Trinidad and Tobago
Heritage and Stabilization Fund

ANNUAL REPORT 2013

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 15th March, 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 the savings and investment income derived from excess petroleum revenues.

TRINIDAD AND TOBAGO
HERITAGE AND STABILISATION FUND

Annual Report 2013

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Chairman's Foreword

Avyann Ferguson
Chairman

I am pleased on behalf of the Board of Governors, to present the Annual Report of the Trinidad and Tobago Heritage and Stabilisation Fund for the year ended 30th September, 2013.

The Report for the period 2012/2013 details the continuing success of the country's national savings fund in a year marked by a significant rebound in equity markets. Though volatility remained a prominent feature in international financial markets, particularly at the start of the year, continued monetary interventions spurred investor confidence and economic resurgence in Japan and the US, which resulted in positive spinoffs in global stock markets as investors rushed to capitalize on these trends.

Financial Performance

With the Fund's equity portfolios contributing the largest to the composite return, the Fund recorded a total return of 8.6 per cent for the year ended 30th September, 2013. This return was slightly below the 10.73 per cent recorded for the equivalent period in the last financial year but was some 1.3 per cent above the Fund's composite benchmark which returned 7.3 per cent in the current financial year. Investors' rapid flight from bond to equity markets in search of higher returns occasioned a notable decline in the performance of the bond markets to the extent that the Fund's holdings detracted from the overall return by 0.4 per cent.

A revitalized equity market contributed significantly to the growth of the Fund over the past year. As a result, the income derived from the Fund itself played a critical role in the increase in value of the Fund contributing US$312.76 million to the Fund's overall growth. The deposit activity experienced some contraction as the statutory conditions for deposits were not met, in large part during the course of the year. This, notwithstanding, and in keeping with Government's commitment to saving, even in challenging times, the Fund received a deposit of US$42.5 million which served to augment the Fund.

To add to the commendable performance of the Fund, it is important to recognize that the Fund surpassed a critical benchmark over this financial year, as for the first time since the Fund's inception, the Net Asset Value exceeded the US$5 billion threshold. At the end of 30th September, 2013 the Net Asset Value of the HSF stood at US$5,154.0 million, up from US$4,712.3 million as at 30th September, 2012.

Chairman's Foreword

Legislative Review

During the year the Board was able to complete a thorough analysis of the Legislative, Technical and Operational aspects of the HSF and made recommendations to the Honourable Minister of Finance and the Economy in keeping with Section 22 of the Act. The Board was happy to note that the majority of the recommendations were accepted by the Honourable Minister and these were brought before the Legislation Review Committee of Cabinet of the Government of Trinidad and Tobago in late 2013; with finalization expected by mid-2014.

It is our sincere belief that the recommendations will result in a stronger institution which will allow the Board to not only operate more efficiently in the coming years but also develop its capacity to draft, assess and recommend broader policy options for the benefit of future generations of our island. We propose to maintain the progressive attitude which guides all our discussions at the Board level. Looking at the year ahead we remain optimistic on the outlook for the Fund. Though we remain mindful that the HSF is invested in risky assets, we believe that the Fund has attained the right asset mix through our Strategic Asset Allocation which allows us to benefit from favourable market conditions that are expected to persist in the short to medium term.

Vote of Thanks

In closing I will like to thank all Governors on the Board for the considerable time and effort expended on our activities over the past year. Your insightful deliberations and contributions redounded to the continued success of the Fund. On behalf of the Board, I would also like to thank the Minister of Finance and the Economy, the Government of Trinidad and Tobago and all key stakeholders for their unwavering support of the Fund. The Board looks forward to their continued co-operation of all to ensure the growth and success of the Fund.

Regards
Avyann Ferguson
Chairman

Board of Governors

Avyann Ferguson
Chairman

Alison Lewis
Jwala Rambarran

Ramcharan Kalicharan
Anushka Alcazar

Board of Governors

Ms. Avyann Ferguson	–	Chairman *Banker/Attorney-at-Law*
Mrs. Alison Lewis	–	Member *Permanent Secretary* *Ministry of Finance and the Economy*
Mr. Jwala Rambarran	–	Member *Governor* *Central Bank of Trinidad and Tobago*
Mr. Ramcharan Kalicharan	–	Member *Finance/Investment Specialist*
Mrs. Anushka Alcazar	–	Member *Human Resources Consultant*

Board Secretariat

Mr. Michael L. Raymond	-	Economic Policy Analyst *Ministry of Finance and the Economy assigned to perform duties as Corporate Secretary*

GOVERNANCE

Governance

The Board of Governors

- The Heritage and Stabilisation Fund Act provides that the Fund be governed by a Board of Governors who under Section 9 of the Act, has the responsibility for the management of the Fund. Section 10, however, provides for the Board to delegate its management responsibility to the Central Bank of Trinidad and Tobago.

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

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

The Minister of Finance

- The Minister of Finance advises the President on the appointment of the Board in accordance with the Act, and is responsible for approving deposits and withdrawals from the Fund in accordance with the provisions of the Act.

The Trinidad and Tobago Parliament

- Parliament passed the enabling legislation and continues to have ultimate oversight of the Fund, which is exercised through the review of annual reports and audited financial statements, 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 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 petroleum revenues must be deposited in the Fund.

Quantum:

- A minimum of sixty per cent of the total excess (difference between estimated and actual) revenues must be deposited to the Fund during a financial year.

- Estimated petroleum revenues are calculated based on defined international sources.

Timing:

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

Withdrawals

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

Quantum:

- 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.

Governance

Limitations on Withdrawals

- 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

Overview of Activities

Reports to the Parliament

The Audited Financial Statements for the period ending September 30, 2012 were presented to the Parliament in January 2013.

Deposits to the Fund

The Fund commenced the year 2012/2013 with a Net Asset Value of US$4,712.3 million. As per the HSF Act (2007), the Government made a deposit of US$42.5 million in respect of the quarter ended June 30, 2013.

HSF Review

Continuing with the work commenced in the financial year 2011/2012, the Board completed its activities on the Review of the HSF, as per section 22 of the HSF Act (2007). The Board delivered its Report entitled "Policy Proposal Document on the HSF with suggested amendments to the HSF Act (2007)" on December 5, 2012 to the Honourable Minister of Finance and the Economy.

Chief among the recommendations agreed to by the Minister of Finance and the Economy is the proposal to increase the floor of the HSF from US$1 Billion to US$3.5 Billion. This proposal effectively increases the Heritage component of the HSF, increasing the availability of funds to pursue assets which provide higher returns over the long term. Adoption in law will also necessitate a review of the Strategic Asset Allocation of the HSF to ensure that the correct asset mix is selected to achieve the optimal risk-adjusted return.

International Outreach

In keeping with the thrust towards transparency and ensuring the profile of the Fund remains on par with similar Sovereign Wealth Funds internationally, the Board facilitated the publication of a chapter in the widely circulated 2013 Central Bank Publication. The paper was entitled "Sovereign Investment: Volatility, Diversity, Sustainability" and was edited by Mr. Donghyun Park of the Asian Development Bank. The chapter outlined the Fund's development over the five year period from 2007 through the end of 2012. At the publishers request the chapter focused on how the Fund was able to manage the impact of the financial crisis and the Fund's response both operationally and strategically.

Governance

The Board of Governors of the HSF met all legal and statutory requirements in the discharge of its functions and maintained its governance oversight as required by law during the review period.

INVESTMENT REPORT

Investment Report

Executive Summary

The financial year ended 30th September, 2013 was yet another positive year in the history of the Heritage and Stabilisation Fund. The Fund's strong performance was primarily attributed to robust equity markets globally, which recovered to pre-crisis levels and in some cases, advanced to new highs. A steadily progressing global economic recovery, coupled with accommodative monetary policies by the major central banks, particularly Japan, resulted in an increased demand for riskier assets by investors.

These developments adversely impacted sovereign bond yields, as benchmark 10-year yields in many G-10 countries increased during the year.

Markets were generally less volatile during the 2012/2013 financial year when compared to the previous year. In fact, markets were to a large extent impacted by the actions of the major central banks, and in the case of the US, by the markets' expectations with respect to these actions. Despite improvements to the economic landscape, central banks have continued their accommodative monetary stance of the previous year, and are expected to maintain this posture in the coming year.

For the financial year 2012/2013, the Fund returned 8.6 per cent, compared with gains of 7.3 per cent for the strategic asset allocation (SAA) benchmark. The equity portion of the Fund contributed approximately 9.0 per cent to the total return, while the fixed income portion detracted 0.4 per cent from the total return. Among the four mandates, the US Non-Core International Equities had the strongest performance, producing an absolute return of 28.6 per cent. The Core US Equity portfolio also posted a solid gain of 22.3 per cent.

As at the end of September 2013, the Fund's Net Asset Value stood at US$5,154.0 million, up from US$4,712.4 million as at the end of September 2012. During the financial year, the Government made one contribution to the Fund totaling US$42.5 million.

