HERITAGE AND STABILISATION FUND

Quarterly Investment Report
January - March 2010

EXECUTIVE SUMMARY

During the first quarter of 2010, most of the economic data emanating from the United States suggested that the **economy continued to pick up momentum**. Real Gross Domestic Product (GDP) data showed that the economy grew by an annualized rate of 5.6 per cent in the fourth quarter of 2009 compared with an expansion of 2.2 per cent in the previous quarter. It is expected that this growth trend is likely to continue into 2010. Preliminary GDP data for the first quarter of 2010 revealed that the US economy expanded by 3.2 per cent, buoyed by growth in both the manufacturing and non-manufacturing sectors as well as an increase in consumer spending. The latest available data for UK and Japan also indicate signs of improvements for both economies. However, concerns arose regarding the Eurozone's outlook as growth in the region's largest economy, Germany, stagnated in the fourth quarter of 2009.

Financial markets **performances were mixed over the first quarter** as investors were more selective in their choice of investments. In particular, Greece's debt crisis negatively affected international equity markets performance and countries such as Portugal, Greece and Spain's market lost value over the quarter as investors began to adjust their appetite for countries with substantial fiscal burdens. Conversely, US markets enjoyed a very healthy quarter with both fixed income and equity markets showing gains following improved economic indicators and corporate earnings releases over the quarter.

Against this backdrop, **the five asset classes generated positive returns** for the quarter ended March 2010, ranging from 0.86 per cent on the Non-US Core International Equity mandate to 5.98 per cent on the US Core Domestic Equity portfolios. These absolute performances were generally better than those of the previous quarter when the returns ranged from -0.09 per cent on the Short Duration Fixed Income mandate to 5.70 per cent on the US Core Domestic Equity mandate.

However, the Heritage and Stabilisation Fund (HSF) **portfolio's total return for the quarter (1.61 per cent) was marginally lower than the 1.67 per cent returned by the composite benchmark.** This relatively small underperformance resulted from the loss on equity investments in Spain and Portugal while the lower than benchmarks' exposures to the stronger performing sectors such as financials and commercial mortgage backed securities also detracted from the Fund's performance.

Though accounting for only 24 per cent of the Fund at the end of the quarter, **the main driver of Fund's composite performance continued to be the equity portion** which contributed 0.85 per cent of the 1.61 per cent composite return. The fixed income and money market portions which account for the remaining 76 per cent of the Fund also added 0.76 per cent up from 0.12 per cent in the previous quarter.

During the quarter, a further US$200 million was reallocated from money market deposits to the fixed income and equity mandates, in line with the Fund's Strategic Asset Allocation implementation plan. These transfers meant that Fund is on course for **SAA to be fully implemented by January 2011.** Table 1 below provides details of the absolute portfolio returns for the various asset classes for the quarter ending March 31st 2010.

Table 1
Absolute Quarterly Returns

	HSF Return (%)	Benchmark Return (%)	Excess Return (%)
Composite portfolio	1.61	1.67	-0.06
Money Market	0.05	0.03	0.02
US Core Domestic Fixed Income	1.96	1.78	0.17
US Core Domestic Equity	5.98	6.55	-0.57
Non US Core International Equity	0.86	1.34	-0.48
US Short Duration Fixed Income	1.00	0.91	0.09

There were no withdrawals by the Government during the quarter while they **deposited approximately $104 million** to Fund at the end of April 2010 for the quarter ended March 31st 2010 consistent with the deposit rules of the Act. **The aggregate HSF portfolio as at March 31st 2010 was valued at approximately US$3,039 million**, up from US$2,992 million at the end of December 2009.

SECTION 1 – INTERNATIONAL ECONOMIC ENVIRONMENT

United States

The latest data on Real Gross Domestic Product (GDP) showed that the US economy expanded by an annualized rate of 3.2 per cent in the first quarter of 2010 compared with growth of 5.6 per cent in the previous quarter. In most part, this improved performance was due to growth in both the manufacturing and non-manufacturing sectors as well as an increase in consumer spending. This positive trend was supported by other economic indicators which generally pointed towards an improvement in the country's economic conditions.

Both the manufacturing and non-manufacturing sectors exhibited signs of growth during the first three months of 2010 as indicated by indices produced by the Institute for Supply Management (ISM). In March 2010, the ISM manufacturing index measured greater than 50[1] for the eight successive months, while its non-manufacturing counterpart expanded for the third consecutive month. Given the positive signs in other macroeconomic indicators in the first quarter of 2010, analysts forecast that the growth trend of US GDP will continue into the first half of 2010.

Supporting the trend in the ISM indices was the overall improvement in the US labour market data. The US Bureau of Labor Statistics announced that employment as measured by non-farm payrolls, increased by 162,000 in March 2010, the most number of jobs created since March 2007.

[1] A reading above 50 per cent indicates expansion in the sector while a reading below 50 per cent represents a contraction.

Notwithstanding the increase in employment, the improved unemployment rate of 9.7 per cent in March from 10.0 per cent in December was still a cause for concern by analysts.

Inflationary pressures remained subdued into the first quarter as prices in the US economy rose on a year-on-year basis by an average of 2.3 per in March 2010. Core Inflation, which strips out the impact of food and energy price movements, measured 1.1 per cent year-on-year, down from 1.3 per cent in February and 1.6 per cent in January 2010. With inflation not considered an imminent threat to the US economy, the Federal Reserve Board (FED) kept the Fed Funds rate unchanged at the range of 0 to 0.25 per cent in March 2010.

During the quarter, the FED discontinued most of its special liquidity facilities which were established to support the markets during the financial crisis. The only remaining program of significance, the Term Asset-Backed Securities Loan Facility, is set to come to an end on June 30 2010. This program supports loans backed by newly-issued commercial mortgage-backed securities. However, the FED implied that it is prepared to continue the program should it become necessary.

Eurozone

The quarter-on-quarter growth in Real GDP for the region was 0.4 per cent during the last three months of 2009. Growth in the German economy stagnated in the fourth quarter while expansion in the French economy was offset by contractions experienced in most of the other countries comprising the Eurozone.

The unemployment rate in the region remained relatively high at 10.0 per cent in February 2010, an increase from the 9.9 per cent recorded in the previous two months. Spain, with an unemployment rate of 19.0 per cent, was the largest contributor to the elevated rate while the Netherlands and Luxembourg had the lowest unemployment rates of 4.1 per cent and 4.6 per cent, respectively.

Consumer prices in the region rose by 1.5 per cent in the twelve months to March 2010 following a 0.9 per cent year-on-year increase in the previous month. The European Central Bank (ECB) outlook is for inflation to remain moderate over the medium-term horizon, with overall price, cost and wage developments staying subdued. The ECB left its target benchmark interest rate unchanged at 1.0 per cent over the quarter.

United Kingdom

The UK's economy returned to growth in the fourth quarter of 2009 as the economy expanded by 0.3 per cent, after contracting by 0.3 per cent in the previous quarter. The GDP growth was mainly driven by increases in household expenditure, which rose by 0.4 per cent during the quarter and by government final consumption which increased by 1.2 per cent. Business investments on the other hand, continued to decline.

