TRINIDAD AND TOBAGO HERITAGE AND STABILISATION FUND

ANNUAL REPORT 2010 HSF

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Purpose

The Heritage and Stabilisation Act, No. 6 of 2007 (hereinafter called "the Act") established the Heritage and Stabilisation Fund (hereinafter called "the Fund") with effect from March 15, 2007 for the purpose of saving and investing surplus petroleum revenues derived from production business in order to:

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

(b)
generate an alternate stream of income so as to support public expenditure capacity as a result of revenue downturn caused by the depletion of non-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.

Content

Chairman's Foreword

The Heritage and Stabilization Fund (HSF), like most sovereign wealth funds world-wide experience a marked increase in returns in 2009/2010, in line with the generally more supportive international financial market conditions. Further improvement in performance is projected for 2010/2011, as the global economic growth increases and the volatility in international financial markets subside.

Following the worst international financial crisis in close to a century, economic growth and financial stability began to return to the advanced economies in the last quarter of 2009, with further improvement evident in the first quarter of 2010. However, the steady progress towards a credible recovery was interrupted in May-June 2010 when i) the United States saw a marked weakening in key economic indicators, including an increase in unemployment and ii) European financial markets faced pronounced nervousness, triggered by concerns about fiscal challenges and increasing sovereign debt burdens in the euro zone. These concerns also de-stabilized currency markets causing the euro to fall significantly.

In the third quarter of the calendar year the Euro area sovereign bond markets stabilized as most of the affected countries secured improved access to funding. While growth concerns persisted, global equity markets received a boost from the announcement of another round of quantitative easing in the US and the improved liquidity conditions in the euro zone. The strong rally in the quarter more than reversed the declines posted in the second quarter of the year.

It may be recalled that the onset of the financial crisis in 2008 prompted the postponement of the implementation of the Strategic Asset Allocation (SAA) approved by the HSF Board and a decision to keep all resources in short term deposits. With the first signs of recovery, in August 2009, the Fund began transitioning towards the target SAA, through the issuance of mandates to external investment managers. By end-January 2011 the transition towards the approved SAA would have been completed and the entire fund would be in the hands of external investment managers.

For the year ended September 2010 the Fund generated a rather healthy return of 6.07 per cent compared with 5.75 per cent for the composite benchmark and 2.79 per cent in the previous financial year. Among the various mandates, the US Core Fixed Income and the Non-US core International equity were the biggest contributors.

The Fund ended the year under review with a market value of US$3,619.7 million. It is worth noting that the central government made transfers amounting to US$477.3 million to the Fund in 2009/2010.

The Fund faces a favourable outlook in 2010/11. Firstly, while gas prices seemed to have stabilized, oil prices have risen beyond expectations and are projected to maintain their upward trend. Secondly, the improving prospects for the global economy should provide an environment for buoyant equity and corporate bond markets. The completion of the transition to the target Strategic Asset Allocation would put the Fund in a good position to benefit from the improved market. Given this outlook we look forward to the coming year with great optimism.

Ms. Avyann Ferguson
Chairperson

Governance

The Heritage and Stabilistion

Fund was established by an Act of Parliament, the Heritage and Stabilisation Fund Act, 2007. The Act defines a governance framework for the Fund as comprising:

The Trinidad and Tobago Parliament

Parliament provides ultimate oversight of the Fund through the requirement that the Minister of Finance must lay the audited financial statements in Parliament no later than four months following the end of the financial year. This reporting requirement gives the people of Trinidad and Tobago an opportunity to assess the Fund's performance, thereby fostering transparency and accountability, and ensuring effective ownership of the Fund by the population.

The Board of Governors

The Board of Governors is appointed by the President on the advice of the Minister of Finance. It is comprised of five members selected from among persons of proven competence in matters of finance, investment, economics, business or law. All members must satisfy a fit and proper requirement.

The Board has responsibility for the management of the Fund. It decides on the investment objectives and approves the manner in which the funds are to be invested. Section 10 of the Act provides for the Board to delegate its responsibility for the management of the Fund to the Central Bank.

The Board submits to the Minister of Finance quarterly and annual investment reports on the operation and performance of the Fund.

TERM OF OFFICE: JULY 2007- JULY 2010

- Mr. Samuel Martin - Chairman
- Mr. Ewart S. Williams - Member
- Ms. Alison Lewis - Member
- Mr. Marlon Holder - Member
- Dr. Michelle Scobie - Secretary to the Board

TERM OF OFFICE: DECEMBER 2010 - DECEMBER 2013

- Ms. Avyann Ferguson - Chair
- Ms. Anushka Alcazar - Member
- Ms. Enid Zephyrine - Member
- Mr. Ewart S. Williams - Member
- Dr. Michelle Scobie - Secretary to the Board

The Management of the Fund

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

Deposits and Withdrawals

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

Deposits

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

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.

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

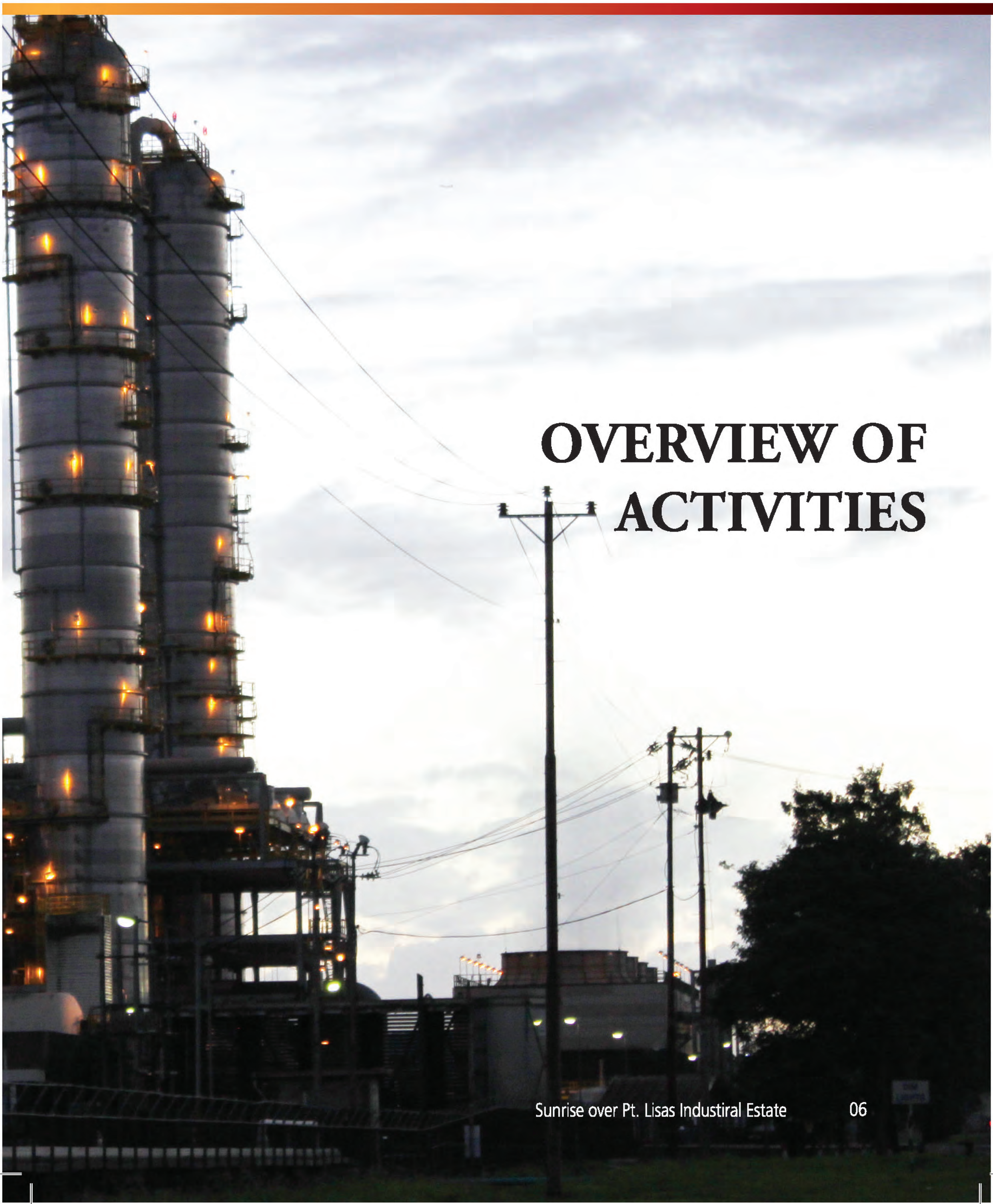
Withdrawals

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

Where the petroleum revenues collected in any financial year fall below the estimated petroleum revenues for that financial year by at least ten per cent, withdrawals may be made from the Fund.

The withdrawal is limited to sixty per cent of the amount of the shortfall of petroleum revenues for the relevant year or twenty five per cent of the balance of the Fund at the beginning of that year, whichever is the lesser amount.

The Act precludes any withdrawal where the balance standing to the credit of the Fund would fall below one billion US dollars if such withdrawal were to be made.



