The Trinidad and Tobago Heritage and Stabilisation Fund

Annual Report 2008

CONTENT

PURPOSE

The Heritage and Stabilisation Fund was established by the **Heritage and Stabilisation Fund Act No.6 of 2007** of the Parliament of Trinidad and Tobago on the 15th March 2007.

Section 3 of the Act provides that the purpose of the Fund is to save and invest surplus petroleum revenues derived from production business in order to:

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

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

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

IN BRIEF

- **The Board approves Strategic Asset Allocation**
- **State Street chosen as HSF Custodian**
- **Contributions Fiscal 07-08: US$1,054.2 million**
- **Crisis of confidence in the international financial system**
- **Deferral in implementation of Strategic Asset Allocation**
- **External Manager Selection Process completed**

CHAIRMAN'S FOREWORD

Mr. Samuel A. Martin - Chairman

I am pleased on behalf of the Board, to present the Annual Report of the Heritage and Stabilisation Fund for the year ended September 30, 2008.

Like most sovereign wealth funds, the Trinidad and Tobago Heritage and Stabilisation Fund (HSF) experienced a difficult fiscal year 2008. The global turmoil, which started in the U.S. housing market, has had its fallout in the financial services sector with the failure of several large financial institutions and a total disruption in international financial markets. Increased volatility in financial markets and underlying bearish sentiment of investors made the conditions for investing quite challenging.

This international financial upheaval, which continues up to this present time, has impacted on our plans to deploy the resources of the Heritage and Stabilisation Fund into targeted asset classes. The investment strategy, which envisaged a diversified portfolio of equities, fixed income and money market instruments, managed by largely foreign asset managers has had to be postponed. Once the market stabilises and investor sentiment recovers, we plan to re-examine our investment strategy which essentially seeks to balance risk and return. Meanwhile, the Central Bank as Manager of the Fund will continue to monitor the markets in order to seize investment opportunities without placing the assets of the Fund at unacceptable risk.

In the very uncertain investment environment, the HSF resources were invested in very liquid assets throughout 2008. The Fund ended the year with approximately 5 per cent of its resources invested in US treasuries and the remaining 95 per cent in fixed deposits. Through close monitoring, and by seizing the few available opportunities offered, we were able to escape the negative returns of several sovereign wealth funds and, in fact, the portfolio returned 3.61 per cent over the year compared to 2.93 per cent in the year ended September 30, 2007. The value of the Fund grew from US$1,766 million to US$2,888 million.

This increase was due to an inflow of capital (of US$1,054.2 million) and the return on the investments of the HSF (of US$67.9 million). The cost of the Fund's management was US$ 0.7 million.

It is particularly difficult at this time to formulate detailed plans for the immediate period ahead. However, I am still of the view that a well-diversified portfolio is the way in which to achieve the risk and return objectives of the HSF. Most analysts expect global markets to remain depressed even beyond the next year. The timing of the engagement of external managers and the transition to a more diversified portfolio may therefore be prolonged.