Signs of improvement in economic activity carried over into the first quarter of 2010 evidenced by better economic data for the manufacturing sector. Manufacturing activity as measured by the Purchasing Managers' Index, reached a two-year high of 56.0 in March to average 53.3 for the quarter. According to the Bank of England (BoE), activity in the manufacturing sector is expected to continue to improve as the UK's economy would be aided by the weakened exchange rate, the fiscal and monetary stimulus programs and the overall improvement in global economic conditions.

The UK's Consumer Price Index rose on a year-on-year basis to 3.4 per cent in March 2010, from 3.0 per cent in February. This was largely on account of an increase in commodity prices. Core CPI unexpectedly rose to 3.0 per cent, from 2.9 per cent in February. At its March meeting, the BoE Monetary Policy Committee noted that it expects inflation would moderate during the course of 2010 but the pace and degree of moderation would be highly uncertain as further sharp movements in the exchange rate and energy prices could occur. Notwithstanding, the BoE expects that in the medium term the substantial spare capacity in the economy would continue to restrain inflationary pressures. The BoE held the benchmark interest rate steady at 0.5 per cent in the quarter ending March 2010.

Japan

Preliminary estimates indicated that GDP grew by 0.9 per cent (quarter-on-quarter) in the fourth quarter of 2009 following a 0.3 per cent expansion in the third quarter. According to the Bank of Japan (BOJ), growth was driven by external demand and personal consumption buoyed by the government's stimulus program. Business investment increased for the first time in almost two years while residential investment declined slightly.

Continued spare capacity in the Japanese economy resulted in depressed consumer prices. Headline CPI in January fell by 1.3 per cent year-on-year compared with a decline of 1.7 per cent in December whilst core inflation remained unchanged from the previous month at -1.2 per cent. The Bank of Japan, at its February 2010 meeting kept its target overnight benchmark rate unchanged at 0.1 per cent.

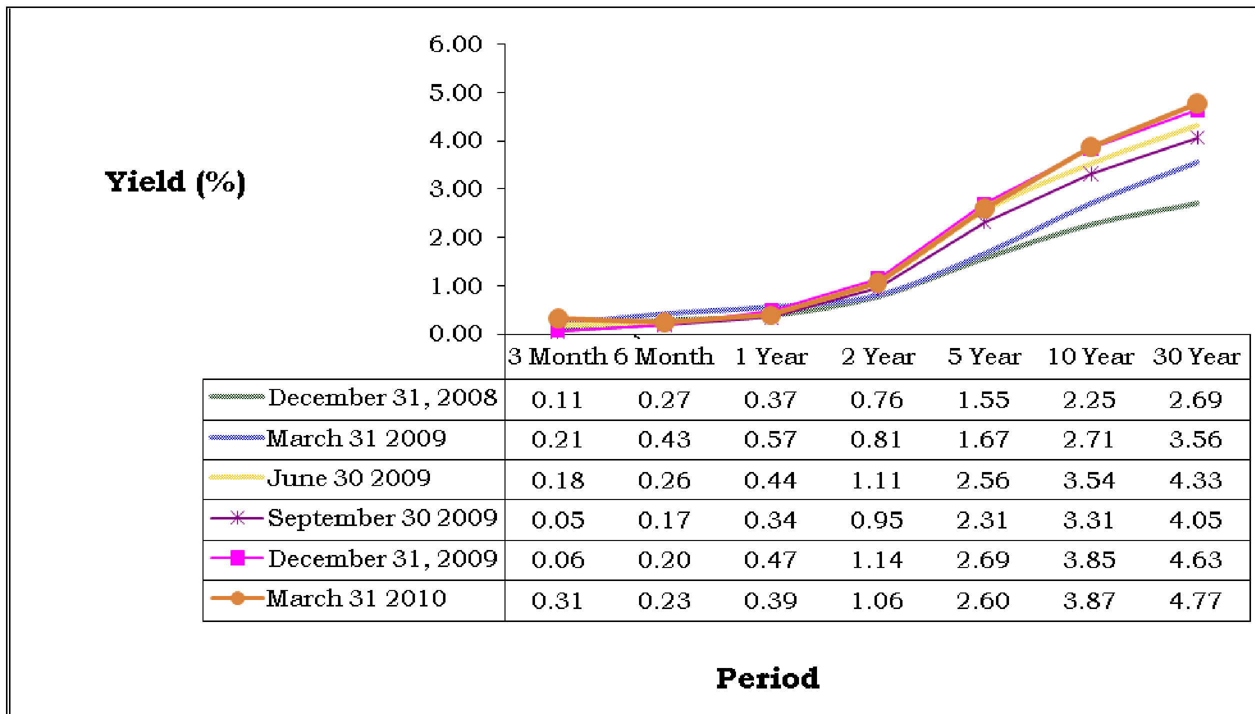
SECTION 2 – CAPITAL AND MONEY MARKET REVIEW

Financial markets performances were mixed over the first quarter as investors were more selective in their choice of investments. In particular, international equity markets performance in countries such as Portugal, Greece and Spain suffered significant losses over the quarter as investors began to adjust their appetite for countries with substantial fiscal burdens. Conversely, US markets recorded positive returns over the quarter with both fixed income and equity markets doing well following better economic indicators and corporate earnings releases over the quarter.

Fixed Income

For the quarter ended March 2010, US 10-year benchmark Treasury yields traded in a range of 3.50 per cent to 3.88 per cent. The yield curve continued to steepen over the quarter as the difference between the US 2-year and US 10-year treasuries rose from around 270 basis points in December to 280 basis points in March.

Figure 1
US Treasury Yield Curve



	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
December 31, 2008	0.11	0.27	0.37	0.76	1.55	2.25	2.69
March 31 2009	0.21	0.43	0.57	0.81	1.67	2.71	3.56
June 30 2009	0.18	0.26	0.44	1.11	2.56	3.54	4.33
September 30 2009	0.05	0.17	0.34	0.95	2.31	3.31	4.05
December 31, 2009	0.06	0.20	0.47	1.14	2.69	3.85	4.63
March 31 2010	0.31	0.23	0.39	1.06	2.60	3.87	4.77

