent) and the Euro (7.69 per cent) over the three months to September 2011. Similar strengthening occurred relative to the Swiss Franc, Canadian Dollar and Australian Dollar. However, the simultaneous demand for Japanese-denominated assets led to a strengthening of the Yen relative to the US Dollar, despite the Bank of Japan's intervention in the currency market in August for the third time in one year. In a move to stem the appreciation of the Swiss Franc, the Swiss National Bank on September 06 imposed a ceiling of 1.20 francs per Euro -the first such measure in over three decades- while resuming its purchase of foreign currencies. As a result of the exchange rate ceiling, the Swiss Franc depreciated 8 per cent versus the US Dollar 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

For most of the quarter, both the equity and fixed income portions of the Fund were underweight relative to the Strategic Asset Allocation (SAA) as additional deposits made by the government into the Fund were temporarily held in short-term fixed deposits. (Table 1 below refers). The approved SAA for the HSF investment portfolio is as follows:

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%*

Over the period July to September 2011, the Government made two cash contributions to the Fund which totalled US$451.4 million. On the first occasion, the contribution amounted to US$139.9 million in respect of the second quarter of 2011, while the second contribution of US$311.5 million was deposited on September 30 for the third quarter of 2011. On August 31 2011, US$139.0 million was transferred to the external asset managers in proportions such that the four mandates were in line with their approved SAA weight.

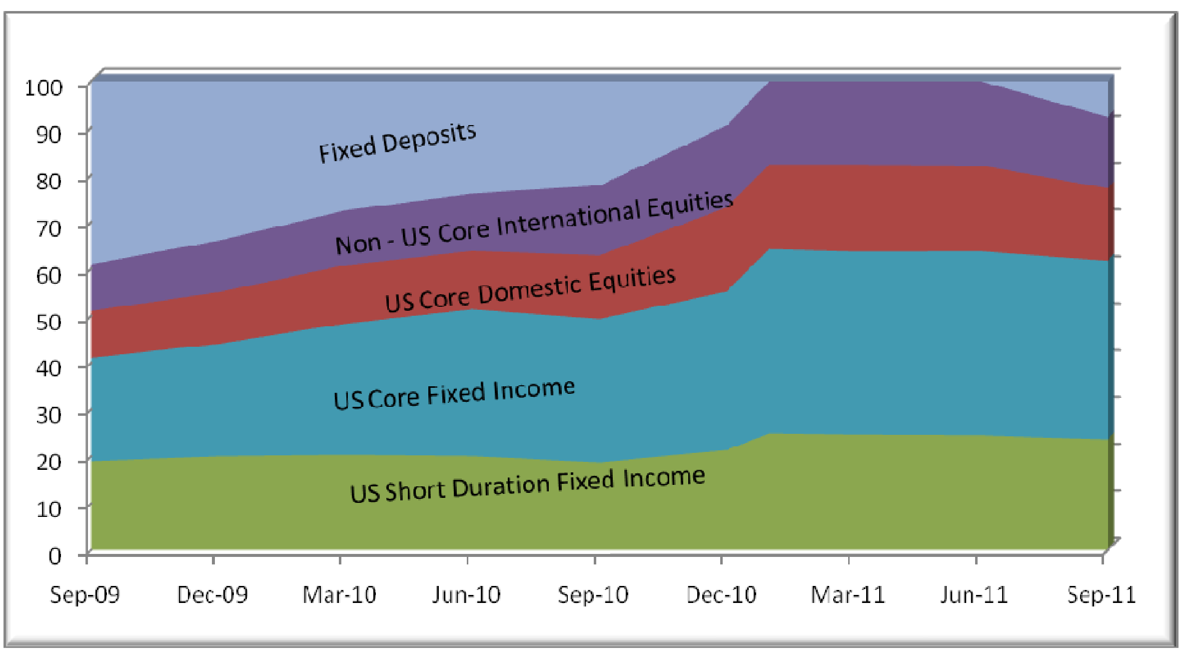
At the end of September 2011, the total net asset value of the Fund was US$4,084.0 million, compared with US$3,825.6 million at the end of June 2011. Of this total, the investment portfolio was valued US$4,081.6 million while the remaining portion was held in cash to meet the day-to-day expenses that arise from the management of the Fund. As at September 30 2011, the cash balance stood at US$2.4 million. The Fund's target asset allocation and the portfolio weighting for the period March 31 2011 to September 30 2011 are shown below in Table 1.