OVERVIEW OF ACTIVITIES

Sunrise over Pt. Lisas Industiral Estate

Overview of Activities

Reports to Parliament

In keeping with the HSF Act, the Audited Financial Statements for the period ending September 30th, 2009 were presented to the Parliament in January of this year together with 2009 Annual Report.

Deposits to the Fund

The Fund began the fiscal year with a Net Asset Value of US$2,964 million. Over the period, the Government made three deposits to the Fund as follows:

1. US$104 million on May 28, 2010
2. US$223.1 million on July 26, 2010; and
3. US$149.9 million on September 30, 2010

For fiscal year 2010, a total of US$477 million was deposited to the Fund.

Appointment of new Board and profile of new Governors

This year marked the end of the term of office of the first Governors to be appointed to the Board of the Fund. In December a new Board was appointed by the President in accordance with legislation.

Ms. Avyann Ferguson
Chairperson

Ms. Ferguson is the Legal Counsel and Corporate Secretary of the Intercommercial Banking Group Board of Directors. She has previously practiced as an Attorney-at-Law with in the public sector. Ms. Ferguson holds her Masters of Law in Corporate & Commercial from the University of the West Indies. She takes an active interest in the Credit Union Movement of which she has been a member for over 20 years.

Ms. Enid Zephyrine

Enid Zephyrine has been employed with the Ministry of Finance for the last 20 years, working in both the Budget and Economic Management Divisions. She is now the acting Director of the Economic Management Division of the Ministry of Finance. Mrs. Zephyrine is a Chartered Certified Accountant by profession and is a registered member of the ACCA. She holds a MSc degree in International Money, Finance and Investment, from Brunel University UK; a Bachelor of Science degree in Applied Accounting from the Oxford Brookes University, UK; a Certificate in Public Administration from the University of the West Indies and a Post Graduate Certificate in Project Planning Appraisal and Management, from Bradford University, UK.

Ms. Anushka Alcazar

Anushka Alcazar is a Management Consultant with a depth of experience in organisation re-structuring and development in both Public and Private sector. Her undergraduate studies in Law, gave way to her graduate qualifications in Oil and Gas and Masters in Business Management with a specialism in Strategic Planning. While working for a number of years in the Private Sector, she had oversight of many facets of Corporate Governance while also facilitating seminars on Ethics, Transparency and Corporate Responsibility. Currently, she spearheads Corporate Transformation of both public and private institutions in need of cultural realignment with a strong emphasis on Performance Management

Mr. Ewart Williams

Governor Williams was appointed Governor of the Central Bank of Trinidad and Tobago in July 2002 following a thirty-year career with the international Monetary Fund (IMF). The Governor was re-appointed for another term as Governor of the Central Bank of Trinidad and Tobago in 2007. During his Fund career he was the IMF Resident Representative to Jamaica; Assistant Director in charge of Central America and Mexico and Deputy Director in the Western Hemisphere Department. He holds a Bachelor of Science Degree and a Master of Science Degree in Economics

Dr. Michelle Scobie

Corporate Secretary of the Heritage and Stabilisation Fund of Trinidad and Tobago.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BPTT
SAVONETTE

INVESTMENT REPORT

bpTT Savonette Platform

1. Macroeconomic Environment

After experiencing what may have been the sharpest decline in economic activity since World War II, the global economy began to show signs of recovery during the 2009/2010 financial year. Leading the resurgence in activity were the emerging market economies, notably China and India, which achieved significantly higher growth rates than the more advanced economies.

Among the latter, the United States and the Euro zone were the first to return to positive growth, while Japan and the United Kingdom (UK) followed more slowly. The strong growth experienced in the US economy during the first half of the year (October 2009 to March 2010) resulted in great optimism about the prospects for the global recovery. However, this optimism was quickly tempered as fears of a double-dip recession emerged in the US due to a significant slowdown in economic activity.

Similarly, the recovery in Europe and Japan has been tepid, a situation which was aggravated by heightened volatility in European sovereign debt markets and widespread concerns about the health of the banking sector. In an effort to restore investor confidence and stabilize the Euro, the European Union governments implemented a €750 billion debt rescue package which was designed to provide liquidity to those European countries that were having difficulties in raising funds in the financial markets. This facility included €440 billion in guarantees from Euro zone countries, €60 billion from the European Union's budget and a further €250 billion from the International Monetary Fund. Meanwhile, the Bank of Japan reduced its overnight lending rate from 0.1 per cent to a range of 0 per cent to 0.1 per cent, in addition to creating a ¥5-trillion (US$60 billion) facility to buy assets ranging from government bonds and short-term government securities, to commercial paper and corporate bonds.

These measures proved to be somewhat effective as by the end of September 2010, fears of a double-dip recession had eased in the US. While inflation rates remained low, high levels of unemployment and ongoing weakness in housing markets presented challenges for the authorities. As a result, the Federal Reserve Board kept its benchmark interest rate unchanged at 0.25 per cent at its September 21st, 2010 meeting and subsequently announced that it would provide additional monetary stimulus in the form of a program to purchase US$600 billion in Treasury securities to support the economic recovery. Charts 1, 2 and 3 overleaf refer.

In the coming months, analysts expect that the global economic recovery will continue to be subdued despite anticipated stimulus measures in the US and debt rescue packages in Europe. As such, monetary policy rates are expected to remain low in the advanced economies for an extended period. The IMF has projected annual growth rates of 2.7 per cent and 2.2 per cent for the advanced economies in calendar 2010 and 2011, respectively.