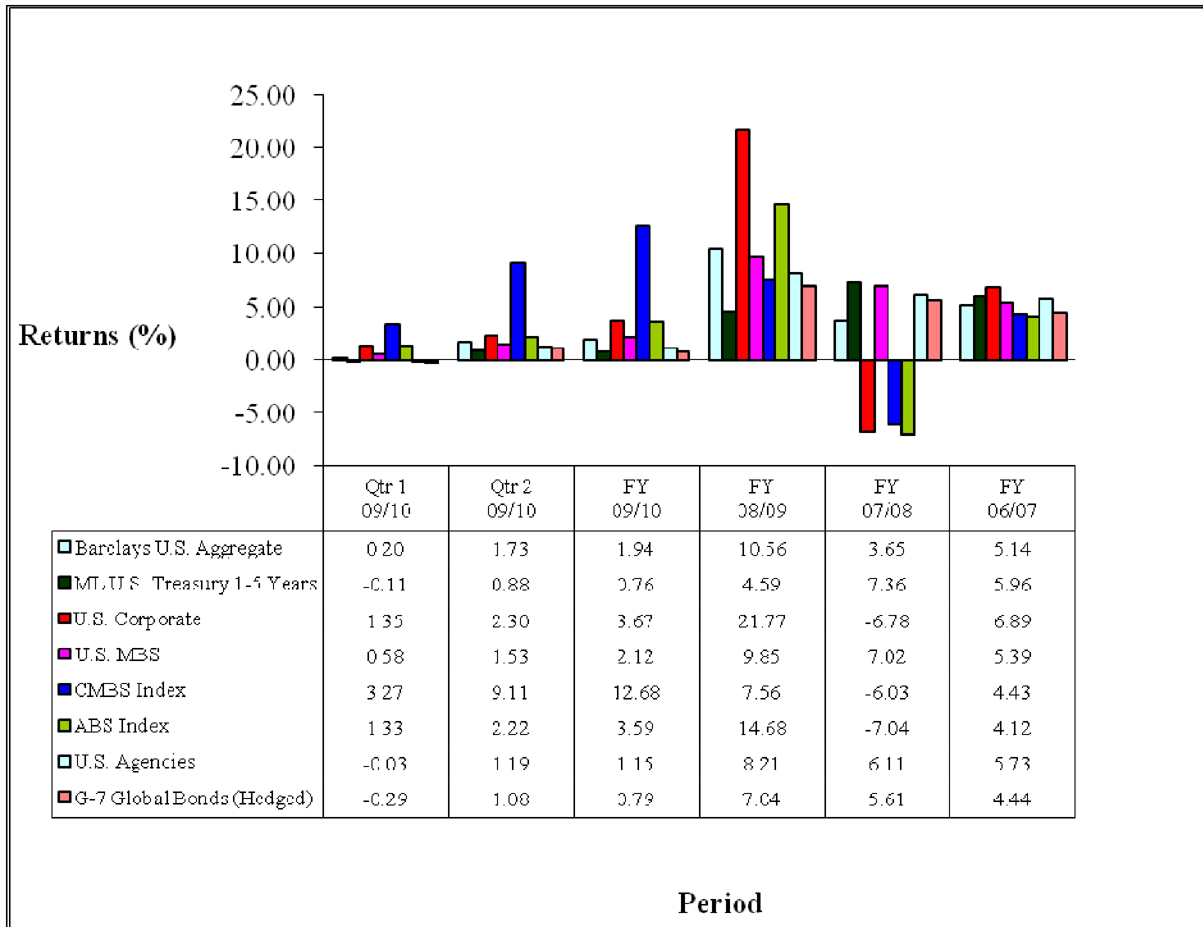
The Bank of America/Merrill Lynch US Government Treasury 1 – 5 Year Index returned 0.91 per cent for the quarter. The majority of this positive return occurred in January when investors sought refuge in higher rated credits as the scale of Greece's fiscal burden unfolded. The broader US fixed income market, as represented by the **Barclays US Aggregate Index**, generated a total return of 1.78 per cent for the first quarter of 2010 compared to a return of 0.20 per cent in the previous quarter.

Within the Barclays US Aggregate Index, the Commercial Mortgage Backed Securities (CMBS) and Asset Back Securities sectors continued to do well and returned 9.11 per cent and 2.22 per cent respectively, up from the prior quarter's returns of 3.27 per cent and 1.33 per cent, respectively.

The prices of US corporate investment grade securities continued to rise as spreads (the yield versus comparable Treasuries) continued to tighten. For the quarter ended March 2010, US Corporate Investment Grade securities returned 2.30 per cent, well above the previous quarter's return of 1.35 per cent. Detracting from the Index's performance was the US Agency sector (1.19 per cent) which whilst positive lagged the overall Barclay's US Aggregate Index's total return of 1.73 per cent.

The G-7 global treasury sector produced a positive return of 1.08 per cent during the quarter, with France (2.65 per cent), UK (1.24 per cent), German (2.81 per cent) and US (1.12 per cent) government bonds all producing positive returns. Most of these returns were captured during the month of January when investors engaged in the 'flight to quality trade' following the negative headlines surrounding Greece's fiscal situation. Figure 2 presents a detailed breakdown for the fixed income indices.

Figure 2
Fixed Income Indices



	Qtr 1 09/10	Qtr 2 09/10	FY 09/10	FY 08/09	FY 07/08	FY 06/07
Barclays U.S. Aggregate	0.20	1.73	1.94	10.56	3.65	5.14
ML U.S. Treasury 1-5 Years	-0.11	0.88	0.76	4.59	7.36	5.96
U.S. Corporate	1.35	2.30	3.67	21.77	-6.78	6.89
U.S. MBS	0.58	1.53	2.12	9.85	7.02	5.39
CMBS Index	3.27	9.11	12.68	7.56	-6.03	4.43
ABS Index	1.33	2.22	3.59	14.68	-7.04	4.12
U.S. Agencies	-0.03	1.19	1.15	8.21	6.11	5.73
G-7 Global Bonds (Hedged)	-0.29	1.08	0.79	7.04	5.61	4.44

Equity Markets

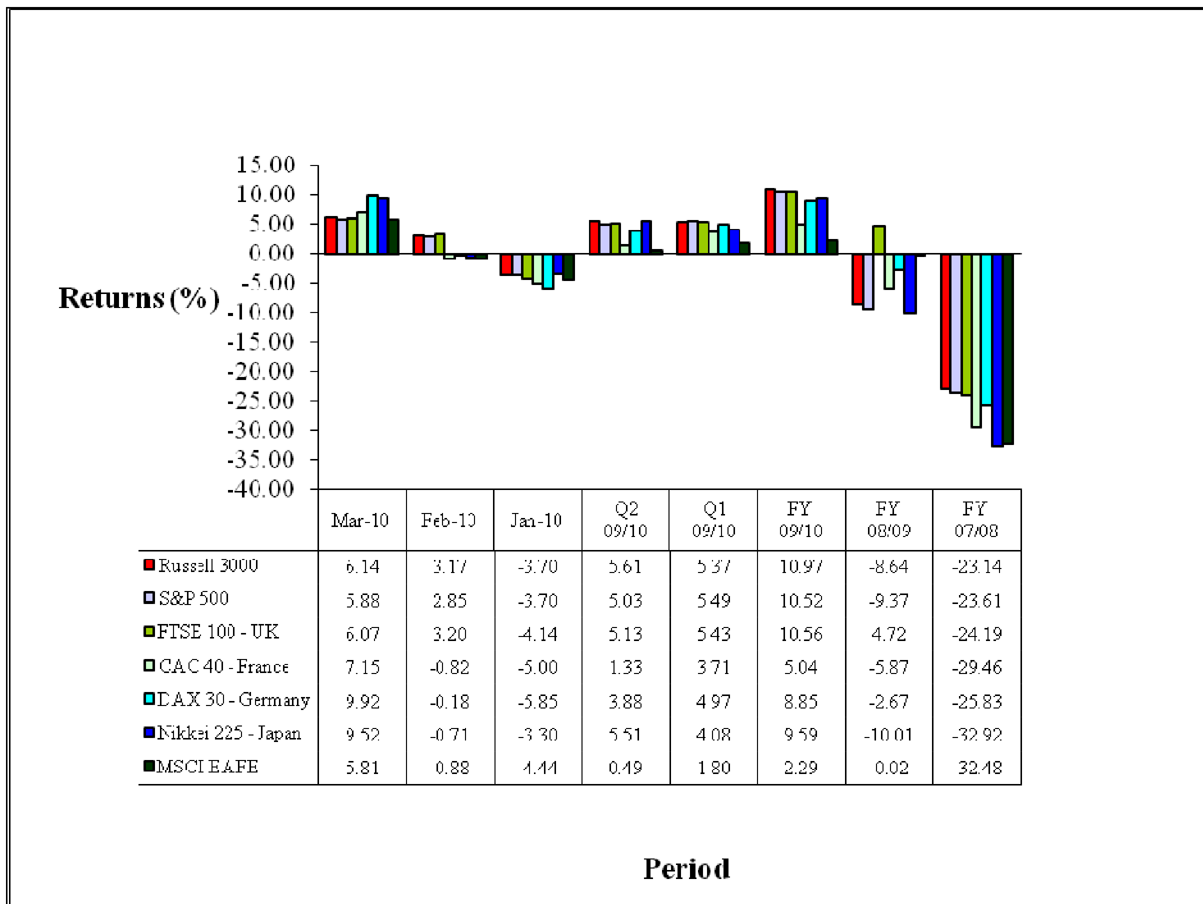
January 2010 was a particularly weak month for both US and International equity markets as investors were concerned over Greece's inability to refinance its maturing debts and the possible contagion effects in Europe especially for countries like Portugal and Spain. At that time, there were concerns that Greece's situation may have impacted the pace of global recovery and aggregate

