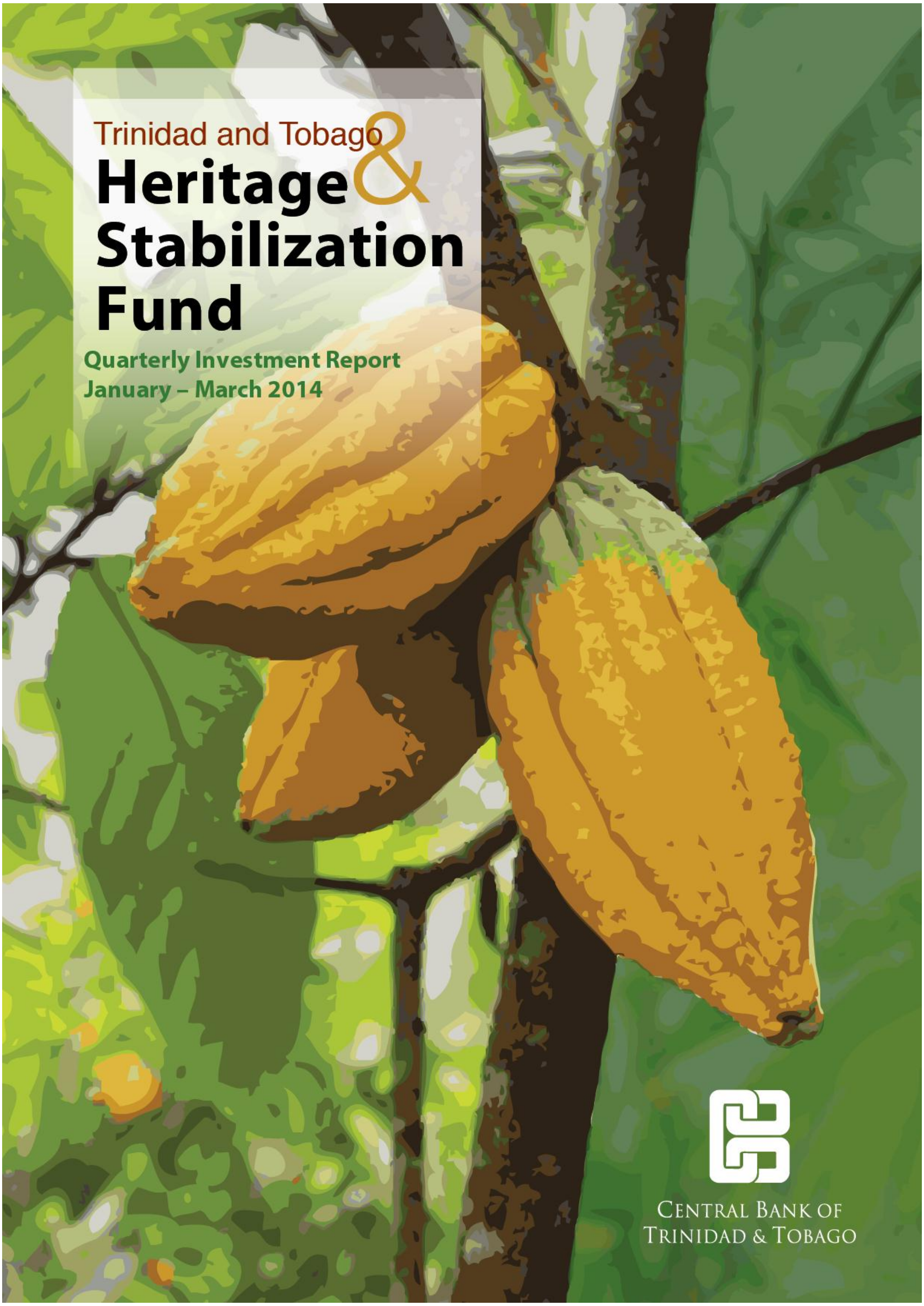
Trinidad and Tobago

Heritage & Stabilization Fund

Quarterly Investment Report
January – March 2014



Central Bank of
Trinidad & Tobago

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EXECUTIVE SUMMARY

The global economy exhibited continued growth during the first quarter of 2014 despite geopolitical tensions between Russia and the Ukraine and volatility in emerging currency markets. Indicators point to strengthening growth in the developed markets while inflation is expected to remain subdued.