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Macroeconomic Environment

TThe global economy improved in 2013 as growth prospects in the advanced economies of the United Kingdom and Euro Area showed a mild recovery during the period. During the year, uncertainty regarding central bank policies in the developed world added volatility to an otherwise stable environment. Potential tightening by the United States Federal Reserve affected not only US rates, but also resulted in higher interest rates in much of the developed world. In addition, emerging economies experienced significant capital outflows, which created considerable challenges as policy makers tried to defend their currencies. In its October World Economic Outlook, the International Monetary Fund (IMF) lowered its projection for global growth in 2013 and 2014 to 2.9 per cent and 3.6 per cent, respectively. The largest downward revisions were noted in the emerging and developing economies; these economies are now forecasted to grow by 4.5 per cent in 2013, while in the advanced economies, activity is projected to expand by 1.2 per cent.

The United States (US) economy continued its moderate pace of recovery during 2013, despite the federal government's automatic spending cuts, a potential reduction in the size of the Federal Reserve's asset purchase program and concerns about another round of debt ceiling and budget debates. According to the IMF, US economic activity is forecasted to increase by 1.6 per cent in 2013. The labour market has been slowly improving and the unemployment rate moved lower, coming in at 7.2 per cent as of September 2013.

In an unprecedented move, the Federal Open Market Committee (FOMC), at its December 2012 meeting, linked its interest rate policy to threshold unemployment and inflation levels. The exceptionally low interest rate environment was anticipated to be appropriate as long as unemployment remained above 6.5 per cent, and inflation between one and two years ahead was projected to be no more than a half percentage point above the Committee's 2 per cent longer-run goal.

Concerns surrounding the Federal Reserve's quantitative easing program were ignited in May 2013, when the Federal Reserve Chairman, Mr. Ben Bernanke, introduced the possibility of reducing the Fed's monthly bond purchases later this year. The Fed surprised markets by not tapering in September 2013, citing that it was the Committee's assessment that the U.S. economy was not strong enough to warrant a modest reduction in its $85 billion monthly bond purchase program. Though there remains uncertainty regarding exactly when tightening will begin, the official nomination of Ms. Janet Yellen for the next Fed Chairmanship helped to calm markets, as she is widely expected to continue the Fed's accommodative monetary policy stance.

The Euro zone continues to work through the fallout from the sovereign debt crisis, but European Central Bank President Mario Draghi's commitment 'to do whatever it takes to preserve the euro', provided much needed stability to the region. The ECB's credibility strengthened over the period, as it displayed both its willingness and ability to act as a backstop to the euro area. Despite some challenges throughout the year, with political turmoil in Italy and the threat of a banking crisis in Cyprus, the Euro zone managed to emerge from its 18 month long recession during the second quarter of 2013. The recovery was broad-based, with consumer, government and investment spending, as well as both manufacturing and services sectors showing signs of growth.

Though there are signs that the economy is slowly improving, the recovery remains fragile with the potential for downside risks. Improvements in the

Investment Report

labour markets have been slow to materialize and the unemployment rate is stubbornly high at 12.2 per cent as at September 2013, with a wide divergence among the member states. GDP expanded at a slower pace during the third quarter of 2013 and inflation fell to 0.7 per cent in October, 2013 fueling deflationary fears. In a surprise move, the ECB cut its main refinancing rate for the second time this year in November, lowering it by 25 bps to 0.5 per cent. While the euro zone is no longer in crisis mode, austerity measures in its debt burdened member states and the upcoming bank stress tests, could dampen market sentiment over the next 12 months.

During the financial year 2012/2013, the United Kingdom (UK) economy showed a marked improvement during the period. Though the stronger than expected growth was initially met with cautious optimism, with the economy expanding by 0.8 per cent in the third quarter of 2013, there is increasing confidence in the sustainability of the recovery. In its October World Economic Outlook, the IMF revised upward its GDP forecast for the UK. It now projects the UK economy to expand by 1.4 per cent in 2013, compared to its earlier estimate of 0.9 per cent.

Positive economic data in the UK coupled with taper talk in the United States placed upward pressure on interest rates and prompted the Bank of England (BOE) to break from tradition and engage in forward guidance. Mr. Mark Carney, the Governor of BOE, has maintained that monetary policy will remain accommodative at least until unemployment reached 7 per cent, and cautioned that the stated threshold is not an automatic trigger. In an effort to ensure that the UK's recovery takes hold, the BOE re-iterated its accommodative stance, keeping the bank rate at 0.5 per cent and the stock of asset purchases at £375 billion.

In Japan, Prime Minister, Mr. Shinzo Abe embarked on an ambitious plan to increase the country's long-term growth potential and end its 20-year battle with deflation.

The proposed measures, labeled "Abenomics", encompasses a three-fold approach which includes increased government spending, an increase in monetary stimulus through central bank policy, and an economic structural reform program. The first two initiatives of fiscal and monetary stimulus have been moderately successful thus far. Fiscal stimulus coupled with the Bank of Japan's (BOJ's) aggressive easing program launched in April 2013 helped to spur growth and push price levels higher.

Japan's annualized GDP rose from 0.6 per cent in the fourth quarter of 2012 to 1.9 per cent in the third quarter of 2013, and inflation now stands at 1.1 per cent as of September 2013 compared to a decrease of 0.3 per cent in September 2012.

Though there are signs that Japan's economy is recovering, the rate of expansion slowed towards the end of the 2012/2013 financial year. GDP moderated in the third quarter of 2013, partly due to a decline in export growth and weaker consumer spending. Households have grown increasingly concerned about the rising cost of living, given that income growth has lagged behind inflation combined with the upcoming sales tax hike in 2014. The BOJ's pledge to double its monetary base by the end of 2014, and plans for another stimulus package next year have helped bolster markets in the short-term. In order to improve Japan's long-term outlook, Prime Minister Abe will need to deliver much needed structural reforms.

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Table 1

GDP GROWTH: SELECTED DEVELOPED ECONOMIES QUARTER OVER QUARTER

/PER CENT/

PERIOD	US[1]	EURO ZONE	UK	JAPAN
Mar-09	-5.3	-2.8	-1.5	-4.0
Jun-09	-0.3	-0.3	-0.2	1.5
Sep-09	1.4	0.4	0.4	0.2
Dec-09	4.0	0.4	0.4	1.7
Mar-10	2.3	0.5	0.6	1.3
Jun-10	2.2	1.0	0.7	1.2
Sep-10	2.6	0.4	0.6	1.1
Dec-10	2.4	0.3	-0.4	-0.3
Mar-11	0.1	0.6	0.5	-2.1
Jun-11	2.5	0.2	0.1	-0.5
Sep-11	1.3	0.1	0.5	2.3
Dec-11	4.1	-0.3	-0.4	-0.3
Mar-12	2.0	0.0	-0.3	1.3
Jun-12	1.3	-0.2	-0.4	0.1
Sep-12	2.0	-0.1	1.0	-0.9
Dec-12	0.1	-0.5	-0.3	0.1
Mar-13	1.1	-0.2	0.4	1.1
Jun-13	2.5	0.3	0.7	0.9
Sep-13	2.8	0.1	0.8	0.5

Source: Bloomberg

[1] US Data are annualized

[2] Preliminary data may be subject to revisions

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Table 2

UNEMPLOYMENT AND INFLATION RATES: SELECTED DEVELOPED ECONOMIES UNEMPLOYMENT RATES

/PER CENT/

PERIOD END	US	EURO ZONE	UK	JAPAN
Mar-09	8.7	9.3	7.1	4.8
Jun-09	9.5	9.6	7.8	5.2
Sep-09	9.8	9.9	7.9	5.3
Dec-09	9.9	10.1	7.8	5.2
Mar-10	9.8	10.1	8.0	5.1
Jun-10	9.4	10.1	7.9	5.1
Sep-10	9.5	10.1	7.7	5.1
Dec-10	9.4	10.1	7.8	4.9
Mar-11	8.9	9.9	7.8	4.7
Jun-11	9.1	9.9	7.9	4.7
Sep-11	9.0	10.3	8.3	4.2
Dec-11	8.5	10.7	8.4	4.5
Mar-12	8.2	11.0	8.2	4.5
Jun-12	8.2	11.4	8.0	4.3
Sep-12	7.8	11.6	7.8	4.2
Dec-12	7.8	11.9	7.8	4.3
Mar-13	7.6	12.0	7.8	4.1
Jun-13	7.6	12.1	7.8	3.9
Sep-13	7.2	12.2	7.6	4.0

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INFLATION RATES YEAR-ON-YEAR

/PER CENT/

PERIOD END	US	EURO ZONE	UK	JAPAN
Mar-09	-0.4	0.6	2.9	-0.3
Jun-09	-1.4	-0.1	1.8	-1.8
Sep-09	-1.3	-0.3	1.1	-2.2
Dec-09	2.7	0.9	2.9	-1.7
Mar-10	2.3	1.4	3.4	-1.1
Jun-10	1.1	1.4	3.2	-0.7
Sep-10	1.1	1.8	3.1	-0.6
Dec-10	1.5	2.2	3.7	0.0
Mar-11	2.7	2.7	4.0	-0.5
Jun-11	3.6	2.7	4.2	-0.4
Sep-11	3.9	3.0	5.2	0.0
Dec-11	3.0	2.7	4.2	-0.2
Mar-12	2.7	2.7	3.5	0.5
Jun-12	1.7	2.4	2.4	-0.2
Sep-12	2.0	2.6	2.2	-0.3
Dec-12	1.7	2.2	2.7	-0.1
Mar-13	1.5	1.7	2.8	-0.9
Jun-13	1.8	1.6	2.9	0.2
Sep-13	1.2	1.1	2.7	1.1

Source: Bloomberg.