demand. However, global equity markets rebounded in February and March as the risk of Greece defaulting on its maturing debt was significantly reduced following public support by the European Union and the International Monetary Fund (IMF) for a debt restructuring plan. **The Russell 3000 Index (US),** which measures the performance of the largest 3000 U.S. companies and represents approximately 98 per cent of the investable U.S. equity market, rose over 5 per cent for the quarter ended March 2010. The index posted strong gains in February and March which more than offset the January decline, following positive earnings reports and improving macroeconomic data in the US. **The MSCI EAFE** Index which tracks the equity market performance of developed countries in Europe, Australia and the Far East had a more muted return for the quarter, adding just 0.49 per cent for the period. Performance in the United Kingdom, and Japanese equity markets was particularly strong; however, negative headlines surrounding Greece's debt crisis resulted in significant negative returns in markets such as Greece, Spain and Portugal over the quarter. France, Germany and Australia returned single-digit positive returns during the quarter as company valuations proved to be attractive following the sell-off in prices in January. **The VIX Index** (which is an indicator of volatility) traded downwards, closing at 17.59 at the end of March, from 19.96 in December.

The US equity markets outpaced foreign stocks in both developed and emerging markets as the dominant theme in the US market was growing confidence in the economic outlook of the economy. US Companies quarterly earnings reports were released during the quarter and the results in the main, demonstrated companies continued efforts to reduce operating costs, as well as increasing incremental margins and improved cash flow and financial strength. **The Russell 3000 Index** positive performance for the quarter (5.61 per cent) was broad-based with eight of the nine sectors of the Index recording positive returns. The strongest performance was noted in the consumer

discretionary (11.12 per cent), producer durables (11.68 per cent) and financial services (10.70 per cent) sectors. The utilities sector was the only sector that experienced a negative return, losing 2.93 per cent.

Figure 3
Equity Indices

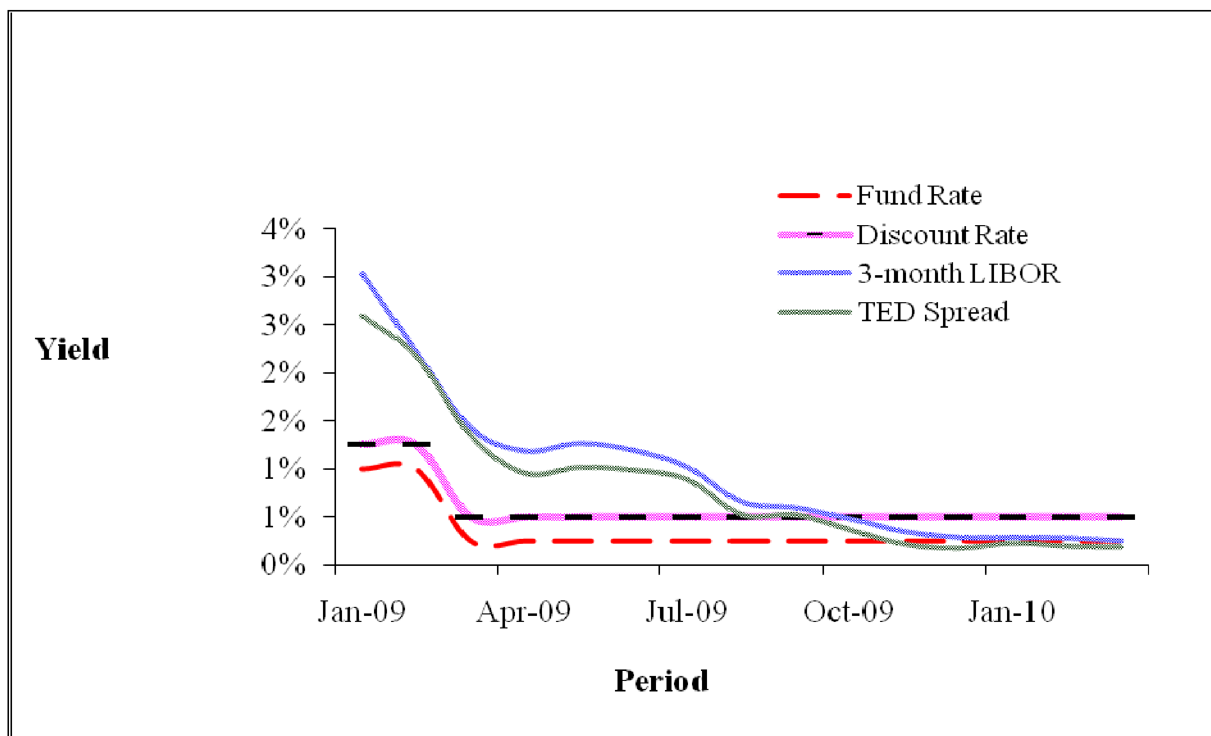


	Mar-10	Feb-10	Jan-10	Q2 09/10	Q1 09/10	FY 09/10	FY 08/09	FY 07/08
Russell 3000	6.14	3.17	-3.70	5.61	5.37	10.97	-8.64	-23.14
S&P 500	5.88	2.85	-3.70	5.03	5.49	10.52	-9.37	-23.61
FTSE 100 - UK	6.07	3.20	-4.14	5.13	5.43	10.56	4.72	-24.19
CAC 40 - France	7.15	-0.82	-5.00	1.33	3.71	5.04	-5.87	-29.46
DAX 30 - Germany	9.92	-0.18	-5.85	3.88	4.97	8.85	-2.67	-25.83
Nikkei 225 - Japan	9.52	-0.71	-3.30	5.51	4.08	9.59	-10.01	-32.92
MSCI EAFE	5.81	0.88	4.44	0.49	1.80	2.29	0.02	32.48

Money Market

Money market interest rates continued to remain extremely low over the quarter as volatility returned to pre-Lehman bankruptcy levels. The TED spread, which is the difference between the 3-month T-bill rate and 3-month London Inter Bank Offered Rate (LIBOR) and which is used as a key measure of the health of the banking system, remained flat ending the period at 29 basis points. Yields on money market deposits remained flat as investors continued to demand less risk premia, as the banking system continued to improve. Figure 4 shows movements in the key short-term money market rates for the US between the period October 2008 and March 2010.