CHART 1
Annualised GDP Growth For Selected Advanced Economies

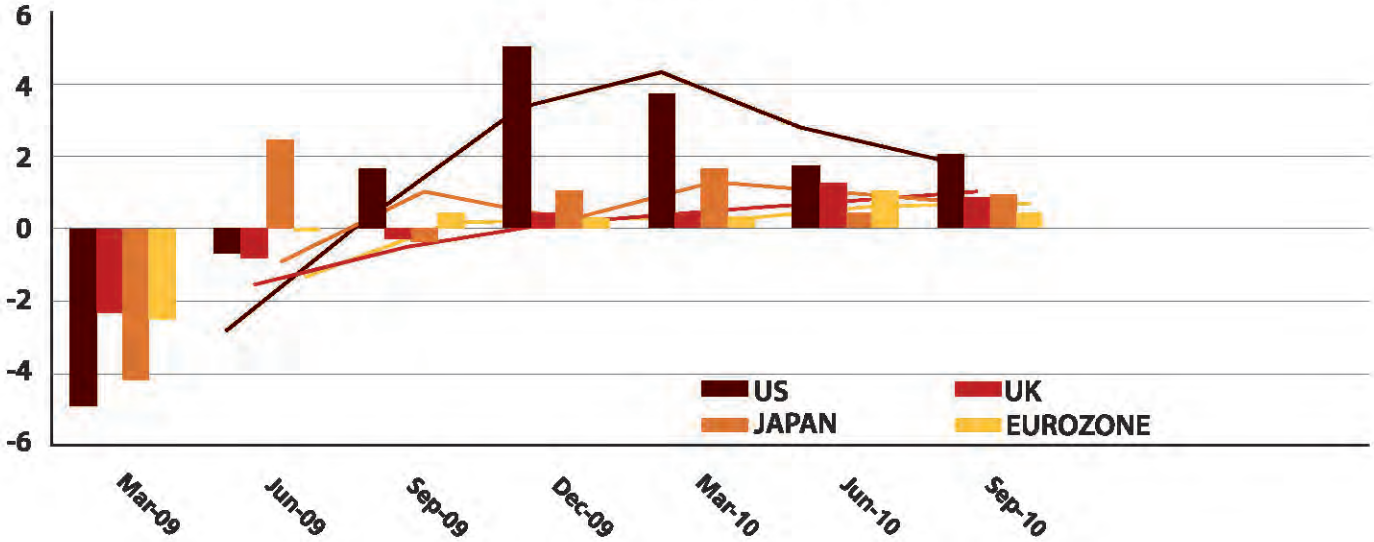


CHART 2
Selected Unemployment Rates

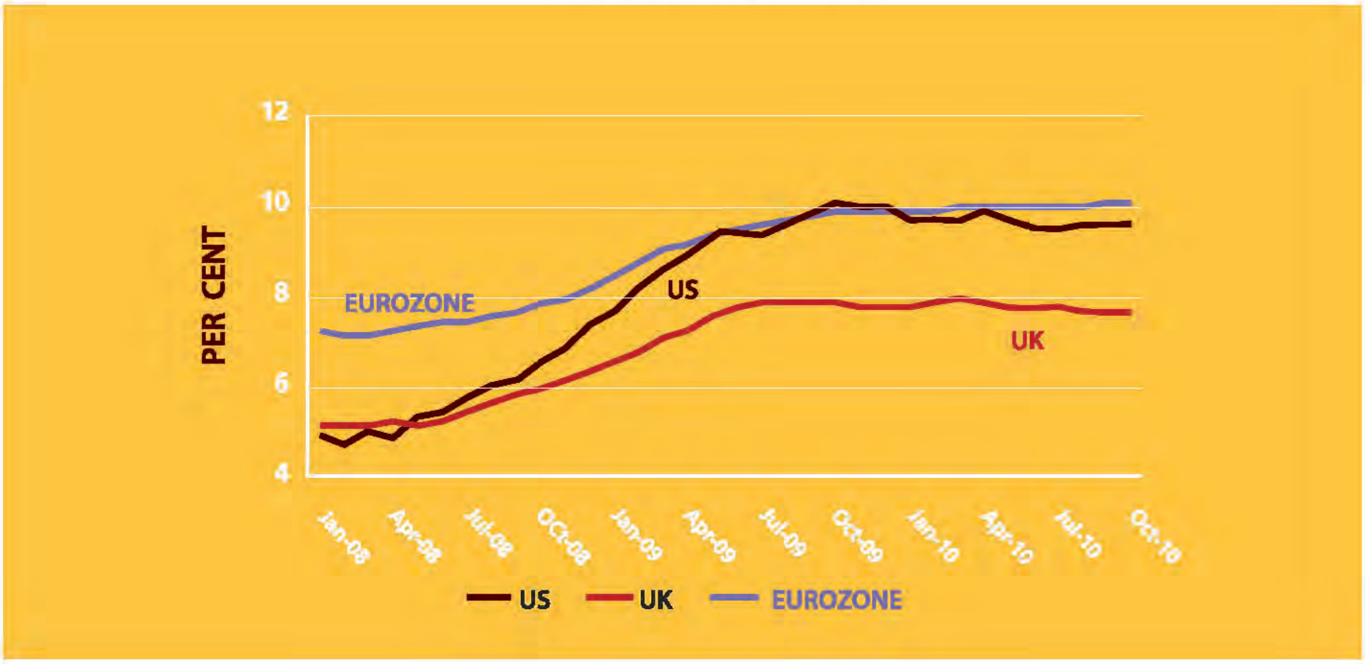
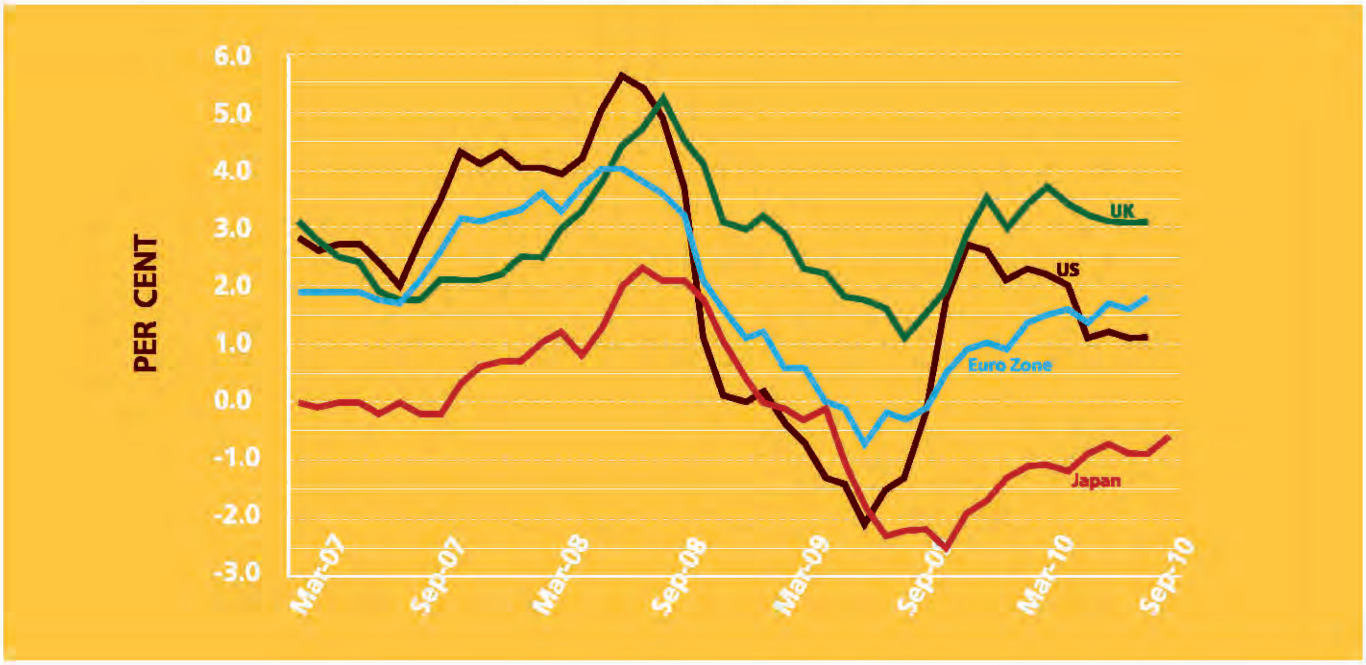


CHART 3

Selected Inflation Rates /year-on-year/



2. Financial Market Review

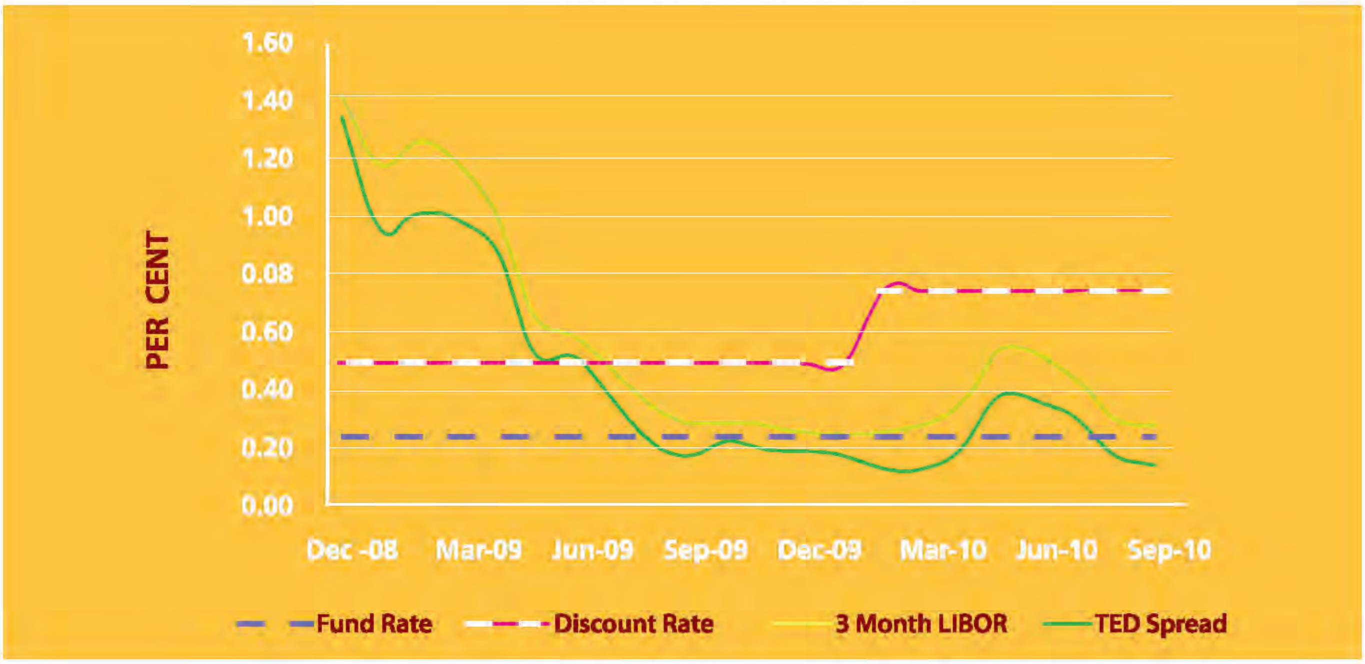
During the financial year, the major markets exhibited high levels of volatility as economic data were mixed throughout the period. In late 2009 and early 2010, investor sentiment improved moderately from the level reported in October 2009. As a result, investors were more willing to move away from treasury securities into more risky assets such as equities. More recently, financial markets have been dominated by unexpectedly weak U.S. economic data and a return of risk aversion. The performance of individual markets during the period is discussed in more detail below.

a) Money Market

Policy interest rates were maintained at extremely low levels throughout the 2009/2010 financial year. The US one-month London Inter Bank Offered Rate (LIBOR) was 0.26 per cent at the end of September 2010, relatively unchanged when compared to the 0.29 per cent recorded in September 2009. However, money market interest rates rose briefly during the third quarter, due largely to increased market volatility as a result of the European debt crisis and concerns about the exposure of financial institutions to Europe's most indebted nations. By the end of the reporting period, rates had reverted to the historically low levels observed earlier in the year in response to the European Union governments' debt rescue package. Chart 4 overleaf, refers.

CHART 4

Selected Us Money Market Rates



(b) Fixed Income Market

Over the year, the US fixed income markets benefited from a decline in US yields to post comfortable returns. The Barclays US Aggregate Index gained 8.16 per cent for the financial year, compared with a 10.56 per cent return for the previous financial year. The Commercial Mortgage Backed Securities (CMBS) sector of the Index was the best performer, returning 23.23 per cent. The Corporate and Asset Backed Securities (ABS) sectors also performed satisfactorily, returning 12.27 per cent and 8.88 per cent, respectively. US Treasury securities, as measured by the Bank of America Merrill Lynch 1-5 year Index, also posted positive returns, yielding 4.23 per cent over the reporting period. (Chart 5 overleaf, refers).