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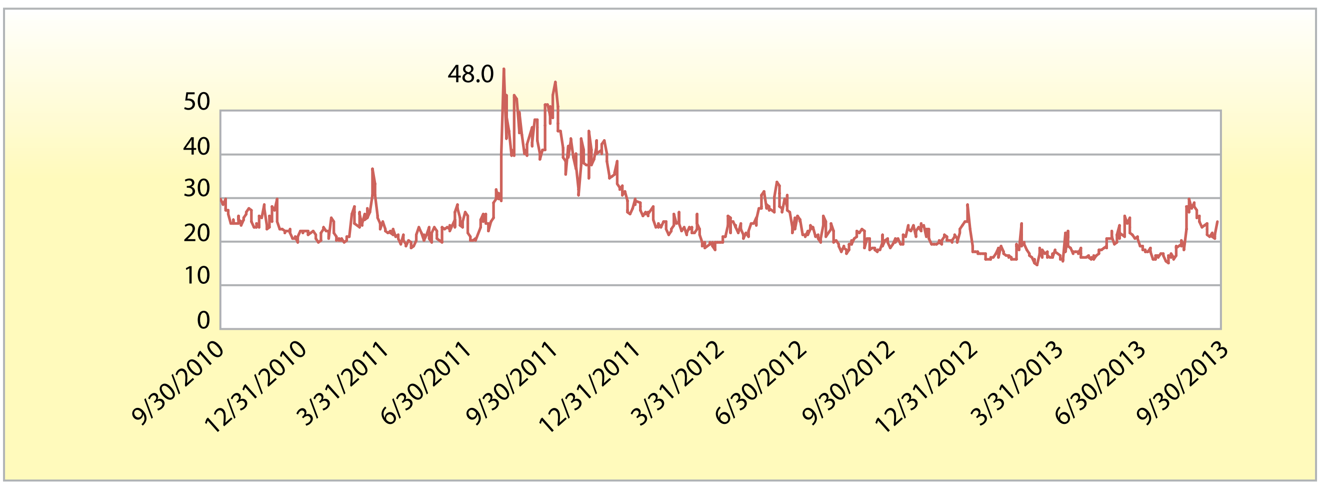
Financial Market Review

The financial year ending 30th September, 2013 was particularly challenging time for fixed income investors as benchmark 10-year yields in many G-10 countries increased over the period. Positive economic data and the maintenance of accommodative monetary policies in the US, UK and Euro zone, spurred investor demand for riskier assets. As a consequence, fixed income asset classes experienced very low to negative returns throughout the year, while equity markets rallied to new highs. In the US, the Standard and Poor's (S&P) 500 index surpassed its pre-crisis level to reach new highs, while equity markets in other developed markets also posted strong returns. Japan was the best performing non-US developed market as the Nikkei 225 index advanced by 62.97 per cent from the previous year.

The Chicago Board Options Exchange Volatility Index (VIX), a widely used measure of market risk, often referred to as the "investor fear gauge", pointed to a decline in volatility in the US during the financial year, when compared to the previous year. Over the twelve month period ended 30th September 2013, the index averaged 15.28 points compared to the previous year's average of 21.19 points. The index peaked at 23.48, on August 30, 2013 (Chart 1 overleaf, refers). At that time, the possibility of a U.S.-led military strike on Syria, concerns around the Federal Reserve's plans to begin tapering its $85 billion a month bond buying program, and the budget and debt ceiling debates in Washington, all helped push the VIX to its highest level for the twelve month period.

Chart 1

VIX Index



(a) Money Market

Money market yields remained low over the financial year ended September 2013 as the central banks in the advanced economies maintained their accommodative monetary policy stance. The Federal Funds rate remained in the range 0 to 0.25 per cent for the twelve-month period, while short-term rates fluctuated somewhat during the year but generally trended downward. The US 3-month London Inter-Bank Offered Rate (LIBOR) declined to 0.25 per cent, from 0.36 per cent in September 2012, while the US 3-month Treasury bill rate

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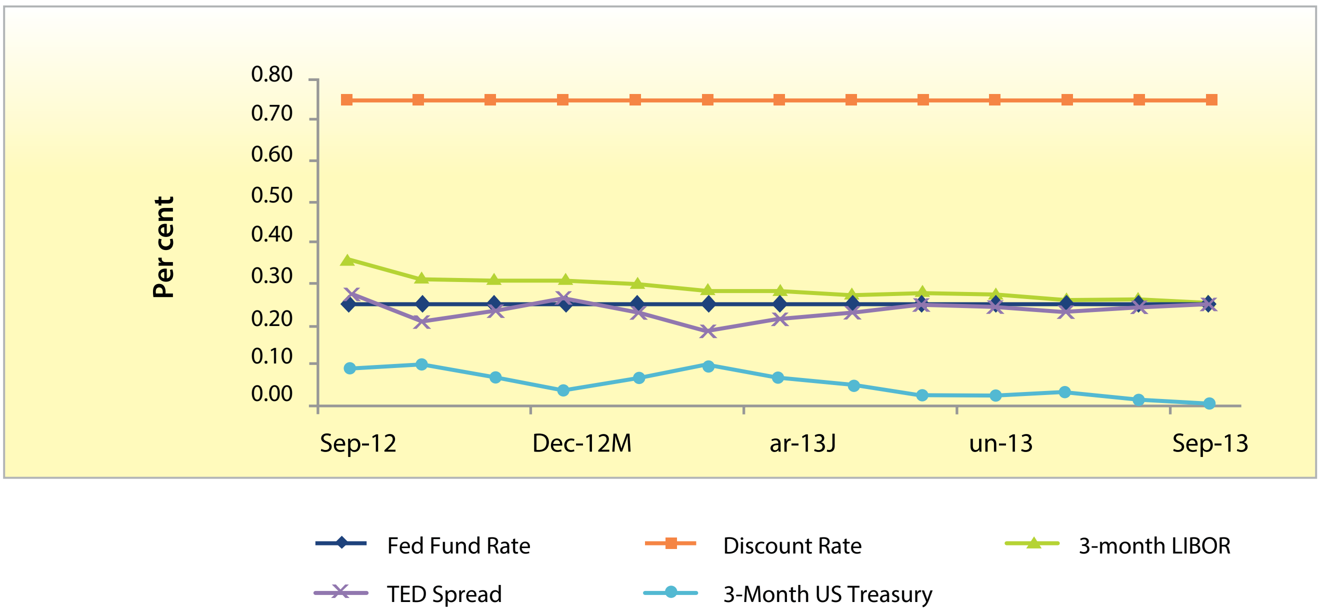
fell by 8.5 basis points to 0.005 per cent at the end of September 2013. Accordingly, the TED spread, which represents the difference between the 3-month US Treasury bill rate and the 3-month LIBOR rate, narrowed slightly to 24.4 basis points from 26.7 basis points over the financial year (Chart 2 overleaf, refers).

Chart 2

Selected Money Market Rates in the US per cent



(b) *Fixed Income Market*

Over the year, the US treasury curve steepened 77 basis points between the 2-year and the 30-year sectors. Though yields were slowly trending higher at the beginning of the financial year, the possibility of taper, which was first introduced in May 2013, pushed up rates considerably. Taper talk intensified over the summer months and treasury investors had to contend with significant volatility, as markets speculated when and by how much the Federal Reserve might reduce its asset purchases program.

The 30-year yield peaked in August but pulled back in September, mostly due to the surprise no taper announcement by the Fed, the fiscal gridlock in Washington, and Mr. Lawrence Summers' announcement to withdraw his name from consideration for the Fed Chairmanship. The next likely candidate, Ms. Janet Yellen, was officially nominated on October 9th 2013 and is widely expected to maintain the Fed's current easy monetary stance. Though the 30-year retreated from its August high, rates still managed to end the year up 86 basis points, closing at 3.68 per cent. Front-end yields (less than one year) declined, as the 3-month yield fell to 0.01 per cent from 0.09 per cent a year earlier. The short-end of the curve moved lower, partly due to Fed taper talk, which may have weighed on yields, as investors preferred to place their money in shorter-term instruments. Towards the latter part of the financial year, downward pressure on rates accelerated due to falling supply and debt-limit concerns.