The **United States (US)** economy appears to have rebounded somewhat in the first three months of 2014 despite an unusually cold winter. Accordingly, there were improvements recorded in the data for both retail sales and industrial production during the month of March, with the former registering a growth rate of 2.6 per cent [Year-over-Year (YoY)] in March up from 1.2 per cent (YoY) in February. Industrial production improved by 3.0 per cent (YoY) in February. Additionally during the month of March, job creation exceeded initial estimates thus providing an added boost to the economy.

On the policy front, the Federal Open Market Committee (FOMC) in March voted to further reduce the pace of its monthly asset purchases citing the general improvement in economic prospects in addition to revising its forward guidance communication, opting for a more qualitative approach so as to decouple unemployment and inflation thresholds from perception of monetary tightening.

The **Euro zone** economic recovery gained momentum in the fourth quarter of 2013 when the economy grew by 0.5 per cent quarter over quarter, thus signaling the end of the recession. Data for the first quarter of 2014 also served to reinforce the positive growth expectations for the Euro Zone. The Purchasing Managers' Index (PMI) trended upwards for the quarter, despite moderating slightly in March. The economic sentiment indicator (ESI), also improved in March, pushing the average for the quarter higher than that recorded in the last quarter of 2013. Inflationary pressures eased further during the quarter as the consumer price index slowed to 0.5 per cent growth in March from 0.8 per cent in December thus bringing into focus the prospect of deflation.

The economy of the **United Kingdom (UK)** continued to exhibit strong growth trends during the quarter. Both the consumer confidence and the business survey indicators improved and remained at elevated levels during the period. Industrial production expanded in both February and March by 2.7 per cent and 2.8 per cent respectively, reflective of the buoyancy of the domestic economy. Retail sales also continued its strong performance expanding by 4.2 per cent in February following January's growth of 4.4 per cent. In other developments, the Bank of England kept the policy rate at 0.5 per cent and the size of its asset purchase programme at £375 billion at its most recent meeting.

In **Japan**, GDP expanded by an annualised rate of 0.7 per cent in the fourth quarter of 2014, compared to 1.1 per cent in the third quarter. In the first quarter, however economic activity has been estimated to have improved. Data on industrial production showed an expansion of 10.3 per cent (YoY) in January and further growth of 6.9 per cent in February. The confidence index also points to a more positive outlook for the Japanese economy given the expected frontloading of demand in advance of the consumption tax increase in April. The Bank of Japan (BOJ) maintained its current monetary policy during the most recent meeting leaving its target for the monetary base unchanged.

In **equity markets**, geopolitical risks and emerging market currency devaluations depressed returns in January however a rebound occurred in February on stronger economic data and continued accommodative monetary policies by developed nation central banks. In the US, the Standard and Poor's (S&P) 500 index rose by 1.30 per cent for the quarter while other developed market equities, as measured by the MSCI EAFE index, was flat over the quarter.

Overall, **bond markets** had modestly positive returns during the first quarter of 2014. The broader US fixed income market rallied during the quarter, as ABS and CMBS securities outperformed like duration US Treasuries. Rates fell across the G-7 nations, most notably in Italy, where a more stable political environment supported lower yields.

The HSF investment portfolio returned 1.46 per cent for the quarter ended March 2014, compared with a return of 1.30 per cent for the Strategic Asset Allocation (SAA) benchmark. The Fund's exposure to equity and fixed income contributed positively to absolute returns. At the end of March 2014, the net asset value of the HSF was US$5,429.6 million, an increase from the US$5,354.7 million reported at the end of December 2013.

Contribution to Quarterly Return, For the period January 2014 – March 2014 /per cent/

	SAA Weights	Portfolio Weights as at 31-March-2014	Weighted Return HSF	Weighted Return Benchmark
Composite Portfolio	100.00	100.00	1.46	1.30
US Core Domestic Fixed Income	40.00	35.01	0.72	0.74
US Core Domestic Equity	17.50	22.56	0.39	0.37
Non US Core International Equity	17.50	20.90	0.28	0.14
US Short Duration Fixed Income	25.00	21.53	0.08	0.06

NB: Differences in totals are due to rounding.