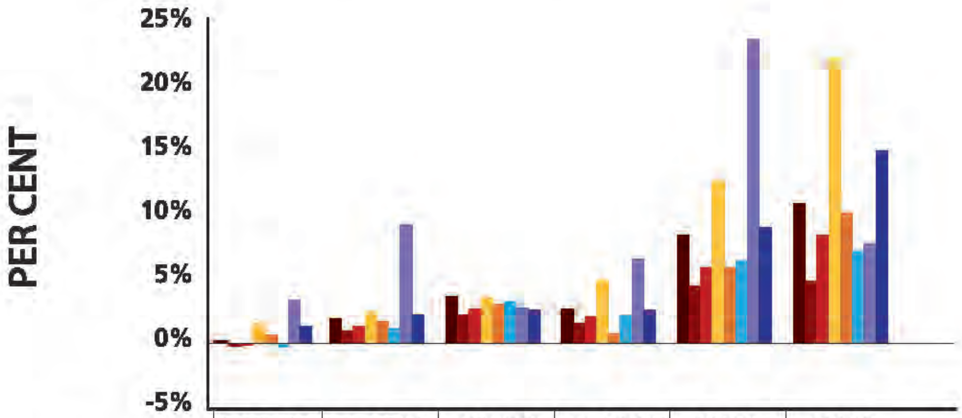
c) Currency Market

During the financial year, several countries, including Switzerland, Canada, India, Peru and South Korea experienced rapid appreciation of their currencies, triggering concerns about their exchange rate competitiveness. In Japan, the authorities intervened in its currency market in mid-September 2010 (for the first time in six years) with the hope of slowing the appreciation in the Yen which had reached a 15-year high versus the US dollar. The impact of this measure, however, was short-lived as the Yen quickly resumed its appreciating trend vis-à-vis the US dollar.

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

CHART 5

RETURNS ON FIXED INCOME



	Qtr 1 09/10	Qtr 2 09/10	Qtr 3 09/10	Qtr 4 09/10	FY09/10	FY 08/09
Barclays U.S. Aggregate	0.20%	1.73%	3.51%	2.51%	8.16%	10.56%
ML U.S. Treasury 1-5 Years	-0.11%	0.88%	2.03%	1.39%	4.23%	4.59%
U.S. Agencies	-0.03%	1.19%	2.54%	1.90%	5.69%	8.21%
U.S. Corporate	1.35%	2.30%	3.42%	4.71%	12.27%	21.77%
U.S. MBS	0.58%	1.53%	2.87%	0.63%	5.71%	9.85%
G-7 Global Bonds (Hedged)	-0.29%	1.08%	3.18%	2.16%	6.23%	7.04%
CMBS Index	3.27%	9.11%	2.78%	6.41%	23.23%	7.56%
ABS Index	1.33%	2.22%	2.54%	2.51%	8.88%	14.68%

Conversely, the Chinese Yuan remained relatively stable notwithstanding the rapid growth in that economy, leading the US authorities to call upon the Chinese to do more in support of the global economic recovery. Meanwhile, the US dollar weakened against the other major currencies, particularly in the latter part of the financial year. Some have suggested that the second round of quantitative easing (QE2) measures adopted by the US is designed to give US firms an export advantage over their competitors.

(d) Equity Market

The global equity market advanced modestly over the twelve months to September 2010, with some intra-period fluctuation in performance. Among the various stock markets, that of the US generated stronger returns compared with other developed economies. The S&P 500 index and the Russell 3000 index gained 7.96 per cent and 8.85 per cent, respectively. By comparison, the MSCI EAFE index - which measures the performance of equities in Europe, Australia and the Far East - returned 0.53 per cent.

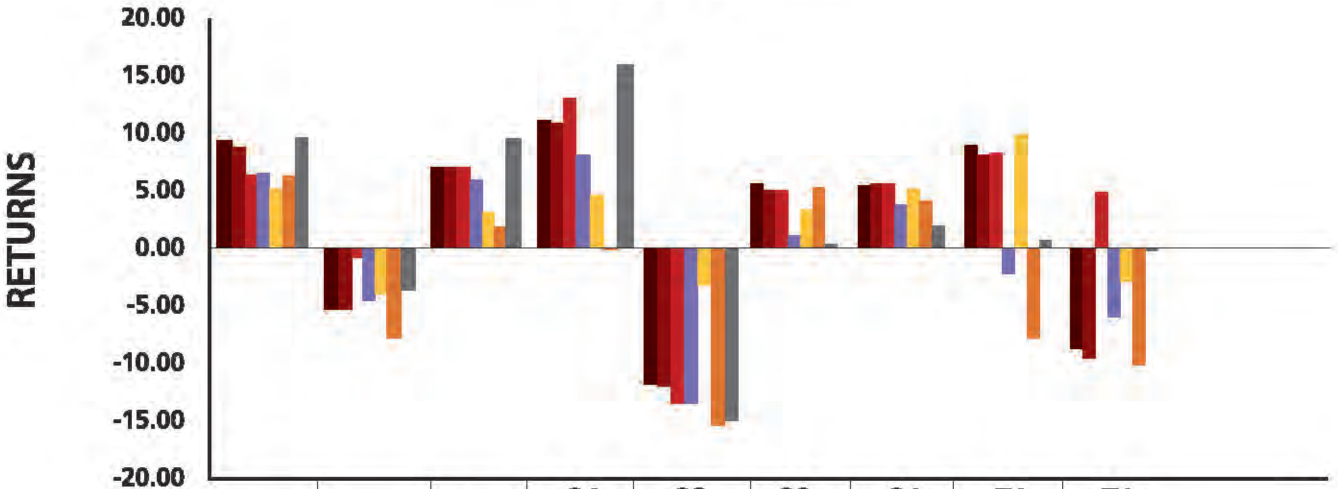
During the first six months of the financial year, there was increased investor optimism about the prospects for the US economy following the release of encouraging economic data. This period was characterised by robust GDP growth and strong performances for the manufacturing sector, which overshadowed the challenges experienced in the housing and labour markets. However, by mid-year the recovery started to lose momentum and was replaced by a period of increased volatility as the market was overtaken by a spate of negative news surrounding the sovereign debt situation in Europe, the oil spill in the Gulf of Mexico, the May 06 2010 "flash crash" in the US stock market , and the uncertainty about the proposed financial reform in the US.

In the final three months of the review period, heightened expectation for more stimulus measures, along with strong corporate earnings and improved economic data helped to strengthen investor confidence in the US. This resulted in the stock market exhibiting solid performance, to end the financial year in positive territory. Chart 6 refers.

CHART 6

RETURNS ON EQUITY INDICES

/per cent/



	Sep-10	Aug-10	Jul-10	Q4 09/10	Q3 09/10	Q2 09/10	Q1 09/10	FY 09/10	FY 08/09
Russell 3000	9.27	-4.91	6.82	10.99	-11.73	5.45	5.37	8.85	-8.64
S&P 500	8.76	-4.74	6.88	10.72	-11.86	4.87	5.49	7.96	-9.37
FTSE 100 - UK	6.19	-0.62	6.94	12.85	-13.43	4.93	5.43	8.08	4.72
CAC 40 - France	6.43	-4.18	5.82	7.91	-13.36	0.96	3.71	-2.11	-5.87
DAX 30 - Germany	5.13	-3.62	3.06	4.42	-3.06	3.29	4.97	9.76	-2.67
Nikkei 225 - Japan	6.18	-7.48	1.65	-0.14	-15.40	5.15	4.08	-7.54	-10.01
MSCI EAFE	9.49	-3.34	9.41	15.79	-14.91	0.22	1.80	0.53	-0.02

[2]At 2:45 p.m. on May 06 2010, the Dow Jones Industrial Average index plunged about 600 points only to recover those losses within minutes. It was the second largest point swing, (1,010.14 points) and the biggest one-day point decline (998.5 points) on an intraday basis in the history of the Dow Jones Industrial Average.

3. Strategic Asset Allocation

The approved Strategic Asset Allocation (SAA) is considered to be the optimal mix of assets that is expected to meet the long term investment objective of the Fund, both in terms of risk and return. In order to mitigate the impact of market related costs, the Board approved a transition period of approximately two years beginning August 2009. Appendix I show the approved transition plan.