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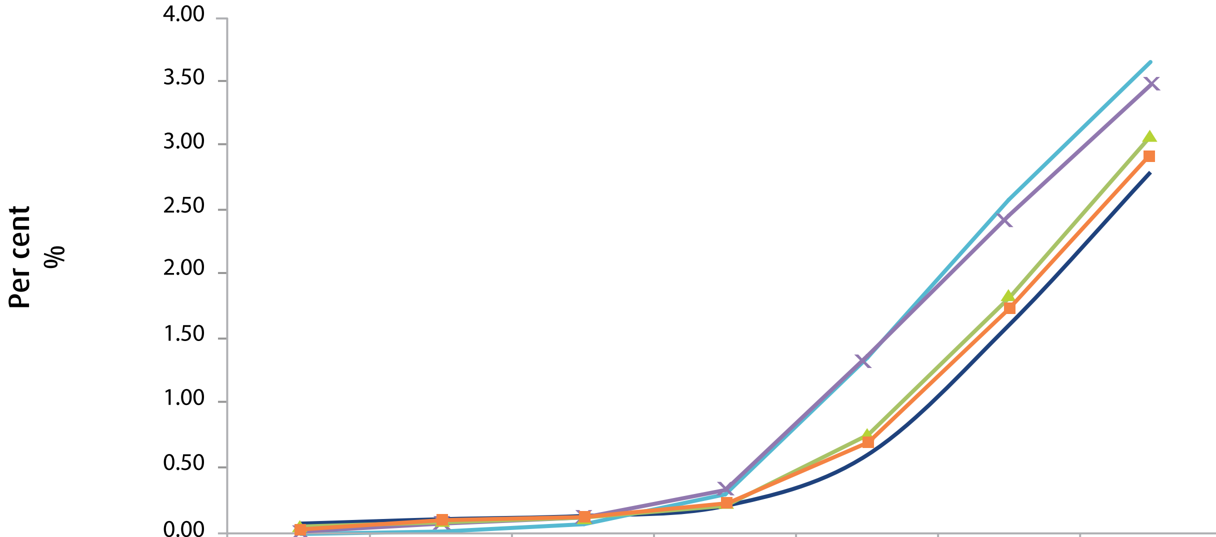
Chart 3

US Treasury Yield Curve



	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
September 30, 2012	0.09	0.13	0.15	0.23	0.63	1.63	2.82
December 31, 2012	0.04	0.11	0.14	0.25	0.72	1.76	2.95
March 31, 2013	0.07	0.10	0.12	0.24	0.77	1.85	3.10
June 30, 2013	0.03	0.09	0.14	0.36	1.39	2.49	3.50
September 30, 2013	0.01	0.03	0.09	0.32	1.38	2.61	3.68

The financial year 2012/2013 was a very tough year for fixed income markets in general, with most segments yielding negative returns. The broader US fixed income market, as represented by the Barclays US Aggregate Index[3], generated a total return of -1.68 per cent for the year ending September 30, 2013. Spread products generally outperformed similar-duration Treasuries with the top performing sector, Commercial Mortgage Backed Securities (CMBS), returning 0.91 per cent, compared with a gain of 11.71 per cent in the previous year. Stable to rising property prices and strong supply/demand dynamics aided the performance of the CMBS sector. The worst performing sectors for the financial year 2012/2013 were the US Treasury, US Corporate and US Agency sectors which yielded total returns of -2.09 per cent, -1.58 per cent and -1.30 per cent, respectively (Chart 4, refers).

[3] 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.

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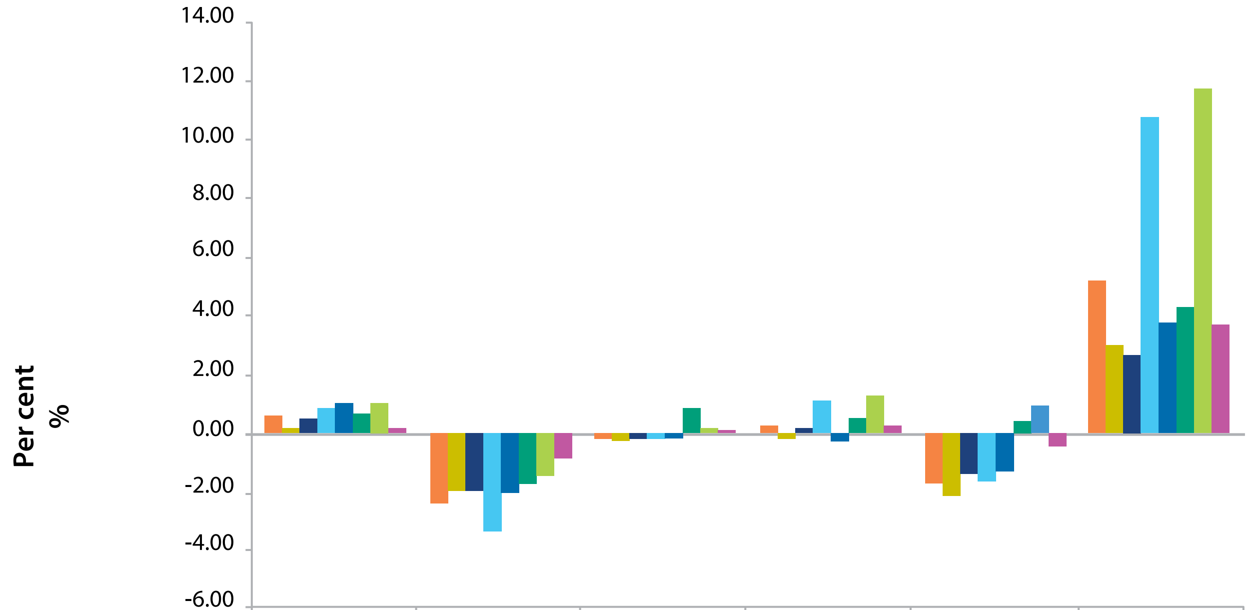
Chart 4

Returns on Fixed Income Indices



	QTR ended Sep-13	QTR ended June-13	QTR ended Mar-13	QTR ended Dec-12	FY 12/13	FY 11/12
Barclays U.S Aggregate	0.57	-2.32	-0.12	0.21	-1.68	5.16
U.S. Treasuries	0.10	-1.92	-0.19	-0.09	-2.09	2.99
U.S. Agencies	0.44	-1.91	-0.03	0.12	-1.30	2.60
U.S. Corporate	0.82	-3.31	-0.11	1.06	-1.58	-10.76
U.S. MBS	1.03	-1.96	-0.05	-0.20	-1.20	3.71
G-7 Global Bonds (Hedged)	0.69	-1.66	0.86	0.51	0.38	4.24
CMBS Index	1.02	-1.44	0.13	1.22	0.91	11.71
ABS Index	0.16	-0.80	0.05	0.22	-0.38	3.67

The performance of the sovereign bonds of other G7 countries was mixed over the year, as central-bank policies started to decouple given increasing signs of the IMF managing director, Christine Lagarde's three-speed world. The yield on the benchmark UK Gilt rose by 99 basis points to 2.72 per cent, with gains in manufacturing, construction and services indicating that the UK economic recovery was gaining momentum. The yield on the benchmark German bund rose by 34 basis points to 1.78 per cent, as stronger economic data out of the euro zone prompted investors to move out of safe haven assets. In addition, yields on Italian bonds fell by 66 basis points over the period, helped in part by the formation of a new government. Meanwhile, yields on Japanese bonds moved lower by 9 basis points over the period, as the Bank of Japan (BOJ) promised to maintain its pledge to purchase some $70 billion JGB bonds every month.

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(c) Equity Market

Global equity markets posted yet another strong performance over the financial year ended September 2013. On-going monetary stimulus measures by the major Central Banks, particularly the Bank of Japan, fuelled investor optimism and appetite for risk.

The highest returns were observed in Japan, where the equity market was boosted by Prime Minister Shinzo Abe's pledge to end deflation, the Bank of Japan's stimulus policies, and the country's successful bid for the 2020 Olympic Summer Games.

In addition, a sharp decline in value of the yen, vis-à-vis the US dollar, benefitted Japanese stocks as this movement led to increased exports.

During the first quarter of the financial year, US equity markets experienced negative returns. Risk appetites were somewhat dampened by the presidential election, concerns about the likely impact of the "fiscal cliff" and disappointing corporate revenue reports. Investor sentiment improved during the second quarter following the dissipation of the US fiscal cliff concerns. Additionally, continued improvements in the US labour, housing and manufacturing sectors, better than expected corporate earnings and generally positive economic data supported the positive outturn in the equity market. However, by the end of June 2013, some of the gains were eroded due to market speculation regarding the continuation of the Fed's asset purchase program as well as evidence of a slowdown in China.