Comparative Quarterly Returns For the Quarters ended September 2013 – March 2014 /per cent/

	3 Months Weighted Return as at 31-Mar-2014		3 Months Weighted Return as at 30-Dec-2013		3 Months Weighted Return as at 30-Sept-2013	
	HSF	Bench-mark	HSF	Bench-mark	HSF	Bench-mark
Composite Portfolio	1.46	1.30	3.95	2.66	3.95	3.47
US Core Domestic Fixed Income	0.72	0.74	0.02	-0.05	0.29	0.23
US Core Domestic Equity	0.39	0.37	2.29	1.76	1.36	1.12
Non US Core International Equity	0.28	0.14	1.61	0.98	2.21	2.01
US Short Duration Fixed Income	0.08	0.06	0.01	-0.03	0.10	0.11

Comparative Financial Year to Date Returns
For the periods Mar 2013 & Mar 2014
/per cent/

	Financial Year to Date Return as at 31-Mar-2014		Financial Year to Date Return as at 31-Mar-2013	
	HSF	Bench-mark	HSF	Bench-mark
Composite Portfolio	5.47	4.00	4.82	4.38

SECTION 1 – INTERNATIONAL ECONOMIC ENVIRONMENT

Activity in the global economy continued to show signs of a gradual improvement during the first quarter of 2014. Even though the pace of recovery was impacted by the adverse weather conditions in North America, geopolitical tension along the Russia/Ukraine border and currency instability in some emerging markets, the overall positive sentiment of a global recovery was largely maintained during the first quarter. There was some deterioration in the Purchasing Managers' Index (PMI), which fell from 53.2 in February to 52.4 in March, but there were also positive trends in other forward looking macro indicators which pointed to a strengthening of the growth momentum especially in the United States, Japan and the United Kingdom during the period.

Global inflation remained relatively subdued during the first quarter especially in the developed nations, with the exception of Japan where consumer prices moved upward during the quarter. Most recent data, show headline inflation in the OECD area decelerating to 1.4 per cent in February from 1.7 per cent in January, owing largely to the moderation in energy prices during the period. In the emerging markets however, headline inflation continued to display divergent trends. While rates declined in China and India, there were some upward movements in Brazil and Russia during the period. Moreover, the outlook suggests that with both energy and non-energy commodity prices showing some price stability, there may be further downward revisions to inflation expectations.

United States

The United States (US) economy continued to show signs of resilience during the fourth quarter of 2013. Economic activity as measured by real GDP expanded at an annualised rate of 2.6 per cent compared with a rate of 4.1 per cent in the previous quarter. Though the rate of expansion was slower than the previous quarter, it was still considered to be relatively robust, given the fact that the growth was aided by strong gains in personal consumption expenditure, non-residential investment and exports, compared with the build-up in inventories which was the primary driver of the expansion in the previous quarter.

Added to this, available indicators for first quarter of 2014, show some rebound in economic activity after the setbacks of the colder than normal winter weather. Accordingly, there were improvements recorded in the data for both retail sales and industrial production during the month of March, with the former registering growth rates 2.6 per cent (YoY) in March up from 1.2 per cent (YoY) in February. While industrial production improved by 3.0 per cent (YoY) in February. Also during the period, the economy was given an additional fillip with the creation of 192,000 jobs in the non-farm sector during the month of March up from the initial estimate of 175,000 in February.

In terms of prices, there was some moderation in annual inflation during the first two months of the year as CPI declined to 1.1 per cent in February. However, there was some pickup in March with CPI increasing to 1.5 per cent, though it remained under the January figure of 1.6 per cent. Despite this, the outlook suggests that inflation will remain subdued as both energy and non-energy commodity prices are expected to remain stable. Inflation levels continued to remain below the Federal Reserve's 2.0 per cent target.

In other developments, the Federal Open Market Committee (FOMC) on 19 March 2014, voted to reduce the pace of its monthly asset purchase program by a further US$10 billion to US$55 billion, citing the general improvement in economic prospects. Accordingly, the FED will reduce its purchase of mortgage-backed securities from US$30 billion to US$25 billion and longer-term Treasury securities from US$35 billion to US$30 billion starting April 2014. In addition to the reduction in the asset purchase program, the FED also revised its forward guidance communication, opting for a more qualitative approach so as to decouple unemployment and inflation thresholds from anticipated monetary tightening. Markets therefore continued to speculate on the likely monetary policy path given the discontinuation of the aforementioned data thresholds in addition to the illustration of a slightly more aggressive path for interest rates in the Fed's rate projections at the end of the quarter.

Euro zone

Real GDP expanded by 0.5 per cent in the last quarter of 2013, signaling the end of recession in the Euro region. Moreover, the expansion in real output in the fourth quarter points to an improvement in domestic demand which bodes well for the Euro zone as a whole. Added to this, there was some improvement in the trade balance as the strength of exports contributed positively to economic output during the quarter.