Mr. Samuel A. Martin
Chairman

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

Mr. Samuel A. Martin
Chairman

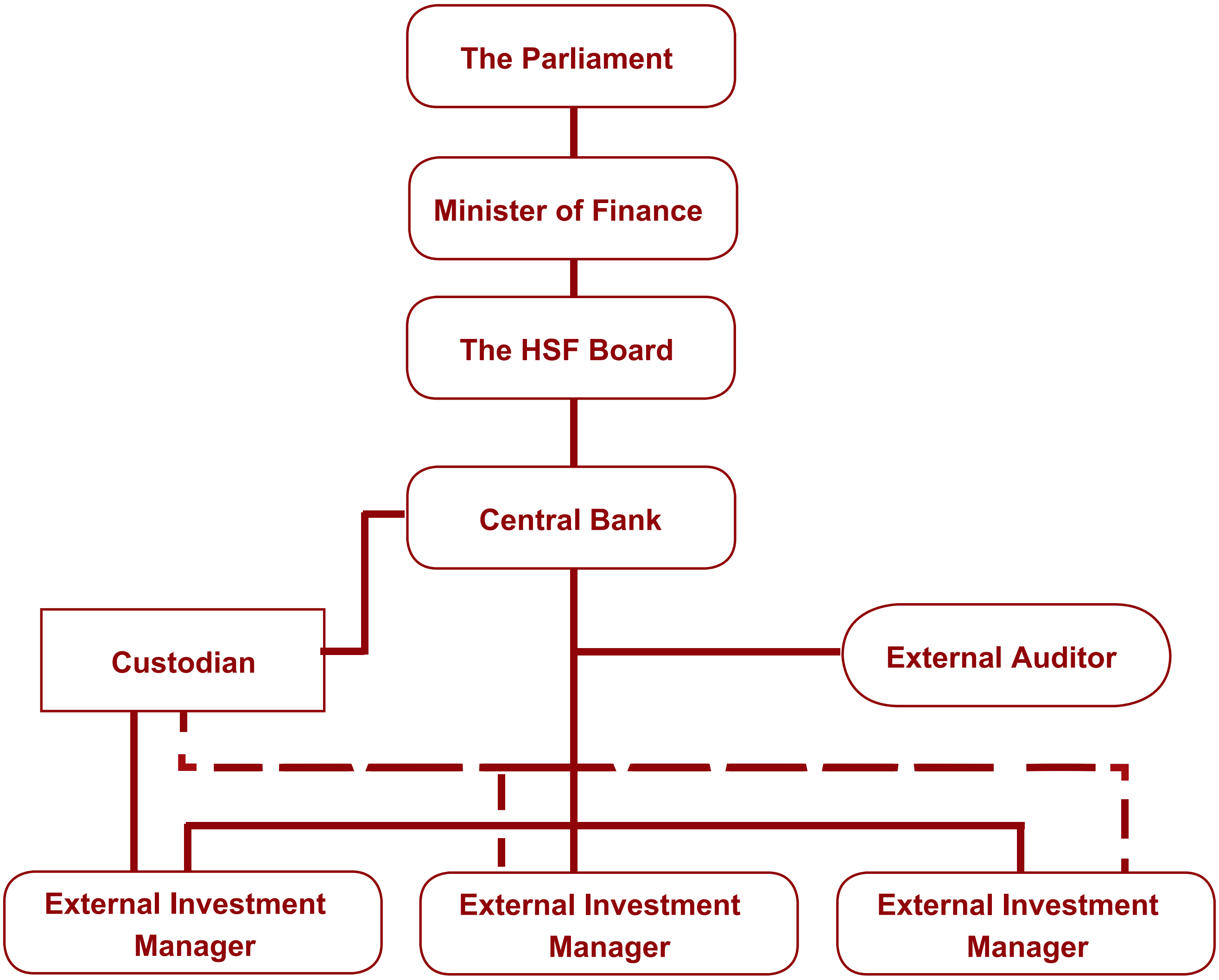
Mr. Marlon Holder
Governor

HSF

Mr. Ewart S. Williams
Governor

Ms. Alison Lewis
Governor

The Governance Structure



Legislation Establishing the Fund

The Heritage and Stabilisation Fund was established by the Heritage and Stabilisation Fund Act of the Parliament of Trinidad and Tobago on the 15th March 2007. Section 3 of the Act provides that the purpose of the Fund is to save and invest surplus petroleum revenues derived from production business in order to:

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

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

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

Board of Governors

• The Fund is governed by a Board of Governors that in accordance with the Act has delegated the responsibility for management of the Fund to the Central Bank of Trinidad and Tobago.

• The Board reports to the Minister on a quarterly and annual basis through the quarterly and annual investment reports on the Fund.

• The Board decides on the investment objectives and approves manner in which the funds are to be invested by the Central Bank.

The Minister of Finance

• The Minister of Finance is responsible for approving deposits and withdrawals from the Fund in accordance with the Act's provisions.

The Central Bank

• The Central Bank is responsible for the day to day management of the Fund and provides quarterly reports to the Board.

• The Schedule to the HSF Act details the responsibilities of the Central Bank.

The Trinidad and Tobago Parliament

• Parliament provides ultimate oversight when the Minister of Finance lays the annual audited financial statements in Parliament, at latest four months after the end of the financial year.

• This gives the peoples of Trinidad and Tobago an opportunityto assess the Fund's performance, thereby fostering transparency and accountability and ensuring effective ownership of the Fund by the population.

Deposits and withdrawals

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

Deposits

Sections 13 and 14 of the Heritage and Stabilisation Act outline the conditions under which excess revenues must be deposited in the Fund.

Quantum:

A minimum of sixty per cent of the aggregate of the excess (difference between estimated and actual) revenues for each financial year must be deposited to the Fund during that financial year.

Estimated petroleum revenues are calculated based on defined international sources.

Timing:

Deposits are to be made quarterly at latest one month after the end of that quarter (quarter under the Act being: December 31, March 31, June 30 and September 30 of each year).

Withdrawals

Section 15 of the Heritage and Stabilisation Act outlines the conditions under which revenues may be withdrawn from the Fund.

Quantum:

Estimated petroleum revenues for a financial year must fall below ten percent before the Government may withdraw from the Fund.

Limitations on Withdrawals

• The withdrawal must be less than sixty percent of the amount of the shortfall of estimated petroleum revenues for the relevant year.

• The monies withdrawn may not exceed twenty five percent of the balance of the Fund at the beginning of that year.

• The Act precludes any withdrawal that will reduce the size of Fund to less than one billion US dollars.

OVERVIEW OF FUND ACTIVITIES

Reports to Parliament

The Audited Financial Statements for the period ending September 30th, 2007 were presented to Parliament in February of this year and the 2007 Annual Report was laid in Parliament in May of this year.

International Working Group of Sovereign Wealth Funds- Santiago Principles

Two members of the Board of Governor of the Heritage and Stabilisation Fund (Governor Ewart Williams and Governor Alison Lewis) participated in an International Working Group comprising twenty six member countries with Sovereign Wealth Funds, appointed by the IMF to identify and draft a set of Generally Accepted Principles and Practices (GAPP) that reflect their investment principles and practices. The GAPP, referred to as the Santiago Principles, was adopted by the IMF's Board of Governors at the IMF/World Bank Annual Meetings of 2008.

Implementation of Strategic Asset Allocation (SAA)

During financial year 2006/2007, the Board had reached agreement on a Strategic Asset Allocation (SAA) that would satisfy the return/risk objective of the Fund. This SAA consisted of a mix of US fixed income securities, US treasuries as well as US and Non-US equities in proportions outlined in Table1.

As part of the SAA process, the following internationally recognized performance benchmarks (Table 2) were identified for the selected asset classes:

TABLE 1
STRATEGIC ASSET ALLOCATION (HSF)

Asset Class	Asset Allocation
US Treasuries (1-5 years)	25.0%
US Fixed Income	40.0%
US Equities	17.5%
Non-US Equities	17.5%

TABLE 2
PERFORMANCE BENCHMARKS

1. US Treasuries:	Merrill Lynch US Treasury 1 - 5 years Index
2. US Core/Broad Fixed Income:	Lehman Brothers US Aggregate Index ex energy
3. US Core Equity:	Russell 3000 Equity Index ex energy
4. Non US International Equity:	MSCI EAFE Equity Index ex energy