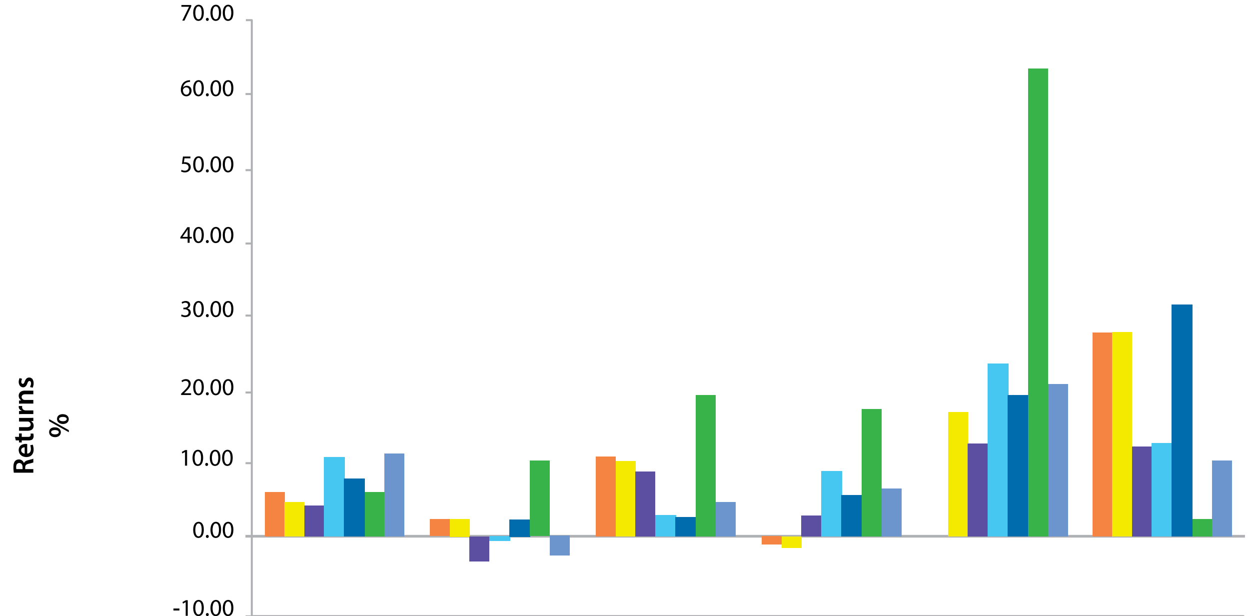
In the final quarter of the financial year, equity market returns fluctuated as investors tried to discern the amount and timing of a Fed taper. The Fed's ultimate decision to maintain its bond purchase program coupled with positive economic data in the UK and Euro zone helped to lift markets.

For the twelve month period, the Standard and Poor's (S&P) 500 and Russell 3000 Indices increased by 16.7 per cent and 19.1 per cent, respectively, compared with gains of 27.3 per cent and 27.5 per cent, respectively for the corresponding period one year earlier. Japan's Nikkei 225 rose 62.97 per cent, outperforming all other markets during the period. In the Euro zone, the French CAC index advanced 23.5 per cent, whilst Germany's DAX 30 index returned 19.1 per cent. (Chart 5, refers).

Investment Report

Chart 5

Returns on Fixed Income Indices



	QTR ended Sep-13	QTR ended June-13	QTR ended Mar-13	QTR ended Dec-12	FY 12/13	FY 11/12
Russell 3000	5.83	2.17	10.53	-0.34	19.11	27.53
S&P 500	4.69	2.36	10.03	-1.01	16.72	27.33
FTSE 100 - UK	3.97	-3.06	8.71	2.71	12.54	11.96
CAC 40 - France	10.82	0.20	2.48	8.53	23.51	12.50
DAX 30 - Germany	7.98	2.10	2.40	5.49	19.10	31.15
Nikkei 225 - Japan	5.69	10.32	19.27	17.19	62.97	1.95
MSCI EAFE	10.94	-2.11	4.38	6.17	20.35	10.01

(d) Currency Market

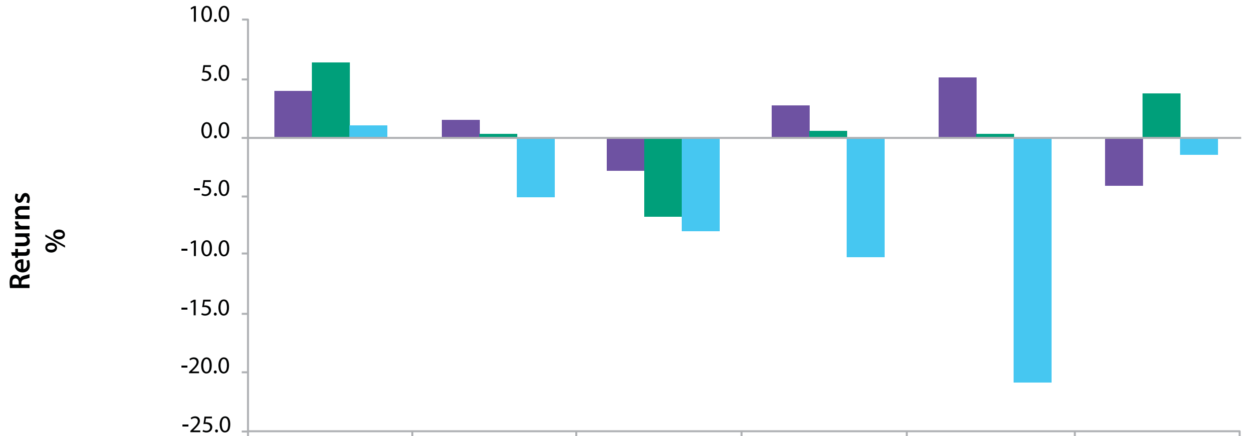
At the start of 2013, the US dollar index strengthened due to positive US economic data, which reflected improving growth prospects when compared to Europe and the UK. The prospect of the Federal Reserve tapering was introduced in May and pushed the US dollar higher, while adding volatility to the market. The US dollar index peaked at 84.75 in July, before trending lower, closing the fiscal year at 80.22 compared to 79.93 a year earlier. The USD depreciated during the last quarter of the fiscal year due to relatively better economic news in the UK and the euro zone, the increased likelihood of rates being lower for longer and the fiscal impasse in Washington.

Over the 2012/2013 financial year, the Japanese Yen was the worst performing G10 currency. Japan's new leadership in the government and central bank resulted in co-ordinated accommodative efforts on the fiscal and monetary front. The Yen depreciated by 20.67 per cent vis-à-vis the US dollar over the year, as fiscal stimulus coupled with the BOJ's pledged to double the monetary base to 270 trillion yen by the end of 2014 placed downward pressure on the Yen.

Investment Report

Chart 6

Foreign Exchange Returns:
Major Currencies vis-à-vis the US Dollar



	QTR ended Sept-13	QTR ended Jun-13	QTR ended Mar-13	QTR ended Dec-12	FY 12/13	FY 11/12
EUR	3.97%	1.49%	-2.83%	2.59%	5.19%	-3.94%
GBP	6.40%	0.10%	-6.50%	0.54%	0.12%	3.74%
JPY	0.89%	-4.96%	-7.93%	-10,13%	-20.67%	-1.15%

Investment Report

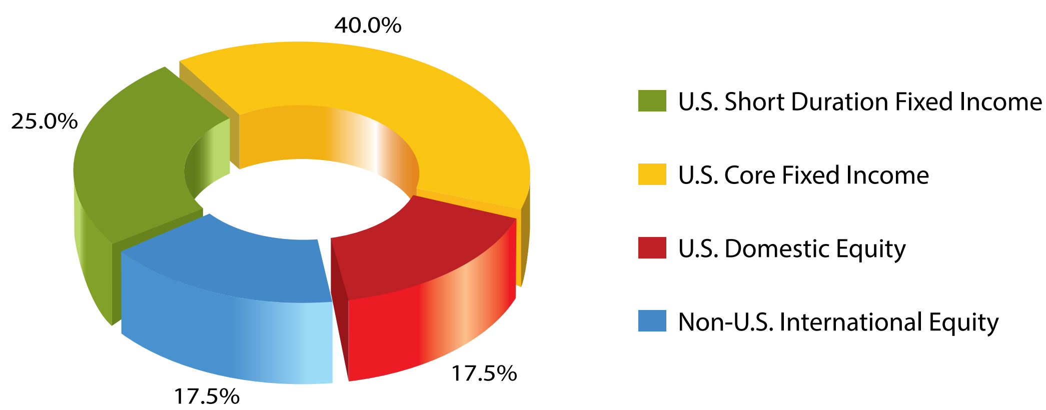
Strategic Asset Allocation

a) Portfolio Desired Allocation

In 2008, the Board of Governors approved the Strategic Asset Allocation (SAA) for the Fund. Given the onset of the financial crisis, the three-year implementation of the SAA was delayed until August 2009. By January 2011, the Fund's investment portfolio was fully invested in the four major asset classes shown in Chart 7 below.

Chart 7

The Fund's Strategic Asset Allocation



b) Portfolio Composition

During the financial year ended September 2013, the asset classes of the Fund deviated from their Strategic Asset Allocation (SAA)[2] but these deviations were within the allowable range. Such deviations occurred as a result of changes in assets' market values. Throughout the financial year, the Fund had an overweight allocation to US Core Domestic Equities and Non-US Core International Equities. As at September 30, 2013, these overweight positions were 3.57 per cent and 2.67 per cent respectively. Conversely, the fixed income asset classes carried allocations below their target weights throughout the year. The Fund's SAA and the portfolio composition over the 2012/2013 financial year are shown overleaf (Table 3, refers).