Moreover, recent data for the first quarter served to reinforce the positive growth expectations for the Euro area. Though the composite output Purchasing Managers' Index (PMI) showed some slight moderation in March, it still displayed an upward trend in the first quarter of 2014. Added to this, the economic sentiment indicator (ESI), showed a marked upward trend in March, which pushed the average for the first quarter higher than the figure for the last quarter of 2013. In terms of prices, CPI data for the Euro zone continued to show a downward trend during the first quarter. Consumer prices as measured by the CPI advanced by 0.5 per cent in March, compared with increases of 0.7 per cent in February and 0.8 per cent in January. Moreover, this moderation in inflation served to refocus market perception on the possibility of further monetary easing by the ECB. Added to this, recent comments by Germany's Bundesbank President Jens Weidmann expressing tacit support for quantitative easing suggest that the Euro zone could be on the verge of adopting unconventional monetary measures to stave off deflation.

Unemployment in the Euro zone remained elevated during the first quarter of 2014, with a reading of 11.9 per cent as at February 2014. Unemployment varied across the Euro area from a low of 4.8 per cent in Austria and 5.1 per cent in Germany, to a high of 27.5 per cent in Greece, while youth unemployment continued to be high at 23.5 per cent.

At the ECB's April 3, 2014 meeting, the Governing Council kept its key rate at a record low of 0.25 per cent. The Governing Council also reaffirmed its commitment to maintain a high degree of monetary accommodation and to act swiftly if required.

During the quarter an agreement was reached in Europe to establish a Single Resolution Mechanism (SRM), which represents the second pillar of the Banking Union. This agreement is widely viewed as timely since the ECB is currently in the middle of running the Asset Quality Review to oversee 85% of the banking system. As such, this agreement represents a critical element that must be in place before supervisory responsibility is transferred to the ECB.

United Kingdom

The economy of the United Kingdom continued to exhibit strong growth trends during the first quarter of 2014. Both consumer confidence and business survey indicators have improved and remain at elevated levels during the period. Industrial production expanded in both February and March by 2.7 per cent and 2.8 per cent respectively, reflecting the buoyancy of the domestic economy. Retail sales also continued its strong performance expanding by 4.2 per cent in February following January's growth of 4.4 per cent. Despite this, the economy faces significant headwinds in the medium term as the inherent weakness in productivity may serve to retard the expansion in household incomes and adversely impact the sustainability of the expansion.

Consumer prices in the UK steadily trended downward during the quarter reaching its lowest level in over four years. The inflation rate year on year, fell to 1.6 per cent in March compared to 1.7 per cent in the previous month and 2.0 per cent at the end of the previous quarter. The decline in the rate of inflation was largely attributed to reduced fuel, clothing and furniture prices. Meanwhile labour market conditions continued to improve during the first quarter of 2014 with the unemployment rate falling to 6.9 per cent in February, compared to 7.2 per cent in December and January. As anticipated, the unemployment rate reached the Bank of England's (BOE) previously held unemployment threshold of 7 per cent earlier than anticipated. With the unemployment rate approaching the threshold, the BOE expanded the focus of its forward guidance to include a broader assessment of spare capacity in the economy. Additionally, the BOE indicated that the first rate increase could occur in the second quarter of 2015 but it depended on economic developments. At its most recent meeting on April 9, 2014, which occurred before the unemployment rate fell below 7 per cent, the Bank of England kept the policy rate at 0.5 per cent and the size of its asset purchase programme at GBP 375 billion.

Japan

In Japan, the economy expanded by a revised 0.7 per cent (qoq saar) in the fourth quarter of 2013, compared to the 1.1 per cent recorded in the quarter ending September 2013. The revised GDP figure points to an economy that has lost some of its momentum owing largely to a falloff in domestic demand in the second half of 2013. By contrast, economic activity has been estimated to have improved in the first quarter of 2014. Data on industrial production showed an expansion of 10.3 per cent (YoY) in January and further growth of 6.9 per cent in February. In addition to this, other data releases such as the confidence index points to a more positive outlook for the Japanese economy given the expected frontloading of demand in advance of the consumption tax increase in April.

Consumer prices showed some upward movement in February, registering an increase of 1.5 per cent (YoY) following the 1.4 per cent improvement in January. During the March monetary policy meeting, the Bank of Japan left its target for the monetary base unchanged.