TABLE 3
TRANSITION PLAN FOR THE HSF PORTFOLIO

Portfolio Weights	Date Portfolio Composition %	Jan-08	Apr-08	Jul-08	Oct-08	Jan-09	Apr-08	Jul-08	Oct-08	Jan-10	Apr-10	Jul-10	Oct-10	Jan-11
	US Fixed Deposits	100	97.50	95.00	70.00	62.00	54.00	46.00	38.00	30.00	22.00	14.00	6.00	0.00
	Merrill Lynch US 1-5 Treasury Index	0.00	2.50	5.00	7.50	9.50	11.50	13.50	15.50	17.50	19.50	21.50	23.50	25.00
	Fixed Income (Lehman Aggregate)	0.00	0.00	0.00	12.00	15.20	18.40	21.60	24.80	28.00	31.20	34.40	37.60	40.00
	US Equities (Russell 3000)	0.00	0.00	0.00	5.25	6.65	8.05	9.45	10.85	12.25	13.65	15.05	16.45	17.50
	Non-US equities (MSCI EAFA Unhedged)	0.00	0.00	0.00	5.25	6.65	8.05	9.45	10.85	12.25	13.65	15.05	16.45	17.50

In financial year 2007/2008, the Board took the following decisions towards implementing the SAA:

(a) Approval of a Transition Plan for the HSF portfolio, outlining the timeframe for the implementation of the Strategic Asset Allocation (SAA).

(b) Engagement of an asset custodian, State Street, to provide custody services for the Fund's investments.

(c) Completion of the External Manager Selection Programme.

a. Transition Plan for the HSF Portfolio

In considering the implementation of the SAA, the Board considered, inter alia, the time that it would take to conduct proper due diligence and contractual engagement of asset managers, as well as the extra costs that would be incurred from making substantial investments in a short space of time. The Board therefore agreed to a gradual implementation of the SAA over a period of three years.

While the transition plan (Table 3) provided for a set of targets relating to investments in various asset classes, the Board considered that the pace of implementation of this plan would depend on the evolution of market conditions.

b. Engagement of State Street as Custodian for the HSF

The Board of the HSF took note of the due diligence undertaken by the Central Bank in the engagement of State Street as the custodian for its foreign investment portfolio and agreed to engage the same custodian for the HSF.

c. Selection of External Manager

The process of selecting an external manager commenced in February 2008 with the identification of a wide range of asset managers. A short-list of external fund managers was then selected on the basis of their historical performance. Requests for Information (RFIs) were sent to the selected firms and the responses were evaluated to determine, among other things, the consistency of each firm's risk appetite to the risk tolerance of the Fund. Approximately six firms were selected for each of the asset classes and Requests for Proposals (RFPs) were sent to these firms. The evaluation of these responses was complemented with due diligence visits in order to make a final selection of the external managers. Given the turmoil in financial markets, the Board agreed to postpone the engagement of the external manager pending a reduction in the instability of the global financial markets.

Investment Report

(i) Macroeconomic Developments

For most of the year, the US authorities grappled with the effects of the fall-out of the sub-prime mortgage debacle and rising inflationary pressures. This debacle escalated into a severe financial crisis that spread to other global financial centres and threatened the viability of several financial institutions. By March 2008, US authorities were forced to bail out the investment firm, Bear Stearns, and, in September, to take legal control of the two of the largest mortgage institutions – Fannie Mae and Freddie Mac.

Events deteriorated further as Lehman Brothers, after several failed attempts to find partners, filed for Chapter II bankruptcy protection. In mid-September 2008, AIG, the insurance giant, also experienced a liquidity crisis which forced the Federal Reserve Bank to extend a loan of US$85 billion in exchange for an 80 per cent stake in the company. A number of banks also continued to face challenges during this period as liquidity dried up. In response to the worsening financial market conditions, the United States Congress passed the Emergency Economic Stabilisation Act which gave the US Treasury Secretary the authority to purchase, inter alia, up to US$700 billion of distressed assets of financial institutions with the aim of alleviating tight liquidity conditions and restoring investors' confidence.

In order to stabilise financial markets and stimulate economic growth, central banks in the major financial centres agreed on a coordinated set of monetary measures that included aggressive interest rate cuts, the bailing-out of troubled financial institutions and significant liquidity support.

By year's end, the turmoil in financial markets had begun to spread to the real economy leading to slower economic growth. Despite the measures adopted by Governments in the major developed economies as well as their Central Banks, financial markets failed to recover, especially against the background of rising unemployment and falling consumer spending. Towards the end of the year, signs of recession were evident in the US, Europe and Japan.

(ii) Financial Market Review

These on-going developments affected the performance of all segments of the financial market.

(a) Money Market

The aggressive cuts in policy interest rates during the period caused rates of short-term money market instruments to fall substantially. Accordingly, the US one-month LIBOR returned 3.43 per cent for the financial year 2007/2008, compared with 5.30 per cent during the financial year 2006/2007. However, towards the end of the period, the lack of credit flow into the financial markets and the increased risk of default caused money market rates to recover somewhat. The US one-month LIBOR ended the financial year at 4.05 per cent.

(b) Fixed Income Market

The fixed income market in the United States, as represented by the Lehman Brothers US Aggregate Index, returned 3.65 per cent for the financial year. This compared with a return of 5.14 per cent during the financial year 2006/2007. The corporate sector of the index lost 6.78 per cent, dragging the index lower as the spate of bankruptcies and bail-out of troubled financial institutions depressed corporate bond prices.

The US treasury sector remained the best performing sector in the broad index, returning 8.73 per cent for the period. The sector benefitted from the deep cuts in interest rates and the flight-to-quality as investors shunned more risky assets for government securities.

(c) Equity Market

Global equity markets' valuations declined during the financial year as slowing economic growth and illiquid credit markets served to undermine the profitability of firms.The sizeable government bailouts failed to arrest the sharp decline in equity markets.