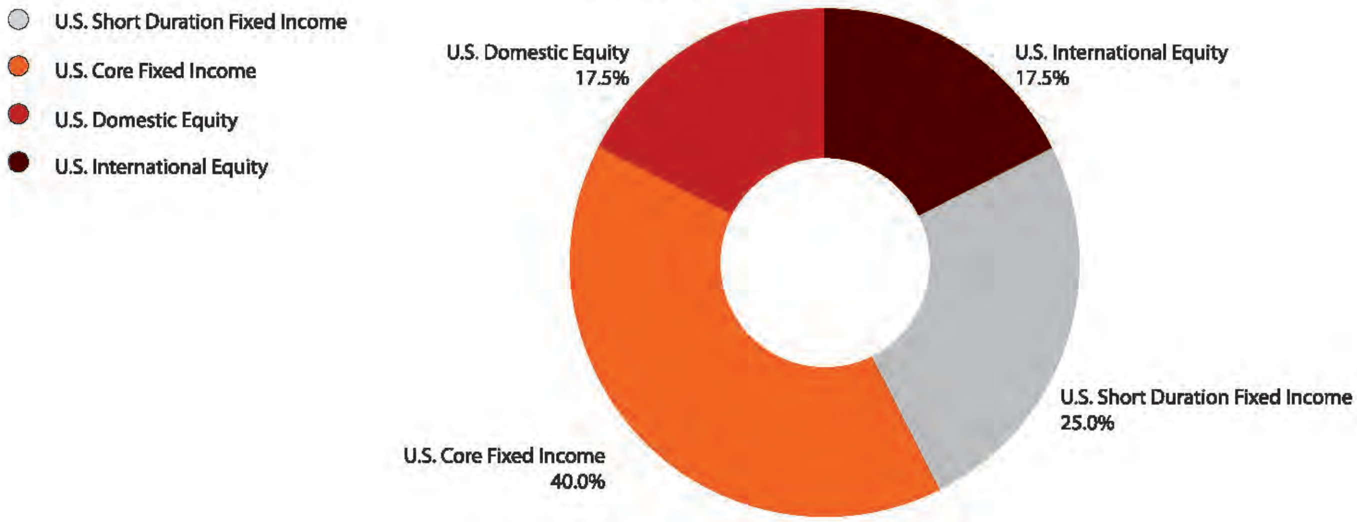
(a) Implementation of Transition Plan

The implementation of the Fund's Strategic Asset Allocation (SAA) continued over the financial year ended September 30, 2010, with quarterly transfers from the internally managed portion of the Fund to the external managers, in line with the approved transition plan. Once the SAA target is attained, the Fund would be fully invested in four major asset classes in the following proportions:

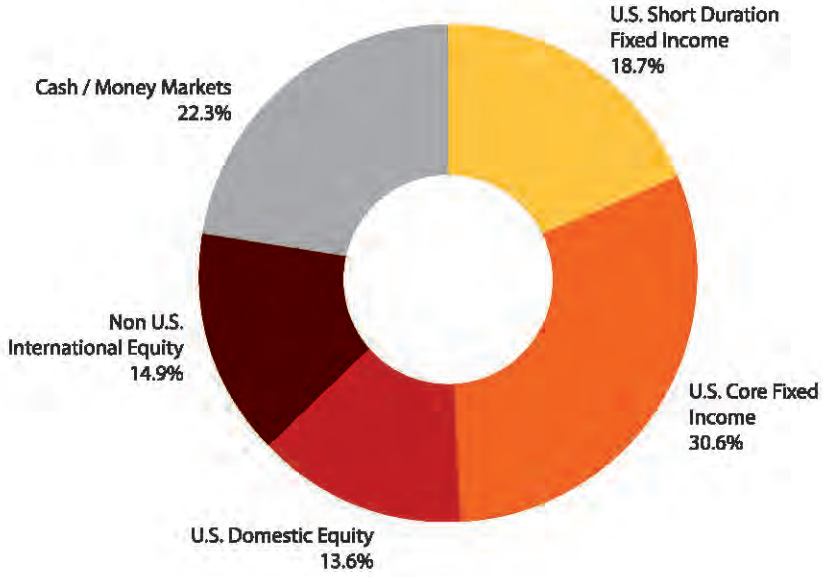
i	US Short Duration Fixed Income Mandate	25.0%
ii	US Core Domestic Fixed Income Mandate	40.0%
iii	US Core Domestic Equity Mandate	17.5%
iv	Non US Core International Equtiy Mandate	17.5%

CHART 7

THE FUND'S STRATEGIC ASSET ALLOCATION



PORTFOLIO COMPOSITION AS AT
30 . 09 . 10



(b) Fund Value

At the end of September 2010, the value of the Fund amounted to US$3,621 million, representing a US$656 million increase over the value one year earlier. This higher net asset value reflects the positive return on investments combined with the US$477 million contribution made by the Government during the financial year. The latter was based on the relative differences in revenues generated between a budgeted oil price of $65 per barrel and the average (West Texas Intermediate) price of $77.19 received over the fiscal year.

(c) Portfolio Composition

The Fund's target transition asset allocation and the portfolio composition as at September 30, 2010 are shown below (Table 1, refers). By the end of the financial year, approximately seventy eight per cent (78%) of the total portfolio was managed by external managers, while the other 22 per cent was managed internally.

TABLE 1

PORTFOLIO TRANSITION TOWARDS TARGET SAA

/per cent/

	Asset Class	Dec 09		Mar 09		Jun 10		Sep 10	
		Target Transition SAA	*Actual % of Fund*	*Target Transition SAA*	*Actual % of Fund*	*Target Transition SAA*	*Actual % of Fund*	*Target Transition SAA*	*Actual % of Fund*
Portfolio Weights	US Fixed Deposit	46.00	39.00	30.00	27.55	22.00	23.97	14.00	22.26
	US Short Duration Fixed Income	13.50	19.00	17.50	20.30	19.50	20.03	21.50	18.72
	US Core Domestic Fixed Income	21.60	22.00	28.00	28.00	31.20	31.30	34.40	30.55
	US Core Domestic Equity	9.45	10.00	12.25	12.45	13.65	12.47	15.05	13.57
	Non US Core International Equity	9.45	10.00	12.25	11.70	13.65	12.23	15.05	14.90

CHART 8

ASSET COMPOSITION OF THE HSF PORTFOLIO

/per cent/

Sunset over Petrotrin Refinery

4. Portfolio Performance

In the twelve months to September 2010, the Fund generated a return of 6.07 per cent, compared with 5.75 per cent for the composite benchmark and 2.79 per cent for the previous financial year. Among the various mandates, the US Core Fixed Income portfolio was the best performer, adding 2.44 per cent to the Fund's composite return. However, the Non-US International Equity portfolio was the highest contributor to the Fund's outperformance (18 basis points) relative to the composite benchmark (Table 2 below, refers).

The Fixed Income portion of the Fund (which accounted for approximately 50 per cent of the Fund at the end of the year) appreciated in value over the period mainly due to declining yields in the US Treasuries and the tightening of spreads in some sectors. Collectively, the two fixed income portfolios were valued at US$1,784.6 million as at September 30, 2010.

On an absolute returns basis, the US Short Duration Fixed Income sub-component gained 4.30 per cent for the financial year ended September 2010, to outperform its benchmark - the Bank of America Merrill Lynch 1- 5 year US Treasury Index - by 5 basis points. This outperformance was mainly attributed to the long duration position of the portfolio relative to the benchmark. The other strategy that contributed significantly to returns was holdings in supranational and government-guaranteed instruments which generated a yield advantage relative to similar duration US Treasuries in the benchmark.

The US Core Domestic Fixed Income sub-component also outperformed its benchmark - the Barclays Capital US Aggregate Bond Index - returning 8.66 per cent versus 8.17 per cent for the benchmark. This higher return for the portfolio can be attributed in part to its underweight exposure to the agency-backed mortgage sector. This sector underperformed relative to US Treasuries of a similar duration primarily as a result of mounting concerns about faster prepayments as yields were steadily declining.In addition, the portfolio's overweight exposure to the corporate credit sector contributed to the outperformance. Over the financial year, credit markets strengthened as companies' fundamentals were generally improving - corporate earnings increased, cash balances rose, while the amount of leverage declined.

TABLE 2

PORTFOLIO PERFORMANCE:
FY 2009/2010 /per cent/

	Percentage of Portfolio	HSF	Benchmark	Excess Return
COMPOSITE PORTFOLIO	100.00	6.07	5.75	0.32
• Money Market	22.26	0.06	0.04	0.02
Fixed Income:				
• US Short Duration Fixed Income	18.72	1.09	1.05	0.04
• US Core Fixed Income	30.55	2.44	2.36	0.07
Equity:				
• US Core Domestic Equity	13.57	0.87	0.86	0.00
• Non US Core International Equity	14.90	1.51	1.33	0.18

The equity portion of the Fund, which currently comprises 28 per cent of the aggregate value, contributed 2.38 per cent to the Fund's total return. The performance of the two equity mandates was mixed as the US equity portfolio underperformed the Russell 3000 ex-Energy benchmark while the Non-US International Equity portfolio outperformed its benchmark - the MSCI EAFE ex-Energy Index. However, the absolute return on the US equity portion was almost twice that of its Non-US counterpart. The aggregate market value of the combined equity portfolio was US$1,031.3 million as at September 30, 2010.

The US Core Domestic Equity sub-component portfolio returned 10.79 per cent, lagging its benchmark which returned 11.70 per cent. This portfolio continued to be sector neutral relative to the benchmark during the review period as the portfolio managers aimed to add value primarily through stock selection decisions. Investments in companies such as Goldman Sachs, Staples and Apollo Group, which underperformed their respective sectors, were the largest drag on the performance.