Figure 4
US Market Rates (January 2009 – March 2010)



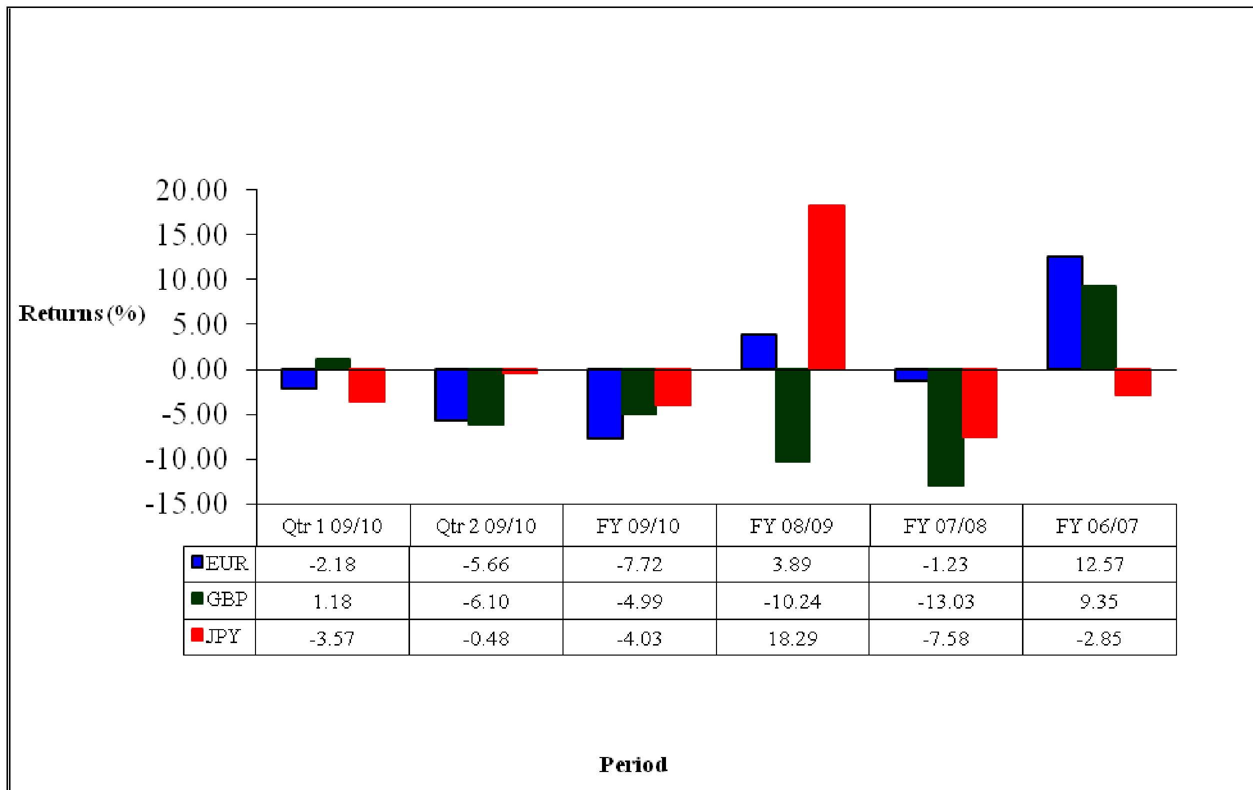
Currency Markets

Over the quarter, the US dollar strengthened against the Euro, the Pound Sterling and Japanese Yen by 5.66 per cent, 6.10 per cent, and 0.48 per cent, respectively. One reason behind the strength of

the US dollar over the quarter was the overall improvement in US economic indicators relative to those of other major developed economies. In addition, the uncertainty surrounding Greece's fiscal problems led investors to reduce exposure to the Euro and the Pound Sterling as they became concerned over the possibility of default and the resulting contagion effects on the respective currencies.

Rates of exchange versus the US dollar for the Euro, Pound Sterling and Japanese Yen were 1.341, 1.506 and 92.76, respectively, at the end of March.

Figure 5
FX Returns for Major Currencies versus the US Dollar



	Qtr 1 09/10	Qtr 2 09/10	FY 09/10	FY 08/09	FY 07/08	FY 06/07
EUR	-2.18	-5.66	-7.72	3.89	-1.23	12.57
GBP	1.18	-6.10	-4.99	-10.24	-13.03	9.35
JPY	-3.57	-0.48	-4.03	18.29	-7.58	-2.85

SECTION 3 – PORTFOLIO PERFORMANCE

Strategic Asset Allocation

The execution of the two-year transitional plan towards achieving the optimal asset mix defined by the Strategic Asset Allocation (SAA) continued over the quarter ending March 31st 2010. In early January 2010, the Fund's internally managed Treasury portfolio totaling US$164 million was transferred to the Fund's US Short Duration Fixed Income externally managed mandate. This exercise was done as part of the Fund's transitioning to the SAA which is expected to be completed by January 2011. Additionally, in January 2010, the Fund made an additional cash transfer of US$200 million to its external managers program, bringing the Fund's assets allocated to international fixed income and equity mandates to US$1,935 million. Once the SAA target is attained, the Fund would be fully invested in the four major asset classes in the following proportions:

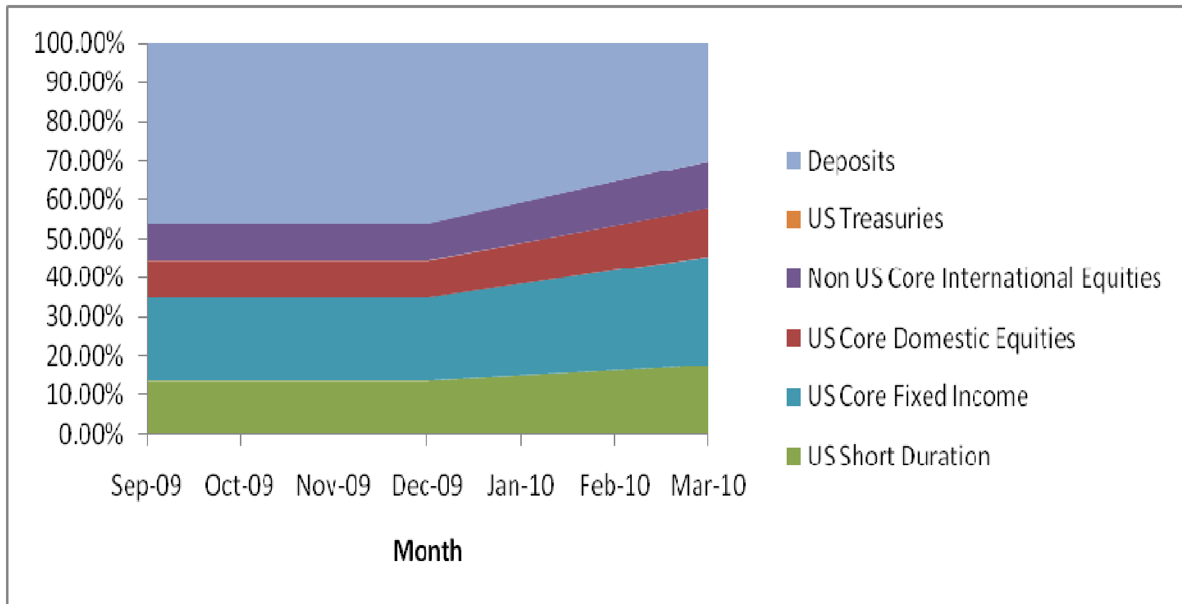
1) US Short Duration Fixed Income (25.0%)
2) US Core Domestic Fixed Income (40.0%)
3) US Core Domestic Equity (17.5%)
4) Non- US Core International Equity (17.5%)