Consequently, the major global equity market indices all recorded substantial losses. In the United States, the Dow Jones Industrial Average and the Russell 3000 indices declined by 21.9 per cent and 23.1 per cent, respectively. Likewise, the major equity indices in the United Kingdom (FTSE 100), France (CAC 40), Germany (DAX 30) and Japan (Nikkei 225) recorded losses in market value of 24.2 per cent, 29.5 per cent, 26.1 per cent and 32.9 per cent, respectively.

CHART 4
US LIBOR RATES

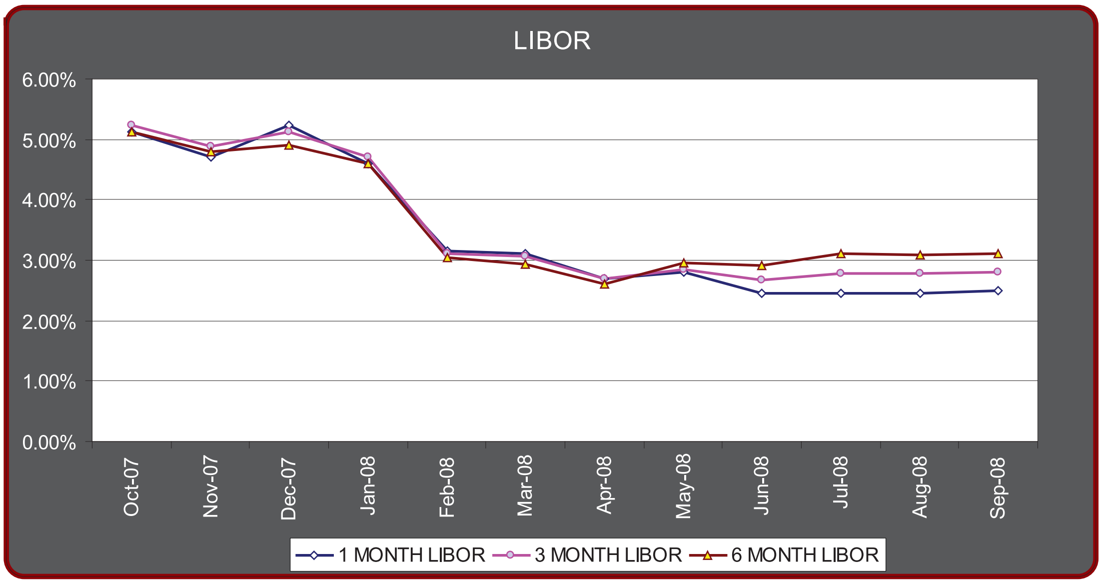


CHART 2
US 10-YEAR TREASURY YIELD

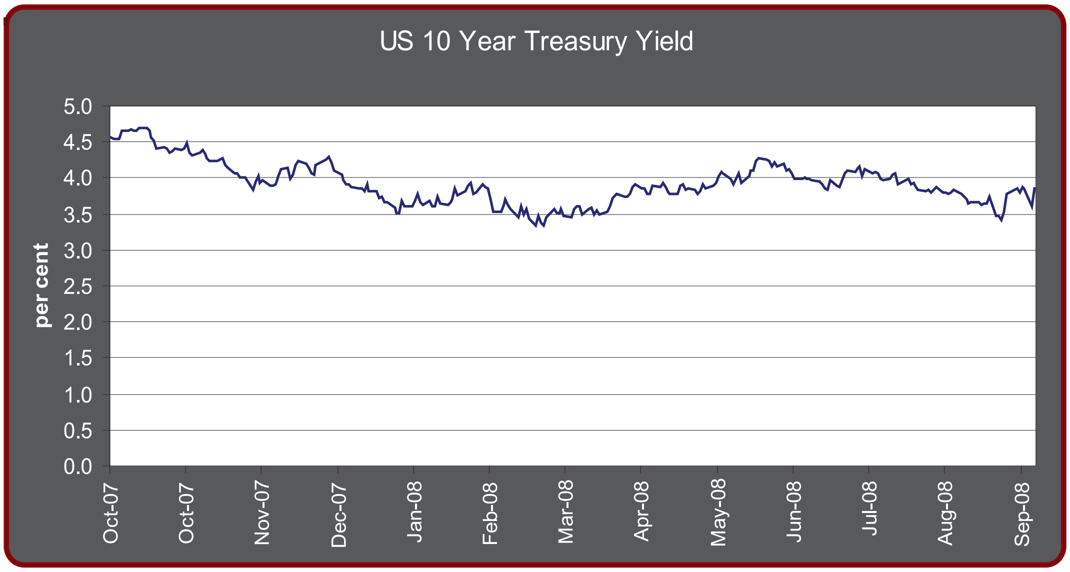
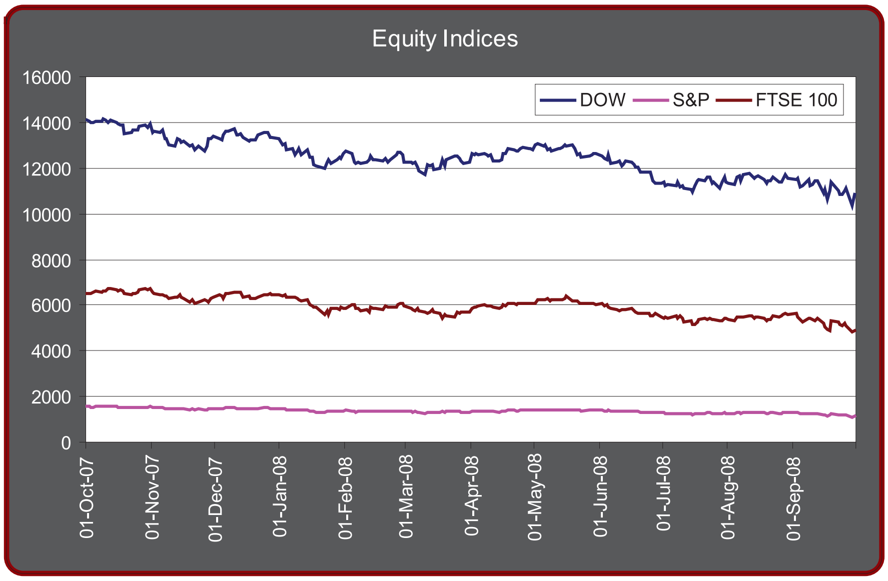