[2]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.
[3]Section 4 of the HSF Operational and Investment Policy states that the Central Bank may hold cash and cash equivalent in order to cover day-to-day liquidity needs and the remaining portion called the Investment Portfolio would be invested in accordance with the strategic asset allocation (SAA) approved by the Board.

Investment Report

Table 3

PORTFOLIO COMPOSITION RELATIVE TO THE APPROVED SAA

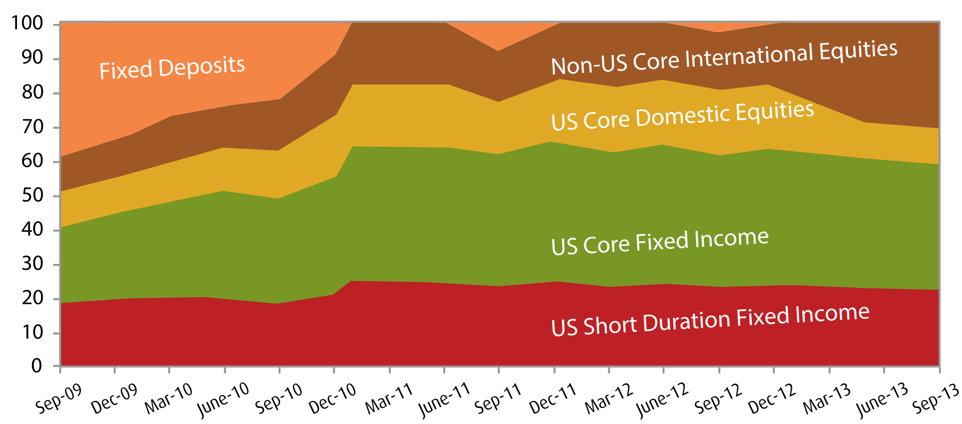
/PER CENT/

	ASSET CLASS		Sep-12	Dec-12	Mar-13	Jun-13	Sep-13
		Target Weight SAA	Actual % of Fund	Actual % of Fund	Actual % of Fund	Actual % of Fund	Actual % of Fund
PORTFOLIO WEIGHTS	Cash	0.00	2.37*	0.00	0.00	0.00	0.00
	US Short Duration Fixed Income	25.00	23.46	24.09	23.38	23.30	22.61
	US Core Domestic Fixed Income	40.00	38.13	39.14	37.92	37.11	36.15
	US Core Domestic Equity	17.50	18.82	18.57	19.86	20.64	21.07
	Non-US Core International Equity	17.50	17.22	18.20	18.84	18.95	20.17

*This cash represents the contribution made by the Government on September 28, 2012.

Chart 8

Asset Composition of the HSF Portfolio
per cent



c) Fund Value

As at September 30 2013, the Fund's Net Asset Value stood at US$5,154.0 million, compared with US$4,712.4 million as at the end of September 2012. The increase in the value of the Fund reflected positive investment returns and a contribution of US$42.5 million made by the Government in July 2013.

Investment Report

PORTFOLIO PERFORMANCE

Over the financial year ended September 2013, the Fund's investment portfolio gained 8.6 per cent, compared with returns of 7.3 per cent for the SAA benchmark. The strong performance of equity markets, particularly Non US Core International equities, was the main driver of the overall portfolio return. The fixed income portion, however, detracted a modest 0.4 per cent from the overall portfolio performance.

Table 4

CONTRIBUTION TO ANNUAL RETURN FY 2012/2013

/PER CENT/

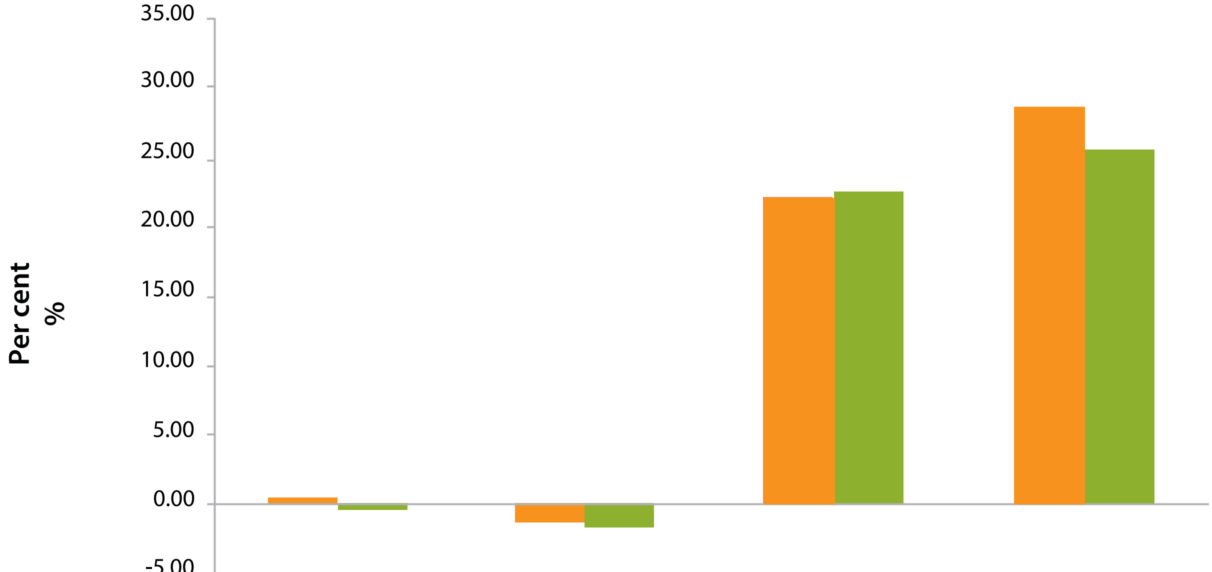
	Percentage of Portfolio as at September 30 2013	Portfolio Weighted Return	Benchmark Weighted Return
COMPOSITE PORTFOLIO	100.00	8.63	7.26
FIXED INCOME:			
US Short Duration Fixed Income	22.61	0.01	-0.01
US Core Fixed Income	36.15	-0.43	-0.66
EQUITY:			
US Core Domestic Equity	21.07	4.09	3.70
Non US Core International Equity	20.17	4.87	4.19

**Portfolio and Benchmark returns may not sum to the Composite Return as they are geometrically-linked.

Investment Report

Chart 9

Absolute Returns by Asset Class
per cent



	US Short Duration	US Core Fixed Income	US Core Domestic Equities	Non US Core International Equities
Composite Portfolio Return	0.02	-1.19	22.22	28.63
SAA Benchmark Return	-0.05	-1.67	22.49	25.53

The Equity portion of the Fund posted yet another strong performance over the financial year ended September 2013 as ongoing monetary stimulus measures by the major central banks fuelled investor optimism and appetite for risk. Both the US and Non-US equity portfolios generated double-digit returns. As at September 30, 2013, the net asset value of the equity holdings were US$2,124.7 million, compared with a value of US$1,697.6 million one year earlier.

The US Core Domestic Equity portfolio gained 22.2 per cent, compared with a return of 22.5 per cent for its benchmark, the Russell 3000 ex Energy Index.

This underperformance of the portfolio relative to its benchmark was as a result of stock selection decisions. The greatest detractors from performance came from stock selection within the financials, consumer discretionary and materials sectors. The losses made on these selections did not compensate for the positive contribution from other stock selection decisions. Additionally, the managers' allocation to the materials and telecommunication services sectors also detracted from performance.

The other equity mandate, the Non-US International Equity portfolio, returned 28.6 per cent to outperform, the MSCI EAFE ex Energy Index by 3.1 per cent. Excess returns can mainly be attributed to

Investment Report

favourable security selection decisions within countries such as Finland, U.K. Australia and Japan and within industries such as materials and industrials. The managers' currency selections also added to excess returns over the period.

The Fixed Income portion of the Fund posted negative returns over the financial year as US Treasury yields between the 2-year and 30-year segment of the curve increased. While the prices of US Treasury securities declined over the period, exposure to spread products and the corporate bond sector proved beneficial for the sub-portfolios. As at the end of September 2013, the net asset value of the two fixed income mandates totaled US$3,027.4 million, up from US$2,900.8 million one year earlier. This increase in value reflected in part, the transfer of US$40.6 million to this mandate during the financial year.

The US Short Duration Fixed Income mandate returned 0.02 per cent, compared with a loss of 0.05 per cent for its benchmark, the Bank of America Merrill Lynch 1- 5 year US Treasury Index. The slightly better performance of the portfolio relative to its benchmark was attributed to its exposure to foreign government securities whose spreads, relative to US Treasuries, tightened over the financial year

The other fixed income mandate, the US Core Domestic Fixed Income portfolio, lost 1.2 per cent over the financial year ended September 2013. This compares with a loss of 1.7 per cent for its benchmark, the Barclays Capital US Aggregate Bond Index.