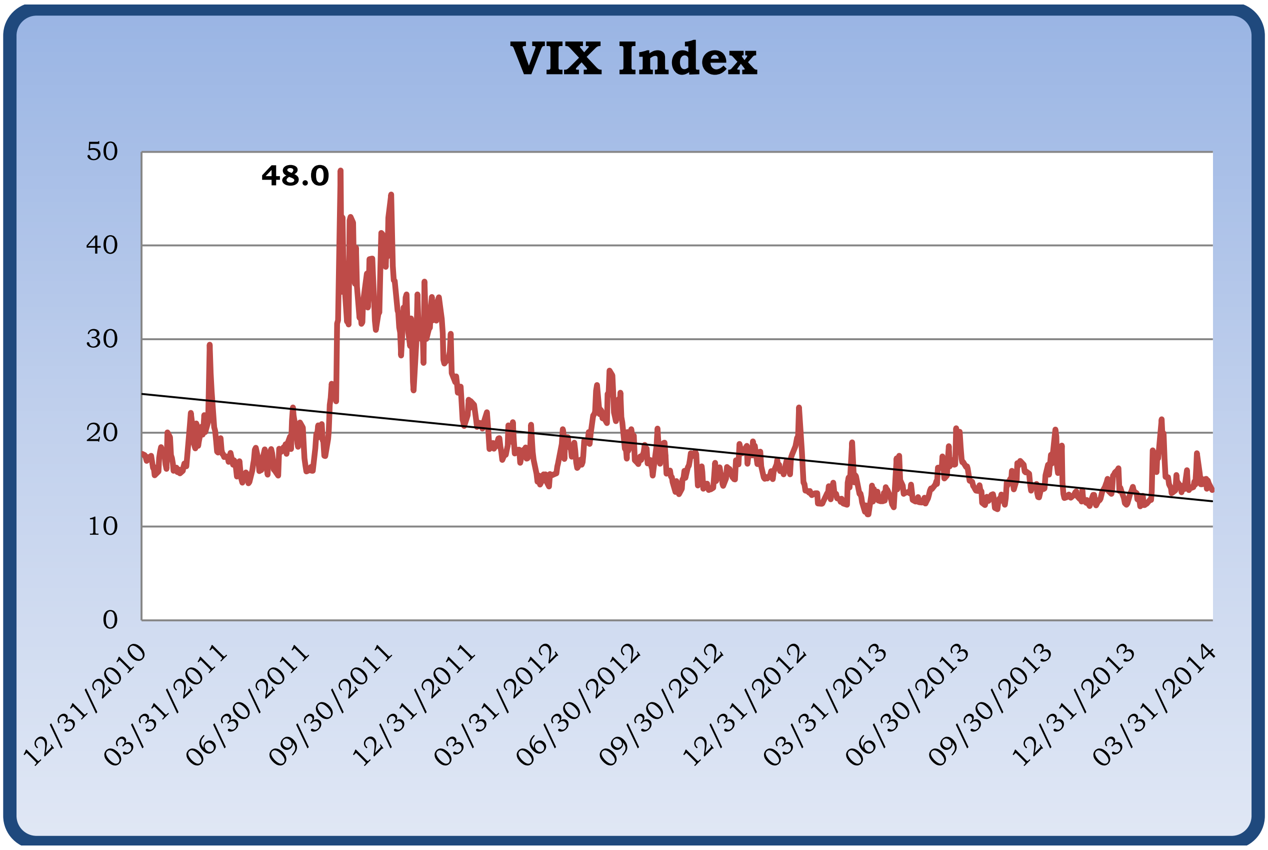
SECTION 2 – CAPITAL AND MONEY MARKET REVIEW

At the beginning of the first quarter of 2014, emerging market currency issues weighed on financial markets, as significant currency depreciations occurred in Argentina and Turkey. Turkey took steps to defend its currency by hiking its main interest rate by over four percentage points in January. Aside from this, many developed nation central banks continued their easy monetary policies in order to spur economic growth during the period. Elsewhere during the quarter, the comments made by the Federal Reserve chairman after the March FOMC meeting served to heighten investor anxiety, as the indication that the FED may contemplate raising interest rates as soon as six months after the culmination of the asset taper program spurred risk off trades. As a direct result, US Treasuries rallied, while other riskier assets sold off in anticipation of the removal of the monetary stimulus provided by the Fed.