The table and chart below show the SAA's target asset allocation as well as the portfolio weighting as at March 31st 2010.

Table 2
Portfolio Composition (%) to Target SAA

	Asset Class	Sep-09		Dec-09		Mar-10	
		Target SAA	Actual % of Fund	Target SAA	Actual % of Fund	Target SAA	Actual % of Fund
Portfolio Weights	US Fixed Deposits	46.00	39.00	46.00	39.00	30.00	27.55
	US Short Duration Fixed Income	13.50	19.00	13.50	19.00	17.50	20.30
	US Core Domestic Fixed Income	21.60	22.00	21.60	22.00	28.00	28.00
	US Core Domestic Equity	9.450	10.00	9.450	10.00	12.25	12.45
	Non US Core International Equity	9.450	10.00	9.450	10.00	12.25	11.70

Figure 6
Portfolio Composition, (September 2009 to March 2010)



Fund Performance

For the quarter ended March 2010, the five asset classes generated positive returns. The actively managed mandates recorded returns ranging from 0.86 per cent on the Non-US Core International Equity mandate to 5.98 per cent on the US Core Domestic Equity portfolios. These absolute performances were generally better than those of the previous quarter when the returns ranged from -0.09 per cent on the US Short Duration Fixed Income mandate to 5.70 per cent on the US Core Domestic Equity mandate. The money market deposits returned 0.05 per cent in the quarter ended March 2010, the same as in the previous quarter. On a composite level, the Fund yielded **a return of 1.61 per cent compared with 1.67 per cent for the composite benchmark** (See Appendix 1 Note 2 for details on the Composite Benchmark) and 0.90 per cent in the previous quarter.

The combined Equity mandates which comprises 24 per cent of the total Fund's market value accounted for a 0.85 per cent of the composite return for the quarter matching the previous quarter's return. The Fund has continued to benefit from its exposure to the US equity markets with the US Core Domestic Equity portfolio accounting for the majority of the composite return adding 0.75 per cent, whilst the Non-US Core International Equity portfolio accounted for the remaining 0.10 per cent. Despite the positive returns in the equity portfolios, both the US Core Domestic Equity and Non-US Core International Equity mandates underperformed their respective Benchmarks, the Russell 3000 ex Energy and the MSCI EAFE ex energy Index by 0.07 per cent and 0.06 per cent respectively.

The **US Core Domestic Equity mandate's** performance was positively affected by overweight allocations to the producer durables and consumer discretionary sectors which returned 11.68 per cent and 11.21 per cent respectively versus a benchmark return of 6.55 per cent. Underweight allocations to the financials sector detracted from performance as the financials sector outperformed the benchmark, returning over 10 per cent for the quarter. The Fund's investment in high quality stocks such as Paccar, Johnson Controls and Celgene were positive contributors to overall returns whilst exposures to companies like Google and Staples negatively impacted performance on both an absolute and relative basis. The market value of the US Core Domestic Equity Portfolio as at March 31st 2010 was US$398 million.

The Non-US Core International Equity mandate which accounts for approximately 11 per cent of the total Fund size had a quarterly composite return of 0.10 per cent versus a composite benchmark return of 0.16 per cent. The portfolio benefitted from investments in the Australian and Hong Kong equity markets as these markets rallied over the quarter. Exposure to the Portuguese and Spanish equity markets however weighed negatively on the portfolio's performance as Greece's debt crisis resulted in investors reassessing their risk appetite for countries with greater fiscal burdens. The market value of the Non-US Core International Equity mandate as at March 31st 2010 was US$372 million.

The Fixed Income and Money Market mandates which account for 76 per cent of the Fund's total assets had a composite return of 0.75 per cent for the quarter, outperforming the composite benchmark return of 0.68 per cent and up from the prior quarter's return of 0.12 per cent. The relative outperformance was driven primarily by the US Core Domestic Fixed Income mandate which outperformed its benchmark, the Barclays US Aggregate Index, by 0.05 per cent.

The US Core Domestic Fixed Income portfolio continued to benefit from an overweight allocation to the BBB (triple B) rated securities in the Barclays US Aggregate Index as well as an underweight position in the US Treasury market which lagged the overall index's performance. An underweight allocation relative to the benchmark in the MBS Sector weighed negatively on quarterly performance; however this was mitigated by investments in attractive securities within the MBS sector. The market value of the US Short Duration Fixed Income, US Core Domestic Fixed Income and Money Market deposits stood at US$2,269 million as at the end of March 2010.