CHART 3
GLOBAL EQUITY INDICES



PORTFOLIO PERFORMANCE

The HSF ended the financial year 2007/2008 with a net asset value (NAV) of US$2,888.4 million, an increase of US$1,122.3 million in the year. The growth in the HSF was due primarily to increased contributions of US$1,054.2 million. Table 4 reports key performance statistics for the HSF.

The HSF portfolio returned 3.61 per cent over the financial year. This was better than the customized benchmark (5 per cent Merrill Lynch US Government Treasury 1-5 Years Index and 95 per cent US one-month LIBID) return of 3.50 per cent. This out-performance was mainly due to the timing of placement of investments during the year. Appendix I shows the performance of the HSF Composite Portfolio since inception.

During the financial year, the HSF invested in US government treasury securities in accordance with the approved Transition Plan.

By the end of the financial year, the market value of the US government treasury holdings in the HSF stood at US$125.3 million. These securities gave a return of roughly 2.31 per cent for the 5-month period from May 2008 to September 2008. Over the same period, the Merrill Lynch US Government Treasury 1-5 Years Index returned 2.24 per cent. The portfolio performance was due primarily to the timing of investments during a period when US treasury prices were extremely volatile.

Approximately 95 per cent of the market value of the HSF was held in USD fixed deposits in banks with investment grade rating. These deposits earned 3.55 per cent over the financial year, 12 basis points higher than the 3.43 per cent return on the benchmark (US one-month LIBID Index). The end-of-year market value of USD fixed deposits held by the HSF was approximately US$2,763.2 million.

TABLE 4
HSF'S KEY FIGURES 2007/2008

Market Value in USD at September 30, 2008	2,888,412,236
US Fixed Deposit Portfolio	2,763,161,051
US Government Treasury Portfolio	125,251,186
Contributions in USD	
1st Quarter	-
2nd Quarter	180,210,617
3rd Quarter	458,130,174
4th Quarter	415,833,667
Portfolio Return	3.61%
US Fixed Deposit Portfolio	3.55%
US Government Treasury Portfolio	2.31%
Benchmark Return	3.50%

PORTFOLIO RISK

The HSF is conservatively managed in terms of the various risks to which the assets are exposed. The interest rate risk of the portfolio is managed by adhering to an overall duration of two (2) years. The credit risk of the portfolio is managed by the establishment of minimum credit rating criteria that must be met by money market conterparties. Currently, the standard required is a minimum short-term rating of A1 or P1 from Standard and Poors and Moody's, respectively.

In the face of extreme financial market uncertainty in September 2008, additional measures were taken to minimize credit risk to the HSF portfolio. These measures included:

1. Early expiration of deposits with banks that were deemed unstable or likely to fail. In this regard, USD deposits placed with two banks were matured early when it became clear that both banks were in trouble or facing a credit downgrade.

2. Shortening of the maturity term of deposits from the usual 1-3 months to 1-2 weeks.

3. Spreading the credit exposure of the HSF over a larger number of counterparties and geographical regions.

4. More favourable treatment of banks backed by government guarantee of deposits and.

5. Improved and more frequent monitoring of counterparties.

The base and reporting currency of the HSF is the US dollar. Since all assets in the HSF were denominated in this currency, the fluctuations in the value of the portfolio due to exchange rate movements, was minimised. Finally, liquidity risk was minimised by holding deposits of short maturity and keeping the overall duration of the US Government Treasury Portfolio to two (2) years.

ACTIVITIES OF THE BOARD

During the financial year 2007/2008, the Board of Governors took decisions on a number of critical matters relating to the governance and operations of the Fund. These decisions related to the following areas:

1. Delegation Agreement
2. Code of Conduct
3. Procurement and Tender Rules
4. Operational Account
5. Preparation of the Operational and Investment Guidelines
6. Strategic Asset Allocation (SAA)
7. Review of the Financial Statements of the Fund for 2007 and of the activities of the Board by Public Accounts Committee of Parliament
8. Resignation of one of the Governors

1. The Delegation Agreement

The Delegation Agreement-by which the Board delegated the management of the Fund to the Central Bank according to statute - was executed on December 14th 2008.

2. Code of Conduct

This Code of Conduct (the Code) gives guidance to and sets ethical conventions, standards and benchmarks for Governors of the Board of Governors of the Heritage and Stabilisation Fund in accordance with the Heritage and Stabilisation Fund Act, the Financial Institutions Act and the Rules of Procedure of the Board of Governors of the Heritage and Stabilisation Fund when exercising their functions as Governors.

The Code requires that Governors observe the highest standard of ethical conduct. They should act honestly, independently, impartially, with discretion and integrity and without regard to self-interest and avoid any situation liable to give rise to a personal conflict of interests. The Governors should conduct themselves in a way that maintains and promotes the public's trust in the Fund.

3. Procurement and Tender Rules

The Board of Governors established the rules under which goods for the HSF's use (Board and officers) shall be procured. It is the policy of the Fund to obtain goods and services under the most beneficial terms and conditions. To this end, goods and services will normally be obtained through the tendering process.

4. Operational Account

Under Section 4(6) of the Heritage and Stabilisation Fund Act, the members of the Board are paid remuneration and allowances as determined by the Minister of Finance. These expenses, along with other operating expenses of the Fund's Secretariat are met from the Consolidated Fund. An operational account for these expenses has been created.