Table 1
Portfolio Composition relative to the Approved SAA
/per cent/

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

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

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



Performance of the Investment Portfolio

During the highly volatile third quarter of 2011, the HSF investment portfolio **lost 4.82 per cent**, underperforming the SAA benchmark[1] which **lost 4.28 per cent**. The poor performance of global equity markets was the main driver of the quarter's negative return. As such, the equity funds in the composite portfolio detracted 6.47 per cent from total returns. This loss was partially offset by the modest contribution from the fixed income funds which added 1.65 per cent. During the three months to September 2011, the Fund had an average equity holding amounting to 34.2 per cent of the total portfolio while 64.6 per cent was invested in fixed income securities. The remaining 1.2 per cent comprised the average weight of the fixed deposits held over the period.

In absolute terms, the two equity mandates made substantial losses during the third quarter as investor moved away from risky assets amid great market uncertainty. The **US Core Domestic Equity** portfolio lost 14.88 per cent, underperforming its benchmark, the Russell 3000 ex Energy Index, by 44 basis points. The greater loss relative to that of the benchmark reflected unfavourable security selection decisions. Overweight allocations to the worst performing sectors resulted in losses that more than outweighed the gains made from the underweight allocation to the other sectors. For the financial year to September 2011, this mandate returned -0.35 per cent, underperforming the benchmark which returned -0.09 per cent. The market value of the US Core Domestic Equity Portfolio as at September 30 2011 was **US$630.4 million**, down from US$699.6 million at the end of June 2011. The losses experienced by this portfolio during the quarter were partially offset by the transfer of US$38.4 million to the mandate on August 31 2011.

[1] 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%).

The **Non-US International Equity** portfolio also underperformed its benchmark, returning -20.44 per cent compared with -19.07 per cent for the MSCI EAFE ex Energy index. The portfolio's underperformance can be attributed to unfavourable country and security selection decisions. On a regional basis, stock selection in Europe detracted the most from relative performance. For the financial year to September 2011, this mandate lost 10.16 per cent, underperforming the benchmark which dropped 9.87 per cent. As at September 30 2011, the market value of the Non-US Core International Equity mandate was **US$621.2 million,** compared with US$687.2 million at the end of June 2011. The losses experienced by this portfolio during the quarter were partially offset by the transfer of US$82.3 million to this mandate on August 31 2011.

The fixed income mandates benefitted from the risk-off trades which dominated the quarter, resulting in the portfolios generating positive absolute returns despite underperforming their respective benchmarks. The **US Core Fixed Income** portfolio returned 3.41 per cent compared with 3.83 per cent for the Barclays Capital US Aggregate index. The underperformance of this mandate reflected the substantial underweight allocation to US Treasuries relative to the benchmark. US Treasuries was the best performing sector in the Barclay's Bond Index. In addition, the shorter duration of the portfolio versus that of the benchmark detracted from returns as bond yields declined over the quarter. For the financial year to September 2011, this mandate returned 4.72 per cent compared with 5.29 per cent for the benchmark. The market value of this portfolio as at September 30 2011 was **US$1,555.6 million** compared with US$1,502.4 million at the end of June 2011. This increase in value partly reflected the transfer of US$1.9 million to this mandate on August 31 2011.

Over the same period, the **US Short Duration Fixed Income** mandate returned 1.33 per cent, underperforming its benchmark, the Bank of America Merrill Lynch US Treasury 1-5

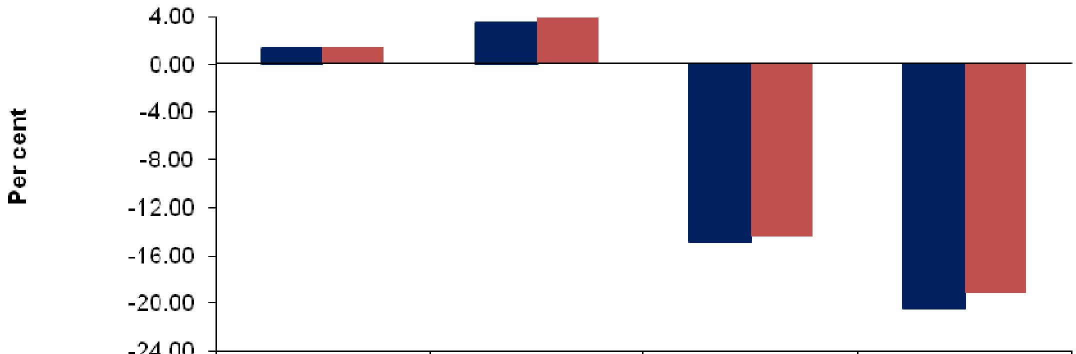
Year index by 6 basis points. The portfolio's underperformance was attributed to its curve steepening strategy which detracted from excess returns as the yield curve flattened during the quarter. The portfolio was overweight in the 2-year section of the curve and underweight in the 5-year portion. Treasury yields declined 22 basis points and 81 basis points in the 2-year and 5-year nodes of the curve, respectively. For the financial year to September 2011, this mandate returned 2.18 per cent relative to a benchmark's return of 2.25 per cent. The market value of this portfolio as at September 30 2011 was **US$963.0 million** compared with US$934.4 million at the end of June 2011. This increase in value partly reflected the transfer of US$16.4 million to this mandate on August 31 2011.