Table 3:
Contribution to Total Return
For the Quarter ended March 2010

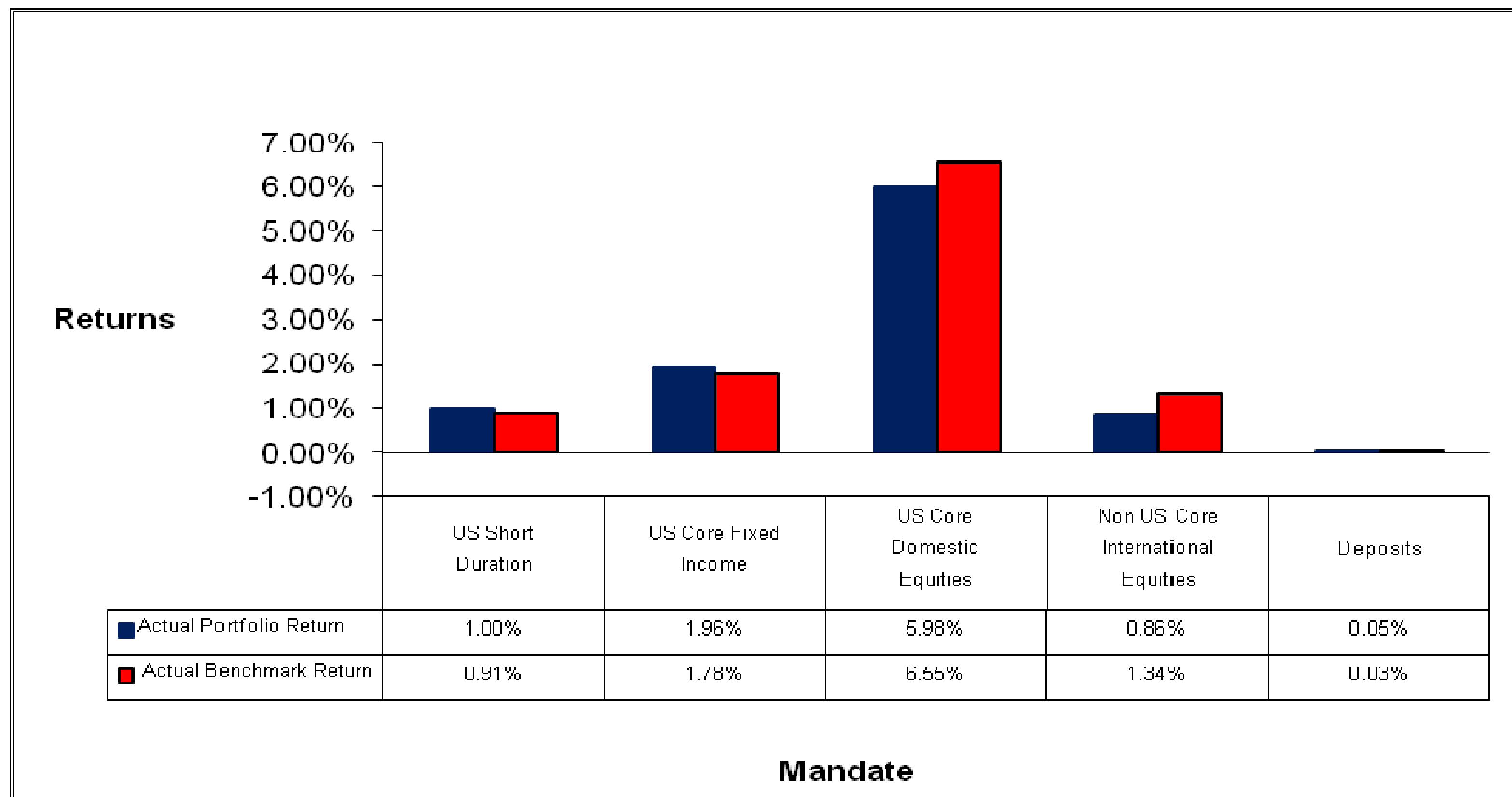
	Weighting as at March 31st 2010 (%)	**Weighted Return HSF (%)**	**Weighted Return Benchmark (%)**	**Excess Return (%)**
Composite Portfolio	100.00	1.61	1.67	-0.06
Money Market	27.55	0.01	0.01	0.00
US Core Domestic Fixed Income	28.00	0.54	0.49	0.05
US Core Domestic Equity	12.45	0.75	0.82	-0.07
Non US Core International Equity	11.70	0.10	0.16	-0.06
US Short Duration Fixed Income	20.30	0.20	0.18	0.02

The total portfolio (money market, fixed income and equity) as at March 31st 2010 was valued at approximately US$3,039 million, up from US$2,992 million as at December 2009. During the

quarter, there were no withdrawals or contributions by the Government. However, a cash contribution of approximately US$104 million in respect of the quarter ended March 2010 was made in April 2010.[2]

[2] Contributions for the quarter are due one (1) month after the quarter end.

Figure 7
Absolute Performance by Asset Class for the Quarter January 2010 – March 2010



SECTION 4 – PORTFOLIO RISKS AND COMPLIANCE

Compliance

During the quarter ended March 31st 2010, there were no breaches of the various risk and compliance limits.

Credit Risk

Over the quarter, the Fund adhered to its respective credit quality requirements as outlined in the Investment Guidelines. Table 4 below shows the Average Credit Quality of the US Short Duration and US Core Fixed Income Portfolios as at March 31st 2010.

Table 4
Average Credit Rating

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

For the equity portfolios, no security was above the maximum percentage holding of 3.00 per cent of the security's outstanding shares or the 5.00 per cent sector and 3.00 per cent maximum holding limits of any one security above benchmark weighting.

Interest Rate Risk

The Interest Rate Risk for the Fixed Income Mandates are managed using a weighted average effective duration limit on the respective portfolios, with an allowable range of one (1) year longer

or shorter than the weighted average duration of the respective Benchmark. Table 5 shows the Fund's US Short Duration and US Core Domestic Fixed Income duration limits as at March 31st 2010.

Table 5
Weighted Average Duration

Mandate	**Portfolio**	**Benchmark**
US Short Duration	2.63	2.60
US Core Domestic Fixed Income	4.79	4.63

Currency Risk

For the quarter, no more than 10.0 per cent of the market values of US Fixed Income and US Core Equity were invested in securities denominated in currencies other than the US Dollar.

The Non-US Core International Equity Portfolio absorbs the currency risk, however currency hedging is allowed for up to 15 per cent of the market value of the portfolio. As at March 31st 2010, the Fund had a currency hedge amount totaling US$15.1 million. This represented 4 per cent of the total market value of the Non-US Core International Equity portfolio.

Appendix I
HSF Portfolio
Historical Performance since Inception

Quarter End	Current Returns			Fiscal YTD			Annualised Return Since Inception		
	Portfolio %	Benchmark %	Excess bps	Portfolio %	Benchmark %	Excess bps	Portfolio %	Benchmark %	Excess bps
FY 2007									
March	0.23	0.23	0.30						
June	1.32	1.31	1.04						
September	1.38	1.37	0.52	**2.96**	**2.94**	**1.89**	**5.47**	**5.44**	**3.50**
FY 2008									
December	1.25	1.27	-1.80						
March	0.90	0.96	-5.28						
June	0.73	0.63	10.36						
September	0.68	0.59	9.27	**3.61**	**3.49**	**12.30**	**4.33**	**4.24**	**9.48**
FY 2009									
December	0.76%	0.99%	-22.54	**0.76%**	**0.98%**	**-22.49**	**4.19%**	**4.24%**	**-5.25**
March	0.08%	0.07%	0.62	**0.84%**	**1.06%**	**-21.88**	**3.71%**	**3.72%**	**-4.30**
June	0.02%	0.03%	-0.69	**0.86%**	**1.09%**	**-22.60**	**3.32%**	**3.36%**	**-4.15**
September	1.90%	2.07%	-16.05	**2.78%**	**3.18%**	**-39.26**	**3.80%**	**3.91%**	**-10.62**
FY 2010									
December	0.96%	0.89%	6.05	**0.96%**	**0.89%**	**6.05**	**3.84%**	**3.91%**	**-6.90**
March	1.61%	1.67%	-5.53	**2.58%**	**2.57%**	**1.19**	**4.11%**	**4.19%**	**-8.26**

Note:

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

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

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

Valuation Date	Net Asset Value	Monthly Income	Accumulated Unrealized Capital Gains/Losses	Contributions
March 15th, 2007	1,402,178,155.01	0	0	
June 30th, 2007	1,424,094,965.45	6,219,841	21,916,810	
September 30th, 2007	1,766,200,701.73	6,928,748	41,966,361	241,992,101.13[1]
December 31st, 2007	1,788,304,749.27	7,457,728	64,035,501	–
March 31st, 2008	1,804,531,743.56	4,590,333	80,514,798	
June 30th, 2008	1,997,251,772.00	5,476,329	93,124,304	
September 30th, 2008	2,888,421,556.00	5,699,080	110,379,131	415,833,666.53
December 31st, 2008	2,909,717,167.00	3,529,009.	131,638,985	
March 31st, 2009	2,911,075,318.00	1,101,561	133,066,161	
June 30th,2009	2,912,040,600.39	1,188,606	133,909,143	
September 30th, 2009	2,964,686,478.00	4,361,407	186,755,766	
December 31st, 2009	2,992,717,167.00	5,495,828	214,699,141	
March 31st, 2010	3,038,173,194.00	4,170,939	259,925,615	

Note:

[1] The last quarter contribution for the fiscal year 2006/07 was paid on September 28, 2007.