5. Preparation of the Operational and Investment Guidelines

The Operational and Investment Guidelines provides a framework for the management of the Fund. In particular the document outlines and defines for all parties involved in the investment process:

a. their respective responsibilities;

b. the investment goals and objectives for the Fund;

c. the limitations to the investment managers in the investment of the Fund's assets;

d. the criteria to evaluate the performance of the Fund.

6. Strategic Asset Allocation (SAA)

During financial year 2006/2007, the Board had reached agreement on a Strategic Asset Allocation (SAA) that would satisfy the return/risk objective of the Fund. This SAA consisted of a mix of US fixed income securities, US treasuries as well as US and Non-US equities.

7. Review of the Financial Statements of the Fund for 2007 and of the activities of the Board by Public Accounts Committee of Parliament

The Board's operations were reviewed by the Public Accounts Committee in June of this year. The Committee commended the Board on the prudent, efficient and diligent manner in which it has managed the Fund since its inception.

8. Resignation of Governor Lucie-Smith

Mr. Lucie-Smith has resigned from the Board for personal reasons and the Board expects that he will be replaced shortly.

APPENDICES

APPENDIX I
HSF COMPOSITE 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
2006/07									
March	0.233	0.230	0.30						
June	1.327	1.316	1.10						
September	1.381	1.376	0.50	**2.966**	**2.947**	**1.90**	**5.475**	**5.440**	**3.50**
2007/08									
December	1.252	1.269	-1.70						
March	0.907	0.960	-5.30						
June	0.723	0.637	8.60						
September	0.685	0.591	9.40	3.614	3.502	11.20	4.337	4.250	8.70

Note: The benchmark is made up of the US one-month LIBID and the Merrill Lynch US Treasury 1-5 years. The portfolio changed over the year in keeping with the transition plan.

APPENDIX II
HERITAGE AND STABILISATION FUND
PORTFOLIO VALUATION AND CASH FLOWS (USD)

Valuation Date	Net Asset Value	Income	Contributions
March 15, 2007	1,402,178,155.01	0	
March 31, 2007	1,405,448,567.24	3,270,412.33	
April 30, 2007	1,411,478,932.10	6,030,364.86	
May 31, 2007	1,417,875,123.07	6,396,190.98	
June 30, 2007	1,424,094,965.45	6,219,841.89	
July 31, 2007	1,510,286,135.41	6,477,228.26	79,713,942.22
August 31, 2007	1,517,179,218.56	6,893,083.09	
September 30, 2007	1,766,200,701.73	6,928,748.59	241,992,101.13
October 31, 2007	1,773,862,028.73	7,759,113.00	
November 30, 2007	1,780,847,020.73	6,987,839.67	
December 31, 2007	1,788,304,749.27	7,457,728.54	-
January 31, 2008	1,795,307,089.20	7,003,928.24	
February 20, 2008	1,799,941,409.88	5,019,474.67	
March 31, 2008	1,804,531,743.56	4,590,333.68	
April 30, 2008	1,988,785,132.77	4,042,772.01	180,210,617.20
May 31, 2008	1,993,347,377.77	4,562,245.00	
June 30, 2008	1,997,251,772.00	5,476,329.00	
July 31, 2008	2,460,269,502.00	4,599,453.00	458,130,174.00
August 31, 2008	2,466,193,072.00	5,461,046.00	
September 30, 2008	2,888,421,56.00	5,699,080.57	

FINANCIAL STATEMENTS

REPORT OF THE AUDITOR GENERAL OF THE REPUBLIC OF TRINIDAD AND TOBAGO ON THE FINANCIAL STATEMENTS OF THE HERITAGE AND STABILISATION FUND FOR THE YEAR ENDED 2008 SEPTEMBER 30

The accompanying Financial Statements of the Heritage and Stabilisation Fund (the Fund) for the year ended 2008 September 30 have been audited. The Statements as set out on pages 1 to 12 comprise a Statement of Financial Position as at 2008 September 30, a Statement of Financial Performance, a Statement of Changes in Equity and a Statement of Cash Flows for the year ended 2008 September 30 and Notes to the Financial Statements numbered 1 to 9.

MANAGER'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

Page 1 of 2

FINANCIAL STATEMENTS

OPINION

5. In my opinion, the Financial Statements as outlined at paragraph one above present fairly, in all material respects, the financial position of the Heritage and Stabilisation Fund as at 2008 September 30 and its financial performance and its cash flows for the year ended 2008 September 30 in accordance with International Financial Reporting Standards.

EMPHASIS OF MATTER

6. Without qualifying the above opinion, attention is drawn to the following:

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

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

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

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

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

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

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

2008 NOVEMBER 28

SHARMAN OTTLEY
AUDITOR GENERAL

Auditor General's Report
Heritage and Stabilisation Fund 2008

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FINANCIAL STATEMENTS

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

Statement of Financial Position
as at 30 September 2008
(Expressed in United States Dollars)

ASSETS	Notes	Sep-08 $	Sep-07
Current assets			
Cash and cash equivalents	4	2,341,921,417	1,520,316,477
Investments	5	123,070,598	-
Accounts Receivable	6	423,644,326	245,878,401
TOTAL ASSETS		**2,888,636,341**	**1,766,194,878**
LIABILITIES			
Current liabilities			
Accounts Payable	7	198,554	344,319
TOTAL LIABILITIES		**198,554**	**344,319**
NET ASSETS		**2,888,437,787**	**1,765,850,559**
PUBLIC EQUITY			
Contributed capital		2,778,058,656	1,723,884,198
Revaluation Reserve		1,215,971	-
Accumulated surplus		109,163,160	41,966,361
TOTAL EQUITY		**2,888,437,787**	**1,765,850,559**