Table 2
Contribution to Quarterly Return,
For the period July 2011 – September 2011
/per cent/

	Weighting as at 30-Sep-2011	Weighted Return HSF	Weighted Return Benchmark	Excess Return
Composite Portfolio	100.00	-4.82	-4.28	-0.54
US Core Domestic Fixed Income	38.11	1.33	1.52	-0.19
US Core Domestic Equity	15.45	-2.71	-2.63	-0.08
Non US Core International Equity	15.22	-3.75	-3.50	-0.25
US Short Duration Fixed Income	23.59	0.32	0.35	-0.03
US Deposits	7.63	0.00	0.00	0.00

*These deposits represent the cash contribution made by the Government on September 30, 2011.
NB: Differences in totals are due to rounding.

Figure 7
Absolute Returns by Asset Class
For the period July 2011 – September 2011
/per cent/



	US Short Duration	US Core Fixed Income	US Core Domestic Equities	Non US Core International Equities
Actual Portfolio Return	1.33	3.41	-14.88	-20.44
Actual Benchmark Return	1.39	3.83	-14.44	-19.07

Mandate

SECTION 4 –COMPLIANCE AND PORTFOLIO RISKS

Compliance

During the quarter ended September 30 2011, a tactical decision was made in accordance with the provisions of section 6 of the HSF Operational and Investment Policy to delay the funding of external managers from the government's contribution to the Fund on July 29 2011, given the uncertainty in global financial markets. Following an improvement in market conditions, the external managers were subsequently funded on August 31, 2011. During this delay period, the government's contribution was held in fixed deposits.

As at the end of September 2011, one of the fixed income managers held a security whose rating had recently been downgraded below the minimum rating threshold. The manager immediately informed the Bank of the downgraded security and upon considering the merits and demerits of holding the same; a directive was given to the said manager to unwind the position. The security was sold immediately thereafter.

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 September 30 2011.

Table 3
Average Credit Rating

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

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 September 30 2011.

Table 4
Weighted Average Duration
/Years/

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

Concentration Risk

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

Currency Risk

For the Fixed Income and US Core Domestic Equity mandates, no more than 10 per cent of the market value of the portfolio can be invested in securities denominated in currencies other than the US Dollar. For the Non-US Core International Equity mandates, currency hedging is allowed up to a maximum of 15 per cent of the portfolio's market value, with the base currency being the US Dollar. During the quarter, the portfolios were within these limits. At the end of September 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	3.85	3.91	-6.58
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	-5.55
September	5.33	5.08	24.71	**6.07**	**5.75**	**31.93**	**4.61**	**4.59**	**2.29**
FY 2011									
December	2.29	2.23	5.89	2.29	2.21	8.29	5.01	4.97	4.69
March	1.62	1.54	7.64	3.94	3.89	15.68	5.18	5.11	6.60
June	1.88	1.81	6.68	5.89	5.67	22.91	5.41	5.32	8.21
September	-4.82	-4.28	-53.66	**0.79**	**1.14**	**-34.89**	**3.80**	**3.87**	**-7.13**

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	70,691,561	567,222,023	-
September 30, 2011	4,084,016,158	29,885,267	374,074,067	451,400,519

Appendix III
Summary Characteristics of Composite Benchmarks

Fixed Income Benchmarks

Key Characteristics	Barclays US Aggregate Index	Merrill Lynch 1-5 Index
Total Holdings	7,772	112
Coupon (%)	4.14	2.15
Duration (Years)	4.47	2.59
Average Life (Years)	6.37	2.69
Yield to Maturity (%)	2.05	0.45
Option Adjusted Spread (bps)	74	-1
Average Rating	AA	AAA