The other equity mandate, the Non-US International Equity sub-portfolio, returned 5.51 per cent compared with 3.79 per cent for the benchmark. This outperformance reflected favourable security selection within the Consumer Discretionary and Industrials sectors, which more than outweighed unfavourable selections within the Financials and Telecommunication Services sectors. On a country level, the consistent overweight allocation to Sweden proved to be beneficial as the Swedish stock market gained 29 per cent over the twelve months to September 2010. This selection contributed 62 basis points to the over performance of the sub-portfolio. Additionally, the underweight allocation to the Greek market, which declined by almost 52 per cent, contributed 21 basis points to overall sub-portfolio returns. During the four-month period to May 2010, this portfolio also benefitted from a currency hedge against the Euro which depreciated relative to the US dollar by almost 10 per cent.

The money market deposits, which account for 22 per cent of the overall portfolio, returned 23 basis points over the financial year to outperform its LIBID benchmark by 7 basis points. The market value of these deposits was US$806.2 million as at September 30, 2010.

TABLE 3

KEY PERFORMANCE DATA

FY 2009/2010

Market Value as at September 30, 2010	Portfolio Size Us-dollars	Benchmark Return Per Cent	Benchmark Return Per Cent
TOTAL / COMPOSITE	**3,621,984,041**	**5.75**	**6.07**
US Fixed Deposit Portfolio	806,208,343	0.16	0.23
US Short Duration Fixed Income Portfolio	678,091,798	4.25	4.30
US Core Fixed Income Portfolio	1,106,453,879	8.17	8.66
US Core Equity Portfolio	491,450,951	11.70	10.79
Non US Core International Equity Portfolio	539,779,069	3.79	5.51

5. Portfolio Risks

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

(a) Credit Risk

For the money market portion of the Fund, Credit risk is minimized by the strict adherence to the following standards:- (i) all counterparties must have a minimum credit rating of either A-1 from the Standard and Poor's rating agency or P-1 from Moody's; and (ii) a maximum exposure limit for counterparties of no more than 5.00 per cent of the market value of the portfolio.

For fixed income instruments, credit risk is mitigated by the use of credit concentration limits as well as minimum credit quality ratings. Bonds must have an implied investment grade rating as defined by Standard and Poor's, Moody's or Fitch. Should the required ratings on an existing fixed income security fall below the minimum standards, the security must be sold within an agreed upon timeframe. The Average Credit Quality was "AAA" for both the US Short Duration and US Core Fixed Income Portfolios.

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

(b) Concentration Risk

Concentration or diversification risk is minimised by investing across various asset types. The portfolio is currently invested across four asset groupings as follows - US Short Duration Fixed Income, US Core Domestic Fixed Income, US Core Domestic Equity and Non-US Core International Equity. Asset classes in which the Fund invests react differently under a given market condition and when one asset class has strong returns, another may have lower returns. The Fund's investments are also diversified across a number of assets with the aim of securing a positive return under a range of market conditions and to lower the total risk of the portfolio.

(c) Interest Rate Risk

Interest Rate Risk is managed using a weighted average effective duration limit on the respective portfolios, with an allowable range of one (1) year longer or shorter than the weighted average duration of the respective benchmark. Table 4 shows the weighted average duration for the US Short Duration and US Core Domestic Fixed Income portfolios as at September 30, 2010.

TABLE 4
WEIGHTED AVERAGE DURATION
/Years/

Mandate	Portfolio	Benchmark
US Short Duration	2.44	2.55
US Core Domestic Fixed Income	4.38	4.33

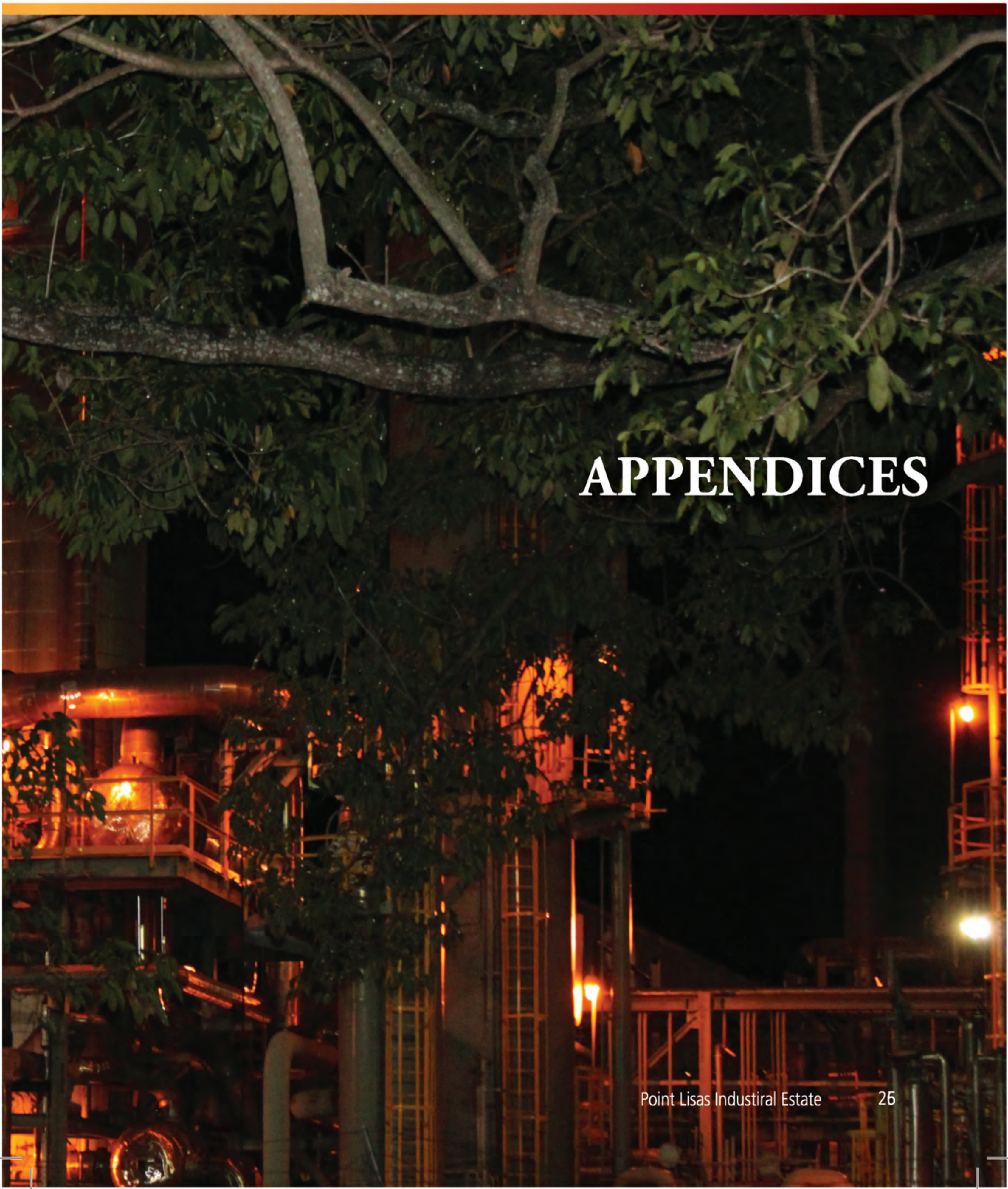
(d) Currency Risk

Currency risk is managed by containing and managing the exposure to non-US dollar instruments. The Fund is invested in ten major currencies in addition to the US dollar. These currencies include the Euro, Japanese Yen, Pound Sterling, Australian dollar and Swedish Krona. For the Fixed Income and US Core Domestic Equity mandates, no more than 10 per cent of the market value of the portfolio can be invested in securities denominated in currencies other than the US Dollar. The Non-US Core International Equity Portfolio is comprised primarily of non-US dollar denominated securities, and the Fund accepts the currency risk inherent in the relevant benchmark. Nevertheless, currency hedging is permitted up to 15 per cent of the market value of the portfolio using the US dollar as the base currency.