The Chicago Board Options Exchange Volatility (VIX), which is a proxy for investor anxiety and market risk, was relatively unchanged over the first quarter of 2014 ending the period at 13.88 points, up slightly from 13.72 points at the end of the fourth quarter of 2013. The VIX reached a high of 21.44 points in the beginning of February, as concerns about currency crises in Argentina and Turkey, and lagging manufacturing data from China dragged down equity markets globally in the first month of 2014.

The performance of risky assets was mixed during the first quarter with non-US markets being particularly challenged. In the equity markets, the US Standard and Poor's (S&P) 500 index touched record levels during the quarter, rising 1.30 per cent versus 9.92 per cent over the prior 3 months. Japan and UK however were the worst performing non-US developed markets, as the Nikkei 225 and FTSE 100 index declined 8.98 per cent and 2.23 per cent respectively. Across the G-7 nations, benchmark 10-year yields declined, especially in Italy, where yields fell 79 basis points. The yield on the 10-year US Treasury decreased as well, ending the quarter down 31 basis points at 2.72 per cent.

Figure 1
Market Volatility in the US
/points /



Source: Bloomberg.

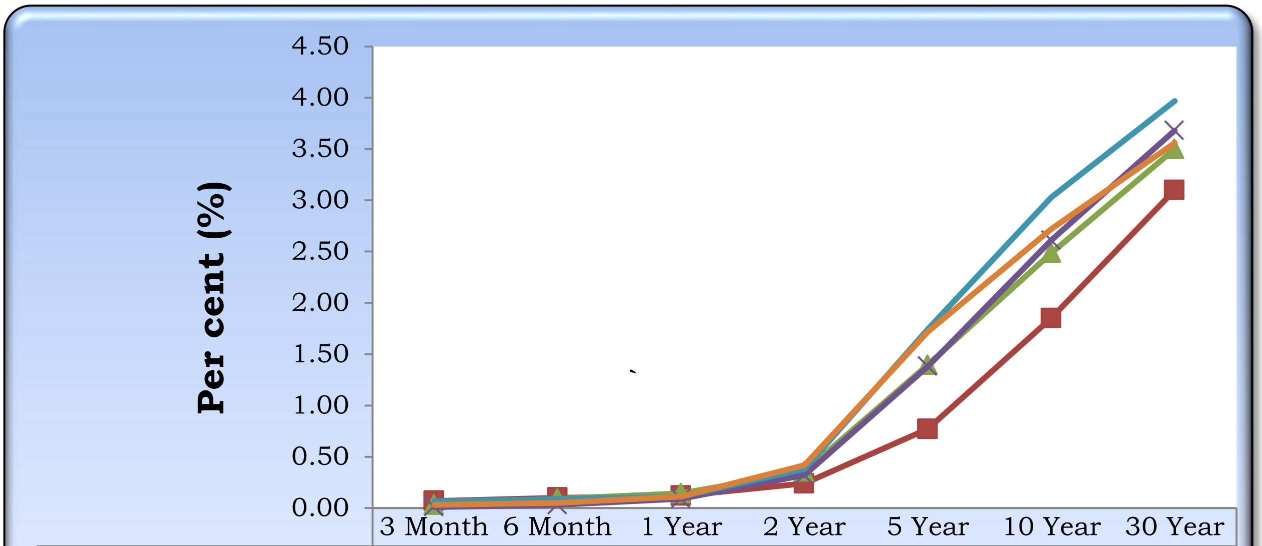
U.S. Fixed Income

US Treasury Fixed Income investors did well during the quarter as the majority of the yield curve declined, as the Federal Reserve continued its asset tapering program. Geopolitical risks in Ukraine and Russia and the continued possibility of a slowdown in China increased investor risk aversion and pushed investors to seek safe haven assets in the form of US Treasuries.

During the first quarter of 2014, economic data was somewhat dampened relative to expectations due to the inclement weather in the US. As a result, US Treasury yields were generally depressed when compared to the previous quarter. As the quarter came to a close however, Treasury yields increased slightly on Fed chairman Janet Yellen's statement about possible interest rate hikes coming as soon as six months after the end of the Fed bond purchase program. The yield increases, which occurred after the Federal Reserve meeting, were not enough to overcome the initial decreases at the beginning of the quarter.