Appendix III
Summary Characteristics of Composite Benchmarks

Fixed Income Benchmarks

Key Characteristics	Barclays US Aggregate Index	Merrill Lynch 1-5 Index
Total Holdings	8,179	92
Coupon (%)	4.61	2.46
Duration (Years)	4.63	2.61
Average Life (Years)	6.17	2.69
Yield to Maturity (%)	3.35	1.42
Option Adjusted Spread (bps)	56	-2
Average Rating	AAA	AAA

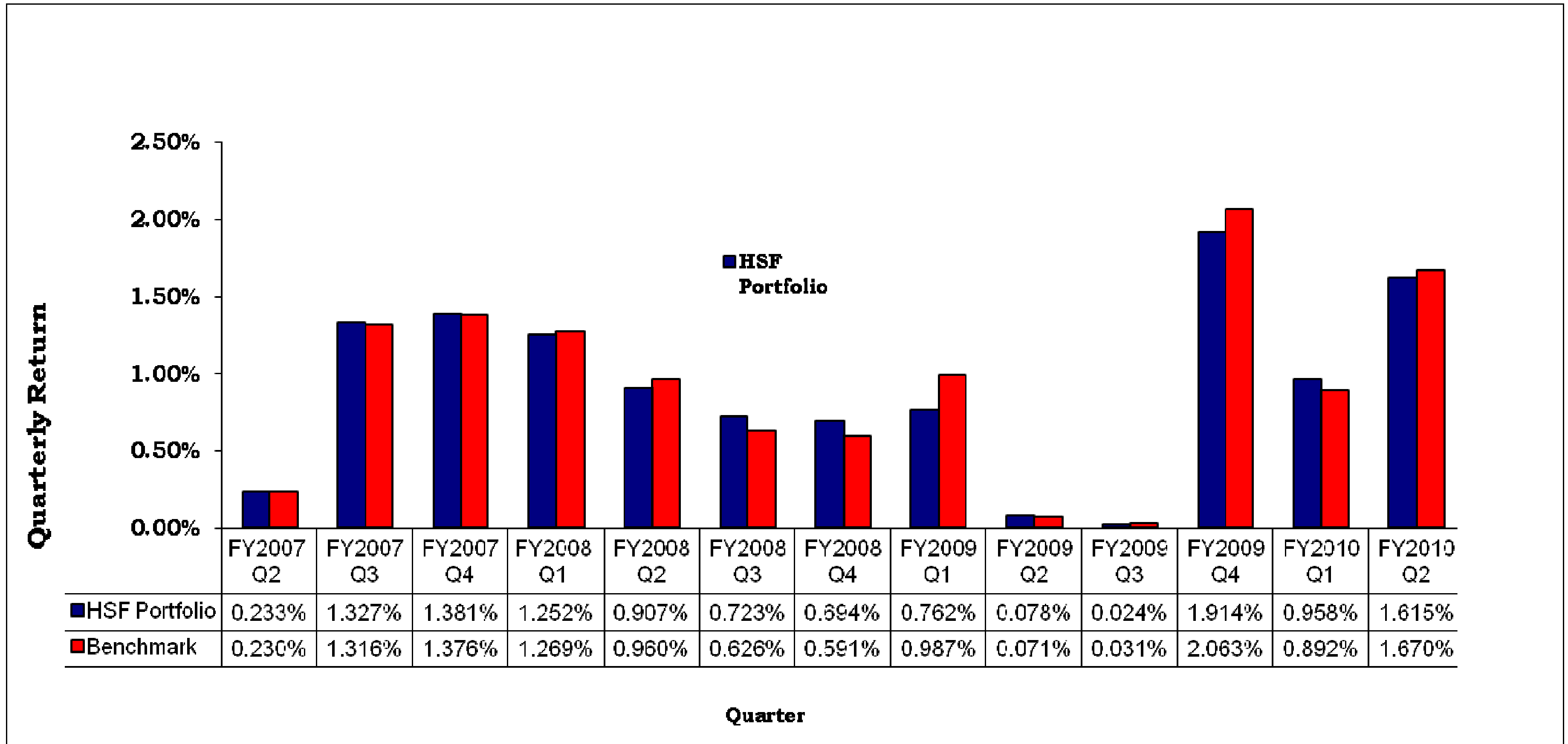
Equity Benchmarks

Key Characteristics	Russell 3000 (ex energy)	MSCI EAFE (ex energy)
Total Holdings	2,765	901
Earnings Per Share (EPS Growth 3-5y fwd) (%)	9.30	10.23
Price Earnings (P/E fwd)	12.8	22.92
Price / Book (P/B)	2.2	2.81
Market Capitalization (Bn)	$60.5	$47.3

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

	December 2009	**March 2010**
Total Fund Value	2,992	3,039
Total Value of Equity	664	770
US Core Domestic Equity	337	398
Non-US Core International Equity	327	372
Total Value of Fixed Income	1,304	1,451
US Short Duration Fixed Income	436	606
US Core Domestic Fixed Income	708	845
US Treasury Portfolio	160	0
Total Value of Cash or Cash Equivalents	1,024	818

Appendix V
HSF Portfolio Quarterly Performance (2007 – 2010)



	FY2007 Q2	FY2007 Q3	FY2007 Q4	FY2008 Q1	FY2008 Q2	FY2008 Q3	FY2008 Q4	FY2009 Q1	FY2009 Q2	FY2009 Q3	FY2009 Q4	FY2010 Q1	FY2010 Q2
HSF Portfolio	0.233%	1.327%	1.381%	1.252%	0.907%	0.723%	0.694%	0.762%	0.078%	0.024%	1.914%	0.958%	1.615%
Benchmark	0.230%	1.316%	1.376%	1.269%	0.960%	0.626%	0.591%	0.987%	0.071%	0.031%	2.063%	0.892%	1.670%

Appendix VI

Portfolio Risk

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 HSF requires its core fixed income managers 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. 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 5.00 per cent sector and 3.00 per cent maximum holding limits of any one security above benchmark weighting.

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.

Concentration risk

Concentration or diversification risk is the risk of loss attributable to holding investments 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 would be invested across four asset classes as follows; 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 or even negative returns. By diversifying the Fund's investments across a number of asset types, the Fund would better ensure 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, the Fund absorbs the currency risk with currency hedging allowed for up to 15 per cent of the market value of the portfolio. The base currency is the US Dollar.