TABLE 5

HERITAGE AND STABILISATION FUND
IMPLIED CURRENCY EXPOSURE
/per cent/

Currency	% Currency Exposure
Australian Dollar	0.98
Danish Krone	0.22
Euro Currency	4.41
Hong Kong Dollar	0.61
Japanese Yen	2.41
Norwegian Krone	0.30
Pound Sterling	2.21
Singapore Dollar	0.15
Swedish Krona	0.79
Swiss Franc	0.71
Us Dollar	87.21
Composite Total	**100.00**



APPENDICES

Point Lisas Industiral Estate

Appendix I

Transition Plan: Target Asset Allocation
/per cent/

PORTFOLIO WEIGHTS

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

Appendix II

Heritage and Stabilisation Fund
Quarterly Portfolio Valuation
/USD/

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

Appendix III

HSF Portfolio

Historical Performance since Inception

Quarter End	Current Returns			Fiscal YTD			Annualised Return Since Inception		
	Portfolio	Benchmark	Excess	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	6.65	0.96	0.89	6.65	3.84	3.91	-6.56
March	1.61	1.68	-6.26	2.59	2.58	0.44	4.12	4.20	-8.40
June	-1.83	-1.90	6.28	0.71	0.64	6.87	3.18	3.23	-5.47
September	5.33	5.08	24.71	6.07	5.75	31.96	3.87	3.90	-3.46

Appendix IV

REPUBLIC OF TRINIDAD AND TOBAGO
AUDITOR GENERAL'S DEPARTMENT

REPORT
OF THE
AUDITOR GENERAL

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

FOR THE YEAR ENDED

2010 September 30

REPORT OF THE AUDITOR GENERAL OF THE REPUBLIC OF TRINIDAD AND TOBAGO ON THE FINANCIAL STATEMENTS OF THE HERITAGE AND STABILISATION FUND OF THE REPUBLIC OF TRINIDAD AND TOBAGO FOR THE YEAR ENDED 2010 SEPTEMBER 30

A Report on the Accounts of the Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago which made reference to the non-receipt of financial statements of the Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago for the year ended 2010 September 30 was signed by the Acting Auditor General on 2010 November 30 and forwarded to the Minister of Finance for laying in Parliament.

2. The accompanying Financial Statements of the Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago (the Fund) for the year ended 2010 September 30 have been audited. The Statements comprise a Statement of Financial Position as at 2010 September 30, a Statement of Comprehensive Income, a Statement of Changes in Equity and a Statement of Cash Flows for the year ended 2010 September 30 and Notes to the Financial Statements numbered 1 to 12.

MANAGER'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

3. 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

4. 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.

5. 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 6 and 7 of this Report.

OPINION

6. In my opinion, the Financial Statements as outlined at paragraph two above present fairly, in all material respects, the financial position of the Heritage and Stabilisation Fund as at 2010 September 30 and its financial performance and its cash flows for the year ended 2010 September 30 in accordance with International Financial Reporting Standards.

EMPHASIS OF MATTER

7. Without qualifying the above opinion, attention is drawn to the following matter which was raised in the Auditor General's Report on the financial statements of the Fund for the year ended 2008 September 30 and which has not been resolved. At paragraph 6 of that Report it was stated as follows:

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

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

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

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

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

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

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

REPUBLIC OF TRINIDAD AND TOBAGO
2011 01 18
AUDITOR GENERAL

Sharman Ottley

SHARMAN OTTLEY
AUDITOR GENERAL

2011 JANUARY 18

Auditor General's Report
HSF 2010

Page 2 of 2

HERITAGE AND STABILISATION FUND OF THE REPUBLIC OF TRINIDAD AND TOBAGO

FINANCIAL STATEMENTS
for the year ended 30 September 2010

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

Statement of Financial Position
as at 30 September 2010
(Expressed in United States Dollar)

	Notes	Sep-10 $	Restated Sep-09 $
ASSETS			
Current assets			
Cash and cash equivalents	4	933,853,067	1,283,691,858
Investments	5	2,784,405,703	1,795,729,687
Accounts receivable and prepayments	6	236,040,232	165,361,032
TOTAL ASSETS		**3,954,299,002**	**3,244,782,577**
LIABILITIES			
Current liabilities			
Accounts payable	7	334,534,856	280,008,155
TOTAL LIABILITIES		**334,534,856**	**280,008,155**
NET ASSETS		**3,619,764,146**	**2,964,774,422**
PUBLIC EQUITY			
Contributed capital		3,255,402,920	2,778,058,656
Available for sale revaluation reserve		132,396,508	42,682,244
Accumulated surplus		231,964,718	144,033,522
TOTAL EQUITY		**3,619,764,146**	**2,964,774,422**

AVYANN FERGUSON
(Chairperson)

EWART WILLIAMS

ENID ZEPHYRINE

SHAM SINGH

REPUBLIC OF TRINIDAD AND TOBAGO
AUDITOR GENERAL

ANUSHKA ALCAZAR

The accompanying notes form an integral part of these financial statements

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

Statement of Comprehensive Income
for the year ended 30 September 2010
(Expressed in United States Dollar)

	Note	Sep-10 $	Restated Sep-09 $
Income			
Interest income	8	49,297,139	30,424,168
Dividend income		20,454,238	2,296,089
Investment expenses		(15,248,450)	(2,620,204)
Gain on sale of investments		101,545,318	9,730,989
Loss on sale of investments		(66,116,648)	(3,956,831)
Income from investments		**89,931,597**	**35,874,211**
Other Income		3,876	300
Total income		**89,935,473**	**35,874,511**
Expenditure			
Management fees		936,188	874,801
Subscription fees		9,000	-
Bank charges		391	49,026
Audit fees		7,567	3,068
License fees		3,000	10,499
Total expenditure		**956,146**	**937,394**
Net profit for the year before tax		**88,979,327**	**34,937,117**
Withholding Tax Expense		1,048,131	66,755
Net profit for the year after tax		**87,931,196**	**34,870,362**
Other comprehensive income:			
Available-for-sale financial assets			
- Unrealised gain from fair value changes		89,714,264	41,466,273
Other comprehensive income for the year		**89,714,264**	**41,466,273**
Total comprehensive income for the year		**177,645,460**	**76,336,635**

The accompanying notes form an integral part of these financial statements

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

Statement of Changes in Equity
for the year ended 30 September 2010
(Expressed in United States Dollar)

	Contributed Capital	Available for Sale Revaluation Reserve	Accumulated Surplus	Total
	$	$	$	$
Balance as at 1 October 2008	**2,778,058,656**	**1,215,971**	**109,163,160**	**2,888,437,787**
Total comprehensive income for the year	-	41,466,273	34,870,362	**76,336,635**
Balance as at 30 September 2009	**2,778,058,656**	**42,682,244**	**144,033,522**	**2,964,774,422**
Balance as at 1 October 2009	**2,778,058,656**	**42,682,244**	**144,033,522**	**2,964,774,422**
Contributions from Government for the year	477,344,264	-	-	**477,344,264**
Total comprehensive income for the year	-	89,714,264	87,931,196	**177,645,460**
Balance as at 30 September 2010	**3,255,402,920**	**132,396,508**	**231,964,718**	**3,619,764,146**

The accompanying notes form an integral part of these financial statements

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

Statement of Cash Flows
for the year ended 30 September 2010
(Expressed in United States Dollar)

	Note	Sep-10 $	Restated Sep-09 $
Cash flows from operating activities			
Net profit for the year		87,931,196	34,870,362
Adjustments			
Interest income		(49,297,139)	(30,424,168)
Amortisation of bond (discount)/premium		(1,960,290)	1,670,620
Net realised gain from changes in fair value of investment		(35,428,670)	(5,774,158)
Dividend income		(20,454,238)	(2,296,089)
Cash flows before changes in operating assets and liabilities		**(19,209,141)**	**(1,953,433)**
Changes in operating assets and liabilities			
Decrease/(increase) in accounts receivable		(68,166,594)	259,862,266
Increase in accounts payable		54,526,701	279,809,601
Net cash flows (used in)/from operating activities		**(32,849,034)**	**537,718,434**
Cash flows from investing activities			
Interest received		47,934,583	30,331,083
Dividend received		19,304,188	810,202
Purchase of investments		(1,145,358,801)	(1,660,418,567)
Proceeds from sale of investments		283,786,009	33,329,289
Net cash (used in) investing activities		**(794,334,021)**	**(1,595,947,993)**
Cash flows from financing activities			
Contributed capital		477,344,264	-
Net cash flow from financing activities		**477,344,264**	-
Net (decrease) in cash and cash equivalents		(349,838,791)	(1,058,229,559)
Cash and cash equivalents, beginning of year		1,283,691,858	2,341,921,417
Cash and cash equivalents, end of year	4	**933,853,067**	**1,283,691,858**

The accompanying notes form an integral part of these financial statements

1. Incorporation and Principal Activities

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

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

a) The Central Bank; and

b) The Ministry of Finance.

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

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

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

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

c) provide a heritage for 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:-

a) monies transferred from the Interim Revenue Stabilisation Fund;

b) petroleum revenues deposited into the Fund; and

c) assets acquired and earned from investments.

2. Accounting Policies

a) Basis of accounting

The Financial Statements of the Fund have been prepared 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, bank overdraft, short term investment in money market funds and deposits maturing within three months from the financial statements' date. Cash on hand, cash in bank, bank overdraft, short term money market fund 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 Board.

i. Measurement

Available for sale securities are initially recognised at cost, (which includes transaction costs), and are subsequently re-measured at fair value. Regular purchases and sales are recognized on the trade date. Thus, any agreements made before the Statement of Financial Position date, with expectations of settlement thereafter, will give rise to both a financial asset and financial liability which is recognised in the Statement of Financial Position.

Unrealised gains and losses on these investments are recognised in the Statement of Comprehensive Income under Other Comprehensive Income.

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

ii. Fair value estimation

The fair value of quoted financial assets in active markets is based on current bid prices. For unlisted financial assets and those where the market is not active, the Fund establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, pricing models and other valuation techniques commonly used by market participants.