The portfolio's overweight exposure to the commercial mortgage backed securities and corporate bonds were the primary contributors to excess returns.

The Fund received a cash contribution by the Government on July 26, 2013 of US$42.5 million. The cash balance held to meet the day-to-day expenses arising from the management of the Fund, amounted to US$1.9 million as at September 30, 2013.

Portfolio Risks

The main risks for the HSF portfolio are Credit, Concentration, Interest rate, and Currency risks. Below indicates how these risks are mitigated.

(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 5.0 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. Over the financial year, the average credit quality was "AA+" and "AA-" for the US Short Duration and US Core Fixed Income Portfolios, respectively.

(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. The Asset classes in which

Investment Report

the Fund invests react differently under a given market condition.

As such, it is likely that 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. In addition, Concentration Risk is minimised within asset groups. For the equity portfolios, this Risk is managed by imposing a maximum percentage holding of 3.0 per cent of any security's outstanding shares, as well as a maximum sector deviation relative to the benchmark of 5.0 per cent.

(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 benchmarks. Table 5 shows the weighted average duration for the US Short Duration and US Core Domestic Fixed Income portfolios as at September 30, 2013.

Table 5

WEIGHTED AVERAGE DURATION

/Years/

Mandate	Portfolio	Benchmark
US Short Duration	2.69	2.64
US Core Domestic Fixed Income	5.40	5.30

(d) Currency Risk

Currency risk is managed by containing and managing the exposure to non-US dollar instruments. The Fund is invested in twelve currencies in addition to the US dollar. These currencies include the Euro, Japanese Yen, Pound Sterling, Australian dollar, Swiss Franc 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 which are 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. For this mandate, currency hedging is permitted up to 15 per cent of the market value of the portfolio using the US dollar as the base currency.

Investment Report

Table 6

IMPLIED CURRENCY EXPOSURE

CURRENCY	Per Cent
US DOLLAR	82.46
EURO CURRENCY	5.37
POUND STERLING	4.67
JAPANESE YEN	2.52
SWISS FRANC	1.82
AUSTRALIAN DOLLAR	1.06
HONG KONG DOLLAR	0.91
SWEDISH KRONA	0.70
DANISH KRONE	0.22
SINGAPORE DOLLAR	0.12
NEW ZEALAND DOLLAR	0.06
ISRAELI SHEKEL	0.06
NORWEGIAN KRONE	0.02
COMPOSITE TOTAL	**100.00**

APPENDICES

Appendices

Appendix I

Heritage and Stabilisation Fund
Financial Year Portfolio Valuation

/USD/

Valuation Date	Net Asset Value	Financial Year Income	Accumulated Surplus & Unrealized Capital Gains/Losses	Contributions
September 30, 2007	1,766,200,701	42,217,837	41,966,361	321,706,043
September 30, 2008	2,888,421,556	67,894,134	110,379,131	1,054,174,457
September 30, 2009	2,964,686,478	35,807,757	186,755,766	-
September 30, 2010	3,621,984,041	88,381,935	364,361,226	477,344,263
September 30, 2011	4,084,016,158	179,748,798	374,074,067	451,400,519
September 30, 2012	4,712,376,278	125,221,977	794,770,772	207,550,846
September 30, 2013	5,154,027,747	312,776,304	1,193,778,722	42,519,782

Appendices

Appendix II

HSF Portfolio
Historical Performance Since Inception

Financial Year End	Financial Year Return			Annualised Return Since Inception		
	Portfolio %	Benchmark %	Excess bps	Portfolio %	Benchmark %	Excess bps
September 2007*	2.97	2.95	1.89	5.48	5.44	3.50
September 2008	3.62	3.50	12.12	4.34	4.25	9.37
September 2009	2.80	3.18	-37.81	3.81	3.91	-10.01
September 2010	6.07	5.75	31.93	4.61	4.59	2.29
September 2011	0.79	1.14	-34.89	3.80	3.87	-7.13
September 2012	10.73	10.18	55.01	5.38	5.33	5.20
September 2013	**8.63**	**7.26**	**137.06**	**5.40**	**5.16**	**24.01**

Note: * These returns are for the period March 2007 to September 2007.

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

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

(3) In January 2011, the HSF Portfolio achieved its Strategic Asset Allocation where the portfolio was invested in four assets classes. US Short Duration Fixed Income (25%), US Core Fixed Income (40%), US Equity (17.5%) and Non-US International Equity (17.5%).

REPORT OF THE AUDITOR GENERAL

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

30 September, 2013

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 30 SEPTEMBER 2013

The accompanying Financial Statements of the Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago (the Fund) for the year ended 30 September 2013 have been audited. The Statements comprise a Statement of Financial Position as at 30 September 2013, a Statement of Comprehensive Income, a Statement of Changes in Equity and a Statement of Cash Flows for the year ended 30 September 2013 and Notes to the Financial Statements numbered 1 to 11.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 International Standards on Auditing. 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.

5. It is my view that the audit evidence obtained is sufficient and appropriate to provide a basis for the audit opinion.

OPINION

6. In my opinion, the Financial Statements present fairly, in all material respects, the financial position of the Heritage and Stabilisation Fund as at 30 September 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

EMPHASIS OF MATTER

7.1 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 30 September 2008. 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.'

7.2 It was seen that action is being taken with respect to this matter.

REPUBLIC OF TRINIDAD AND TOBAGO
28 NOV 2013
AUDITOR GENERAL

SHARMAN OTTLEY
AUDITOR GENERAL

28th November 2013

HERITAGE AND STABILISATION FUND OF THE REPUBLIC OF TRINIDAD AND TOBAGO

FINANCIAL STATEMENTS
for the year ended 30 September 2013

Statement of Financial Position
as at 30 September 2013
(Expressed in United States Dollars)

	Notes	Sep-13 $	Sep-12 $
ASSETS			
Current assets			
Cash and cash equivalents	4	167,772,022	309,586,644
Investments	5	5,055,388,239	4,495,884,008
Accounts receivable and prepayments	6	232,120,115	770,000,462
TOTAL ASSETS		**5,455,280,376**	**5,575,471,114**
LIABILITIES			
Current liabilities			
Accounts payable	7	304,627,587	866,346,057
TOTAL LIABILITIES		**304,627,587**	**866,346,057**
NET ASSETS		**5,150,652,789**	**4,709,125,057**
PUBLIC EQUITY			
Contributed capital		3,956,874,067	3,914,354,285
Available-for-sale financial assets revaluation reserve		346,823,778	260,592,132
Accumulated surplus		846,954,944	534,178,640
TOTAL EQUITY		**5,150,652,789**	**4,709,125,057**

AVYANN FERGUSON
(Chairperson)

JWALA RAMBARRAN

RAMCHARAN KALICHARAN

ANUSHKA ALCAZAR

REPUBLIC OF TRINIDAD AND TOBAGO
28 NOV 2013
AUDITOR GENERAL

ALISON LEWIS

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 2013
(Expressed in United States Dollars)

	Note	Sep-13 $	Sep-12 $
Income			
Investment income	8	123,303,488	112,797,578
Investment expenses		(25,844,743)	(22,094,419)
Gain on sale of investments		392,826,716	215,593,411
Loss on sale of investments		(173,738,877)	(178,083,269)
Income from investments		**316,546,584**	**128,213,301**
Other income		146,741	244,116
Total income		**316,693,325**	**128,457,417**
Operating expenses			
Management fees		1,476,467	1,312,389
Subscription fees		13,770	13,770
Audit fees		8,742	8,210
Licence fees		12,257	4,000
Total operating expenses		**1,511,236**	**1,338,369**
Net profit for the year before tax		**315,182,089**	**127,119,048**
Withholding tax expense		2,405,785	1,897,071
Net profit for the year after tax		**312,776,304**	**125,221,977**
Other comprehensive income:			
Available-for-sale financial assets			
- Unrealised gain from fair value changes		86,231,646	295,471,728
Other comprehensive income for the year		**86,231,646**	**295,471,728**
Total comprehensive income for the year		**399,007,950**	**420,693,705**

The accompanying notes form an integral part of these financial statements

Statement of Changes in Equity
for the year ended 30 September 2013
(Expressed in United States Dollars)

	Contributed Capital	Available-for-Sale Financial Assets Revaluation Reserve	Accumulated Surplus	Total
	$	$	$	$
Balance as at 1 October 2011	**3,706,803,439**	**(34,879,596)**	**408,956,663**	**4,080,880,506**
Contributions from Government for the year	207,550,846	-	-	**207,550,846**
Total comprehensive income for the year	-	295,471,728	125,221,977	**420,693,705**
Balance as at 30 September 2012	**3,914,354,285**	**260,592,132**	**534,178,640**	**4,709,125,057**
Balance as at 1 October 2012	**3,914,354,285**	**260,592,132**	**534,178,640**	**4,709,125,057**
Contributions from Government for the year	42,519,782	-	-	**42,519,782**
Total comprehensive income for the year	-	86,231,646	312,776,304	**399,007,950**
Balance as at 30 September 2013	**3,956,874,067**	**346,823,778**	**846,954,944**	**5,150,652,789**