SAMUEL MARTIN
(Chairman)

EWART WILLIAMS

MARLON HOLDER

REPUBLIC OF TRINIDAD AND TOBAGO
20081128
AUDITOR GENERAL

The accompanying notes form an integral part of these financial statements

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2008
(EXPRESSED IN UNITED STATES DOLLARS)

	September 08	Six and a half months to 30 Sept 07
INCOME		
Interest Income	68,177,088	42,215,954
Amortisation of Bond Premium	(289,669)	-
Realised Gain from fair value changes	2,020	-
Income from Investments	67,889,439	42,215,954
Other Income	4,695	1 ,883
TOTAL INCOME	**67,894,134**	**42,217,837**
EXPENDITURE		
Management Fees	615,4662	43,723
Bank Charges	78,195	1 ,967
Other Expenses	-	4 ,695
Audit Fees	3,674	1 ,091
TOTAL EXPENDITURE	**697,335**	**251,476**
NET SURPLUS FOR THE YEAR	**67,196,799**	**41,966,361**

The accompanying notes form an integral part of these financial statements

FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2008
(EXPRESSED IN UNITED STATED DOLLARS)

	CONTRIBUTED CAPITAL $	REVALUATION RESERVE $	ACCUMULATED SURPLUS $	TOTAL $
Contributions from Government for the period.	1,723,884,198			1,723,884,198
Net surplus for the period			41,966,361	41,966,361
Balance as at 30 September 2007	**1,723,884,198**		**41,966,361**	**1,765,850,559**
Balance as at 1 October 2007	**1,723,884,198**		**41,966,361**	**1,765,850,559**
Contributions from Government for the year	1 ,054,174,458			1 ,054,174,458
Revaluation of Available-for-Sale Investments:				
- Gains from changes in fair value		1,215,971		1,215,971
- Net surplus for the year			67,196,799	67,196,799
Balance as at 30 September 2008	**2,778,058,656**	**1,215,971**	**109,163,160**	**2,888,437,787**

The accompanying notes form an integral part of these financial statements

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2008
(EXPRESSED IN UNITED STATES DOLLARS)

	NOTE	SEP 08 $	RESTATED SIX AND A HALF MONTHS TO 30 SEP 07 $
Cash flows from operating activities			
Net surplus for the year		67,196,799	41,966,361
Adjustments			
Interest Income		(68,177,088)	(42,215,954)
Amortisation of bond		289,669	-
Net realised gain from changes in fair value of investments		(2,020)	-
Changes in operating assets and liabilities			
Decrease/(increase) in accounts receivable		(173,844,377)	(241,993,984)
(Decrease)/increase in accounts payable		(145,765)	344,319
Net cash used in operating activities		**(174,682,782)**	**(241,899,258)**
Cash flows from investing activities			
Interest received		64,255,541	38,331,537
Purchase of investments		(147,204,078)	-
Proceeds from sale of investments		25,061,801	-
Net cash (used in)/ flow from investing activities		**(57,886,736)**	**3 8,331,537**
Cash flows from financing activities			
Contributed capital		1,054,174,458	1,723,884,198
Net cash flow from financing activities		**1,054,174,458**	**1,723,884,198**
Net increase in cash and cash equivalents		821,604,940	1,520,316,477
Cash and cash equivalents, beginning of year		1,520,316,477	-
Cash and cash equivalents, end of year	4	**2,341,921,417**	**1,520,316,477**

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2008 (expressed in United States Dollars)

1. Incorporation and Principal Activities

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

The President, upon the advice of the Minister of Finance, appointed a Board of Governors for the Fund on 6 July 2007. This Board comprises five members, who are appointed for a term of three years and shall be eligible for reappointment. Members are selected from amongst persons of proven competence in matters of finance, investment, economics, business management or law, including an officer of:

a) The Central Bank; and
b) The Ministry of Finance.

The Board has delegated the responsibility for the management of the Fund to the Central Bank of Trinidad and Tobago, (the "Bank").

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

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

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

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

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

The resources of the Fund consist of:
i) monies transferred from the Interim Revenue Stabilisation Fund;
ii) petroleum revenues deposited into the Fund; and
iii) assets acquired and earned from investments.

2. Accounting Policies

a. Basis of accounting

The financial statements of the Fund have been prepared under the historical cost convention and are prepared in accordance with International Financial Reporting Standards and the Act.

b. Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand and at bank and deposits maturing within three months from the financial statements' date. Cash on hand, cash in bank and deposits are carried at cost.

c. Investments

The Fund classifies its investment securities in the category "Available for Sale."

Available for sale

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

They are initially recognized at cost (which includes transaction costs) and are subsequently re-measured at fair market value. Regular purchases and sales are recognized on the trade date. Thus, any agreements made before the Balance Sheet date, with expectations of settlement thereafter, will give rise to both a financial asset and financial liability which is recognised in the Balance Sheet. Unrealised gains and losses on these investments are recognized directly in equity through the Statement of Changes in Equity.

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

d. Bond Premium/Discount

A bond premium arises when a bond price is higher than its par value. This occurs because the interest rate on the bond is higher than the prevailing rates in the market, thus making the premium bond worth more than a bond paying a lower rate.

A bond discount arises when a bond price is lower than its par value. This occurs when the interest rate rises; newly issued bonds have higher coupons than existing bonds issued when market rates were lower. Thus coupon rates of bonds trading at a discount are generally lower than similar quality, newly issued bonds.
The bond premium is treated as an asset on the Balance Sheet, due to the future economic benefit expected from the bond. Similarly, a bond discount is treated as a liability on the Balance Sheet.

e. Income and Expenses

Income and expenditure are accounted for on the accruals basis.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. Interest income is recognized on the accruals basis.