2. Accounting Policies (continued)

*d) **Premium/Discount***

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

A discount arises when a bond or treasury bill price is lower than its par value. This occurs when the interest rate rises; newly issued securities have higher coupons than existing securities issued when market rates were lower. Thus, coupon rates of securities trading at a discount are generally lower than similar quality, newly issued securities.

The premium is treated as an asset on the Statement of Financial Position, due to the future economic benefit expected from the bond or treasury bill. Similarly, a discount is treated as a liability on the Statement of Financial Position.

*e) **Income and Dividends***

Interest income is accounted for on the accruals basis.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Dividend income is recognised on the accruals basis when the shareholder's right to receive payment is established.

*f) **Expenses***

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

*g) **Taxation***

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

*h) **Withholding taxes***

Withholding taxes attributable to investment income from foreign sources are recognised as part of income tax expense, with the investment income recognised on a gross basis stated at their expected realisable value.

*i) **Accounts receivable***

Accounts receivable are stated at their expected realisable value.

2. Accounting Policies (continued)

*j) **Accounts payable***
Accounts payable are stated at their expected amounts.

*k) **Comparative information***
When necessary, comparative data has been adjusted to conform with changes in presentation in the current year.

*l) **Statement of cash flows***

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

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

- **Financing activities** are those activities relating to changes in equity of the Fund and those activities relating to the cost of servicing the Fund's equity capital.

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

*m) **Capital contributions***

In accordance with Section 14 of the Act:

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

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

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

(Expressed in United States Dollar)

3. Financial Risk Management

a) *Portfolio Performance*

The portfolio performance for the twelve months ended 30 September 2010 was as follows:

12 Months Performance			
Portfolio	**Fund**	**Benchmark Return**	**Benchmark Composition**
Composite	6.07%	5.75%	Merrill Lynch US Government Treasury 1-5 Years Index , US 1-month LIBID, Barclays Capital US Aggregate Bond Index, Russell 3000 (ex Energy), MSCI EAFE (Ex Energy)
Money Market	0.06%	0.04%	US 1-month LIBID
US Short Duration Fixed Income Portfolio	1.09%	1.05%	Merrill Lynch US Government Treasury 1-5 Years Index
US Core Fixed Income	2.44%	2.36%	Barclays Capital US Aggregate Bond Index
US Core Domestic Equity	0.87%	0.86%	Russell 3000 (Ex Energy)
Non US Core International Equity	1.51%	1.33%	MSCI EAFE (Ex Energy)

b) *Portfolio Risk*

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

Credit Risk

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

Credit risk is mitigated by the establishment of ratings standards. These standards require money-market counterparts to have a minimum credit rating of A1 from Standard and Poor's, or P1 from Moody's. Credit risk is also managed by limiting the exposure of a single counterparty to 5% of the Fund.

3. Financial Risk Management (continued)

Concentration Risk

Concentration risk is the risk of loss attributable to holding investments in a single or to limited number investment style or class. The Strategic Asset Allocation (SAA) reduces this risk by ensuring the Fund's assets are invested across various asset classes and styles. The SAA is invested across four asset classes:- US Short Duration Fixed Income Mandate, US Core Domestic Fixed Income Mandate, US Core Domestic Equity Mandate and Non US Core International Equity Mandate. Each asset class that the Fund invests in reacts differently under the same market conditions, and usually when one asset class has strong returns another will have lower returns. The Fund's investments are also diversified across a number of asset types to better ensure a positive return under a range of market conditions, thus lowering the total risk of the portfolio.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises: currency risk, interest rate risk and price risk.

a. ***Currency Risk***

This is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

For the Fixed Income and US Core Domestic Equity mandates, no more than 10% of the market value of the portfolio can be invested in securities denominated in currencies other than the US Dollar. For the Non US Core International Equity mandate, currency hedging is allowed for up to 15% of the market value of the portfolio. The Fund currently does not have any currency hedging investments.

b. ***Interest Rate Risk***

This is the risk that the value of a financial instrument will fluctuate, due to changes in market interest rates.

Interest Rate Risk is managed using a weighted average effective duration limit of two years, with an allowable range of one (1) year longer or shorter than the weighted average duration of the respective Benchmark.

3. Financial Risk Management (continued)

Market Risk (continued)

c. ***Price Risk***

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes other than those arising from interest rate risk or currency risk, whether those changes are caused by factors specific to the individual financial instruments or issuer, or factors affecting all similar financial instruments traded in the market. Price risk is managed through a diversification of the financial asset portfolio.

The Fund measures both absolute and relative market risk. Absolute risk is estimated on the basis of the actual portfolio, while relative risk is estimated as the standard deviation of the difference between the return on the actual portfolio and the return on the benchmark portfolio.

Liquidity Risk

This is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Management's guiding policies are to maintain conservative levels of liquidity to ensure that the Fund has the ability to meet its obligations at short notice. This is achieved by laddering the maturity of the time deposits. The relatively short tenors also serve to maintain a very liquid portfolio and mitigate Liquidity Risk.

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.

(Expressed in United States Dollar)

3. Financial Risk Management (continued)

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

Territory	Sep-10 $	Sep-09 $
Canada	8,221,624	60,251,394
France	16,132,295	60,172,923
Netherlands	15,980,446	120,845,445
Switzerland	8,019,907	31,339,533
United Kingdom	70,810,758	392,949,030
United States of America	56,571,027	352,375,997
	175,736,057	**1,017,934,322**

4. Cash and cash equivalents

	Sep-10 $	Restated Sep-09 $
Fixed deposits	175,736,057	1,017,934,322
Cash at Bank	180,707,916	10,634,186
Short Term Money Market Funds	577,409,094	255,123,350
	933,853,067	**1,283,691,858**

5. Investments

	Sep-10 $	Restated Sep-09 $
Available for sale investments		
Amortised Cost	2,652,009,195	1,753,047,443
Net Appreciation	132,396,508	42,682,244
	2,784,405,703	**1,795,729,687**

(Expressed in United States Dollar)

6. Accounts receivable and prepayments

	Sep-10 $	Sep-09 $
Trade Receivables - Investments and Foreign Currency Sold	223,268,820	155,976,095
Interest Receivable	9,261,606	7,899,050
Dividends Receivable	2,635,937	1,485,887
Other Receivable	873,869	-
	236,040,232	**165,361,032**

- Accounts receivable at 30 September 2010 includes Pending Trades – Investments and Foreign Currency Sold in the amounts of USD 222,272,387 and USD 996,433 respectively which were subsequently settled in October and November 2010.

7. Accounts payable

	Sep-10 $	Sep-09 $
Pending Trades - Investments and Foreign Currency Purchased	331,920,009	278,841,946
Accruals	2,223,159	1,166,209
Other Payables	391,688	-
	334,534,856	**280,008,155**

- At 30 September 2010 there were Pending Trades – Investments and Foreign Currency Purchased in the amounts of USD 330,923,576 and USD 996,433 respectively. These were subsequently settled during the period October – November 2010.

8. Interest income

	Sep-10 $	Sep-09 $
Cash at bank	53,564	15,702
Fixed deposits	1,738,340	20,685,823
Available for sale	43,894,052	9,614,806
Net Amortisation Premium/Discount	3,607,847	107,501
Short term security	3,336	336
	49,297,139	**30,424,168**

(Expressed in United States Dollar)

9. Asset management agreements
Under Section 10(2) of the Act, the Bank as Manager of the Fund is responsible for the management of the assets and other resources of the Fund.

10. Board and other expenses
Under Section 4(6) of the Act, the members of the Board shall be paid such remuneration and allowances as may be determined by the Minister of Finance. These expenses, along with other operating expenses of the Fund's Secretariat are met from the Consolidated Fund, and thus do not form a part of the Financial Statements of the Fund.

11. Capital contributions
Capital contributions are calculated based on criteria set out under Sections 13(1) and 14 of the Act, (see Note 2 (m)). During the current financial year ended 30 September 2010 capital contributions of USD 477,344,264 were received.

12. Comparative figures
The restated Statement of Financial Position and Statement of Comprehensive Income for the year ended 30 September, 2009 resulted from the re-classification of some items in order to achieve a clearer or more transparent presentation. These changes commenced in August 2009 and do not impact prior period financial statements. IAS 1 section 39 requires a comparative of the beginning of the earliest comparative period, (1 October, 2008), but in this case these changes have no impact on the financial positions and the previous year's financial statements remain effective.

Restatement of Statement of Financial Position Items As at 30 September 2009	**Movement 2009 $**
ASSETS	
Current assets	
Cash and cash equivalents	129,444,060
Investments	(129,444,060)
Net restatement of assets	-

12. Comparative figures (continued)

Restatement of Statement of Comprehensive Income Items for the year ended 30 September 2009	**Movement 2009 $**
Income	
Investment expenses	66,755
Net restatement of investment expenses	**66,755**
Expenditure	
Withholding tax expense	66,755
Net restatement of withholding tax expense	**66,755**
Net restatement of profit for the year after tax	-

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Eric Williams Plaza, Ministry of Finance
Independence Square, Port of Spain
Tel No: 1 (868) 627-9700 ext 5129
www.finance.gov.tt