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 2013
(Expressed in United States Dollars)

	Note	Sep-13	Sep-12
		$	$
Cash flows from operating activities			
Net profit for the year		312,776,304	125,221,977
Adjustments			
Interest income		(69,935,444)	(65,971,103)
Dividend income		(53,368,044)	(46,826,475)
Net realised gain from the sale of investments		(219,087,839)	(37,510,142)
Cash outflows before changes in operating assets and liabilities		**(29,615,023)**	**(25,085,743)**
Changes in operating assets and liabilities			
Decrease/(increase) in accounts receivable		536,865,845	(449,624,423)
(Decrease)/increase in accounts payable		(561,718,470)	398,020,601
Net cash flows used in operating activities		**(54,467,648)**	**(76,689,565)**
Cash flows from investing activities			
Interest received		70,305,868	63,943,873
Dividend received		54,012,122	45,509,555
Purchase of investments		(473,288,214)	(545,768,621)
Proceeds from sale of investments		219,034,178	35,752,150
Net cash used in investing activities		**(129,936,046)**	**(400,563,043)**
Cash flows from financing activities			
Contributed capital		42,519,782	207,550,846
Net cash flows from financing activities		**42,519,782**	**207,550,846**
Effects of exchange rate changes on cash and cash equivalents		**69,290**	**44,221**
Net decrease in cash and cash equivalents		(141,814,622)	(269,657,541)
Cash and cash equivalents, beginning of year		309,586,644	579,244,185
Cash and cash equivalents, end of year	4	**167,772,022**	**309,586,644**

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 in accordance with International Financial Reporting Standards and the Act. The Financial Statements have been prepared under the Historical Cost Convention as modified by the revaluation of available-for-sale financial assets.

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 date of the financial statements.

Cash balances held are swept daily for investment purposes based on a projected cashflow. Consequently, there may be instances where the amounts retained on accounts following the sweep, may not be in line with actual cash flows required to execute business transactions for settlement on these accounts resulting in temporary overdrawn cash balances.

c) *Foreign currency translation*

i. *Functional and presentation currency*

The financial statements are presented in United States Dollars which is the Fund's functional and presentation currency.

ii. *Transactions and balances*

The Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the Statement of Financial Position date. Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income.

d) *Investments*

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

Available-for-sale financial assets

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.

2. Accounting Policies (continued)

d) *Investments (continued)*

Available-for-sale financial assets (continued)

i. ***Measurement***

Available-for-sale financial assets are initially recognised at fair value, (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 Equity in the Available-for-sale financial assets revaluation reserve.

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.

Fair value through profit or loss

Financial assets at fair value through profit or loss may only be made if the financial asset either contains an embedded derivative or will be managed on a fair value basis in accordance with a documented risk management strategy, or if designating it (and any financial liability) at fair value will reduce an accounting mismatch.

Derivatives are initially recognised in the Statement of Financial Position at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, or valuation techniques, as appropriate. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received).

2. Accounting Policies (continued)

d) Investments (continued)

Fair value through profit or loss (continued)

A derivative is a financial instrument or other contract within the scope of IAS 39 with all three of the following characteristics:

i. its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');

ii. it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

iii. it is settled at a future date.

e) Collateral

The Margin used for futures contracts can be in the form of either cash or securities held at a Broker. For all balances held at a Broker where collateralised securities and/or swap cash collateral are used, these are reported as either a receivable or payable.

f) Premium/Discount

A premium arises when a bond or treasury bill price is higher than its par value. This occurs when the interest rate on the security is higher than the prevailing rates in the market, thus making the bond or treasury bill worth more than a security paying the prevailing 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 coupon rates 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/discount is netted off against Investments on the Statement of Financial Position.

2. Accounting Policies (continued)

g) *Income and Dividends*

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.

Interest income is accounted for on the accruals basis.

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

h) *Expenses*

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

i) *Taxation*

The Fund is a public account and by Section 17 of the Act the income is exempt from any tax. The Fund currently incurs withholding taxes attributable to investment income from foreign sources. Such income is recognised on a gross basis stated at the expected realisable value, in the Statement of Comprehensive Income. Withholding taxes are shown as a separate item in the Statement of Comprehensive Income.

j) *Accounts receivable*

Accounts receivable are stated at their expected realisable value.

k) *Accounts payable*

Accounts payable are stated at their expected amounts.

l) *Comparative information*

When necessary, comparative data has been adjusted to conform with changes in presentation in the current year.

m) *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.

(Expressed in United States Dollars)

2. Accounting Policies (continued)

m) Statement of cash flows (continued)

- **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.

n) 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.

Capital contributions received under the requirements of the Act are treated as additions to Equity.

3. Financial Risk Management

a) Portfolio Performance

The portfolio performance for the twelve months ended 30 September 2013 was as follows:

12 Months Performance			
Portfolio	**Fund**	**Benchmark Return**	**Benchmark Composition**
Composite	8.63%	7.26%	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)
US Short Duration Fixed Income Portfolio	0.01%	-0.01%	Merrill Lynch US Government Treasury 1-5 Years Index
US Core Fixed Income	-0.43%	-0.66%	Barclays Capital US Aggregate Bond Index
US Core Domestic Equity	4.09%	3.70%	Russell 3000 (Ex Energy)
Non US Core International Equity	4.87%	4.19%	MSCI EAFE (Ex Energy)

3. Financial Risk Management (continued)

b) Portfolio Risk

The Fund's activities expose it to a variety of financial risks: credit risk, concentration risk, market risk (currency risk, interest rate risk and price risk), and liquidity risk. The Fund is also exposed to operational 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.

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, 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, with the base currency being the US Dollar.

3. Financial Risk Management (continued)

b) Portfolio Risk (continued)

Market Risk (continued)

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 on the respective portfolios, with an allowable range of one (1) year longer or shorter than the weighted average duration of the respective Benchmark.

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 and in accordance with the Act.

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 Dollars)

4. Cash and cash equivalents

	Sep-13	Sep-12
	$	$
Cash at bank	5,349,171	122,334,770
Cash at broker	1,924,813	-
US Government Money Market	160,482,227	187,305,353
	167,756,211	**309,640,123**
Net effect of exchange rate changes	15,811	(53,479)
	167,772,022	**309,586,644**

5. Investments

	Sep-13	Sep-12
	$	$
Available-for-sale financial assets		
Cost/Amortised Cost	4,707,565,284	4,234,402,982
Net Appreciation	347,822,955	261,481,026
	5,055,388,239	**4,495,884,008**
Represented by:		
Fixed income investments		
Amortised Cost	2,951,029,582	2,760,107,365
Net Appreciation in Market Value	14,879,484	78,876,081
	2,965,909,066	**2,838,983,446**
Equity		
Cost	1,756,535,702	1,474,295,617
Net Appreciation in Market Value	332,943,471	182,604,945
	2,089,479,173	**1,656,900,562**
Total	**5,055,388,239**	**4,495,884,008**

(Expressed in United States Dollars)

6. Accounts receivable and prepayments

	Sep-13 $	Sep-12 $
Trade Receivables	209,237,070	745,050,109
Interest Receivable	13,225,320	13,595,744
Dividends Receivable	4,438,005	5,082,083
Other Receivables	5,219,720	6,272,526
	232,120,115	**770,000,462**

Accounts receivable at 30 September 2013 include Pending Trades – Investments and Foreign Currency Sold in the amounts of USD148,569,979 and USD60,667,091 respectively which will subsequently be settled during the month of October 2013.

7. Accounts payable

	Sep-13 $	Sep-12 $
Pending Trades	297,126,608	862,445,595
Accruals	3,381,132	3,256,644
Other Payables	4,119,847	643,818
	304,627,587	**866,346,057**

As at 30 September 2013 there were Pending Trades – Investments and Foreign Currency Purchased of USD235,363,226 and USD61,763,382 respectively. Subsequent settlement will occur during the month of October 2013.

8. Investment income

	Sep-13 $	Sep-12 $
Interest Income		
Cash at bank	833	2,490
Fixed deposits	-	4,507
Available-for-sale financial assets	68,173,704	64,197,912
Amortisation of bond discount	1,762,580	1,763,562
Short term securities	(1,673)	2,632
	69,935,444	**65,971,103**
Dividend income	53,368,044	46,826,475
Total	**123,303,488**	**112,797,578**

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 (n)). During the current year ended 30 September 2013 capital contributions of USD42,519,782 were received.

Graphic Design/Layout:	Design Workshop
Photography:	Apoesho Mutope
Printing:	Caribbean Print Technologies Ltd.
Photos Courtesy:	BG Trinidad and Tobago
	BHP Billiton Trinidad and Tobago
	BP Trinidad and Tobago
	Methanex Methanol Company Limited Trinidad
	Natural Gas Company (NGC)
	Petroleum Company of Trinidad and Tobago (PETROTRIN)

A PUBLICATION OF
THE BOARD OF GOVERNORS OF
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