Revenue is measured at the fair value of the consideration received or receivable. Expenses are recognised on the accrual basis, i.e. in the period when they were incurred.

f. Taxation

The Fund is a public account and by Section 17 of the Act is exempt from any tax.

g. Accounts receivable

Accounts receivable are stated at their expected realisable value.

h. Accounts payable

Accounts payable are stated at their expected amounts.

i. Statement of cash flows

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

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

• Financing activities are those activities relating to changes in equity and debt capital structure of the Fund and those activities relating to the cost of servicing the Fund's equity capital.

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

j. Capital contributions

In accordance with Section 14 of the Act:

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

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

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

3. Financial Risk Management

a. Portfolio Performance

The performance of the Fund's portfolio for the period 1 October 2007 through 30 September 2008 is consistent with the investment type, and credit risk limits utilized by the Central Bank of Trinidad and Tobago for management of the portion of the country's official reserves held in fixed deposits. This part of the portfolio was comprised of US dollar-denominated time deposits benchmarked against US one-month LIBID rate.

The other part of the portfolio which comprised of US Dollar bond securities commenced on 27 May 2008.

Performance statistics for September 2008 are as follows:

1. Composite Portfolio returned 0.23% (23 basis points) for the month of September 2008, which exceeded the return on the Benchmark (95% USD one-month LIBID Index and 5% Merrill Lynch US Government Treasury 1-5 Years Index) of 0.15% (15 basis points).

2. US Deposit Portfolio returned 0.20% for the month, as against the Benchmark (USD one-month LIBID) return of 0.11% (11 basis points).

3. US Short Duration Portfolio beat the return of the Benchmark (Merrill Lynch US Government Treasury 1-5 Years Index) by 2 basis points returning 0.87% (87 basis points) for the month of September 2008.

The twelve months performance for the Fund is as follows:

12 MONTHS PERFORMANCE				
Portfolio	Notes	Fund	Benchmark	
Composite	(i)	3.61%	3.50%	5% Merrill Lynch US Government Treasury 1-5 Years Index and 95% US 1 -month LIBID
US Fixed Deposit		3.55%	3.43%	USD 1 -month LIBID
US Short Duration Fixed Income Portfolio	(ii)	2.31%	2.24%	US Merrill Lynch US Government Treasury 1-5 Years Index

(i) Prior to the purchase of US Government Treasury Instruments in May 2008, the Benchmark was 100% US 1-month LIBID.

(ii) The figure represents 5-month cumulative return.

b. Portfolio Risk

The assets of the Fund were invested in a conservative manner. The assets, while exposed to market risk like all financial instruments, were made up of time deposits and US Dollar securities, which are invested with financial institutions with low risk of default.

c. Credit Risk

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

The portfolio's credit risk is minimised by strict adherence to credit quality and concentration limit. Credit risk is mitigated by the establishment of ratings standards that each money market counterpart must fulfil. Currently, these standards require a minimum credit rating of A1 or P1 from Standard and Poor's and Moody's respectively. Credit risk is also managed by limiting the exposure to a single counterparty to 5% of the Fund.

Interest Rate Risk

This is the risk that the value of a financial instrument will fluctuate, due to changes in market rates. The interest rate risk of the portfolio is managed by strict adherence to the overall duration of the portfolio, which is set at two years. The managers do not consider that there is any significant interest exposure on the Fund's investments. The relatively short tenors also serve to maintain a very liquid portfolio and mitigate the Liquidity Risk.

Liquidity Risk

Management believes that the Fund has sufficient resources to meet the present and foreseeable needs of its business operations. Management's guiding policies are to maintain conservative levels of liquidity to ensure that the Fund has the ability to meet its obligations at short notice. This is achieved by laddering the maturity of the time deposits.

Currency Risk

This is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The portfolio is held only in US dollars, the base currency, therefore there is no Currency Risk at this time.

Operational Risk

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

The geographical concentration of the Fund's deposits is set out below

TERRITORY	SEP 08 $	SEP 07 $
Belgium	117,763,828	75,473,002
Canada	71,127,014	144,197,505
France	119,765,710	149,417,817
Netherlands	176,868,858	75,243,297
Switzerland	119,646,749	73,789,191
United Kingdom	908,370,664	425,456,273
United States of America	644,376,438	576,733,985
	2,157,919,261	**1,520,311,070**

4. Cash and Cash Equivalents

	SEP 08 $	SEP 07 $
Fixed deposits	2,157,919,261	1,520,311,070
Cash at Bank	184,002,156	5,407
	2,341,921,417	**1,520,316,477**

Bonds : *The Fund's bond portfolio comprises US dollar bonds which commenced 27 May 2008.*

5. Investments

	SEP 08 $	SEP 07 $
Cost	122,144,297	-
Appreciation in market value	1,215,971	-
Premium	(289,670)	-
Net Book Value	**123,070,598**	

6. Accounts Receivable

	SEP 08 $	SEP 07 $
Amount due from Central Bank of Trinidad and Tobago	415,838,362	241,992,101
Accrued Interest	7,805,964	3,884,417 1,883
Other receivables	-	
	423,644,326	**245,878,401**

7. Account Payable

	SEP 08 $	SEP 07 $
Accruals	198,554	249,509
Amount due to Central Bank of Trinidad and Tobago	-	94,810
	198,554	**344,319**

Accruals as at 30 September 2008 include Management Fees of USD 195,377 for the period July - September 2008.

8. Asset Management Agreements

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

9. Board and Other Expenses

Under Section 4(6) of the Act, the members of the Board shall be paid such remuneration and allowances as may be determined by the Minister of Finance.

These expenses, along with other operating expenses of the Fund's Secretariat are met from the Consolidated Fund, and thus do not form a part of the financial statements of the Fund.

Cover photo courtesy T&Tec
Photographer: Mr. Joseph Francis-Lau