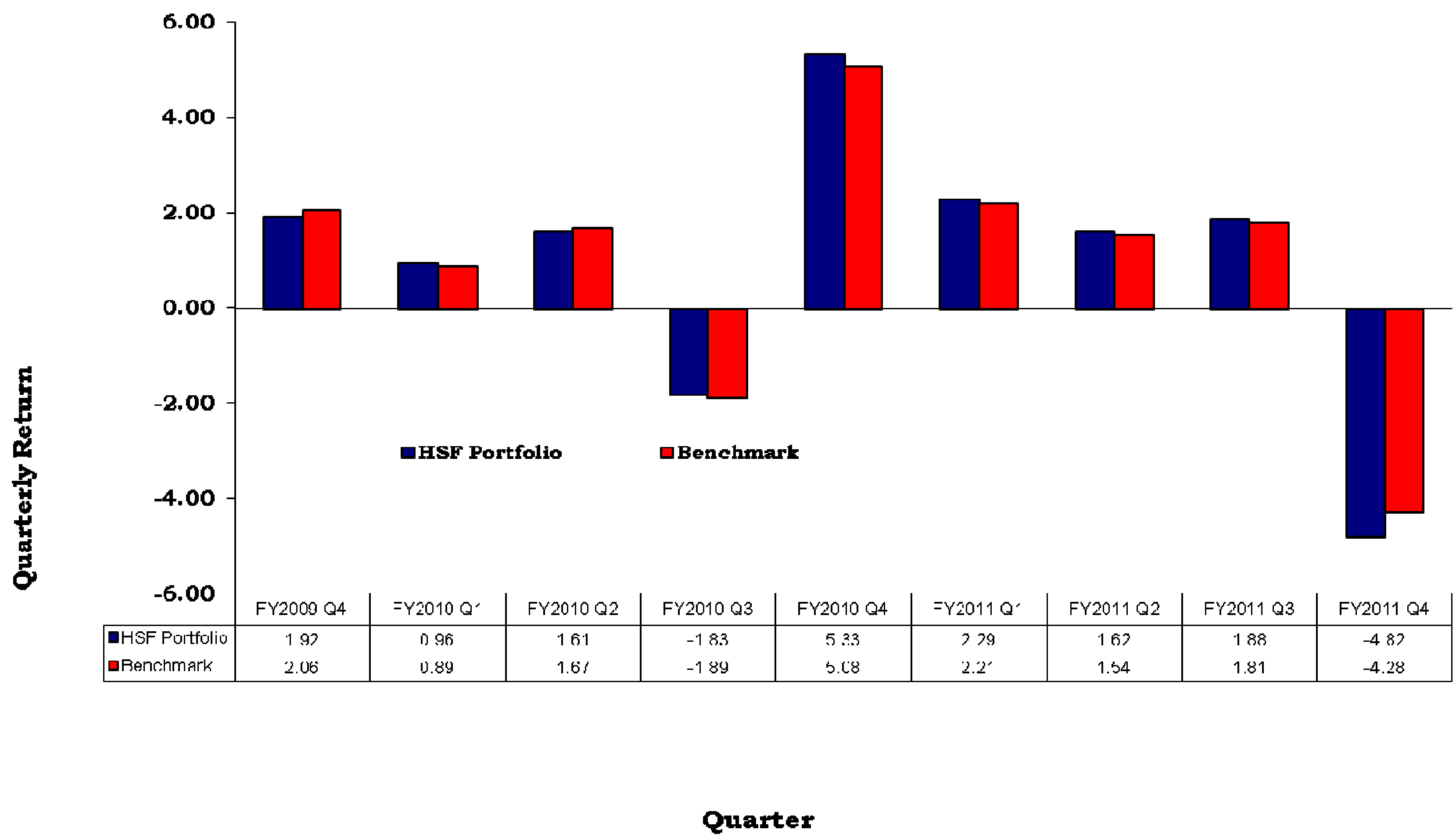
Equity Benchmarks

Key Characteristics	Russell 3000 (ex energy)	MSCI EAFE (ex energy)
Total Holdings	2,755	950
Earnings Per Share (EPS Growth 3-5y fwd) (%)	11.9	11.22
Price Earnings (P/E fwd)	11.4	10.28
Price / Book (P/B)	2.0	1.21
Market Capitalization (Bn)	$62.1	$41.9

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

	December 2010	March 2011	June 2011	September 2011
Total Fund Value	**3,702**	**3,760**	**3,826**	**4,084**
Total Value of Equity	**1,310**	**1,365**	**1,387**	**1,251**
US Core Domestic Equity	664	697	700	630
Non-US Core International Equity	646	668	687	621
Total Value of Fixed Income	**2,040**	**2,394**	**2,437**	**2,519**
US Short Duration Fixed Income	789	924	934	963
US Core Domestic Fixed Income	1,251	1,470	1,503	1,556
Total Value of Cash or Cash Equivalents	**352**	**1**	**2**	**314**

Appendix V
HSF Portfolio Quarterly Returns
/per cent/



	FY2009 Q4	FY2010 Q1	FY2010 Q2	FY2010 Q3	FY2010 Q4	FY2011 Q1	FY2011 Q2	FY2011 Q3	FY2011 Q4
HSF Portfolio	1.92	0.96	1.61	-1.83	5.33	2.29	1.62	1.88	-4.82
Benchmark	2.06	0.89	1.67	-1.89	5.08	2.21	1.54	1.81	-4.28