Over the period, 10-year and 30-year rates fell to 2.72 per cent and 3.56 per cent respectively and the long-end of the curve flattened, with spreads narrowing 10 basis points. Medium-term yields ended the quarter relatively unchanged to slightly lower and the 2-5 year part of the curve flattened, with spreads compressing by six basis points to 130 basis points at the end of the first quarter of 2014. Front-end yields (less than one year) declined with 3-month yields decreasing four basis points to 0.03 per cent at the end of the first quarter.

Figure 2
US Treasury Yield Curve
/per cent/

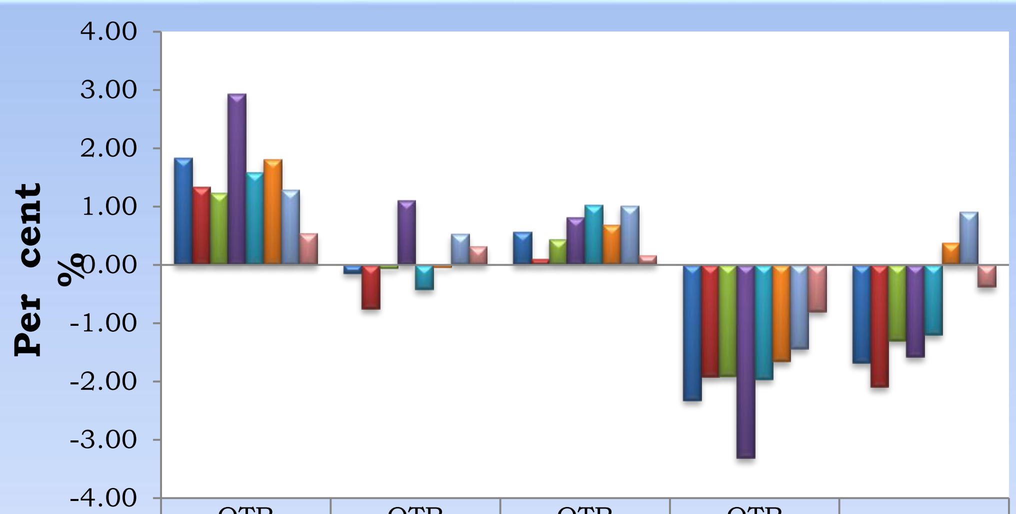


	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
March 31, 2013	0.07	0.10	0.12	0.24	0.77	1.85	3.10
June 30, 2013	0.03	0.09	0.14	0.36	1.39	2.49	3.50
September 30, 2013	0.01	0.03	0.09	0.32	1.38	2.61	3.68
December 31, 2013	0.07	0.09	0.11	0.38	1.74	3.03	3.97
March 31, 2014	0.03	0.05	0.11	0.42	1.72	2.72	3.56

Source: Bloomberg.

The broader US fixed income market as measured by the Barclays Capital US Aggregate Bond index, improved 1.84 per cent in the first quarter, compared with a loss of 0.14 per cent during the previous three months. Spread products generally outperformed similar-duration Treasuries, with US Corporates returning 2.94 per cent versus 1.34 per cent for US Treasuries. The returns for US Treasuries were generated primarily by the long sector of the curve. CMBS and ABS also generated positive returns for the quarter, outperforming like duration US Treasuries over the period. CMBS securities returned 1.29 per cent, while ABS securities returned 0.54 per cent. Finally, G-7 Global Sovereign bonds returned 1.87 per cent as global developed bond yields declined over the first quarter.

Figure 3
Returns on Fixed Income Indices
/per cent/



	QTR ended Mar-14	QTR ended Dec-13	QTR ended Sep-13	QTR ended June-13	FY 12/13
Barclays U.S. Aggregate	1.84	-0.14	0.57	-2.32	-1.68
U.S. Treasuries	1.34	-0.75	0.10	-1.92	-2.09
U.S. Agencies	1.24	-0.06	0.44	-1.91	-1.30
U.S. Corporate	2.94	1.11	0.82	-3.31	-1.58
U.S. MBS	1.59	-0.42	1.03	-1.96	-1.20
G-7 Global Bonds (Hedged)	1.81	-0.04	0.69	-1.66	0.38
CMBS Index	1.29	0.53	1.02	-1.44	0.91
ABS Index	0.54	0.32	0.16	-0.80	-0.38

Source: Barclays Capital.

Overall, sovereign bond yields fell across the G-7 nations. Economic data missing expectations due to cold weather in the US, disappointing manufacturing data in China and rising geopolitical risks in Ukraine and Russia generally pushed rates lower.

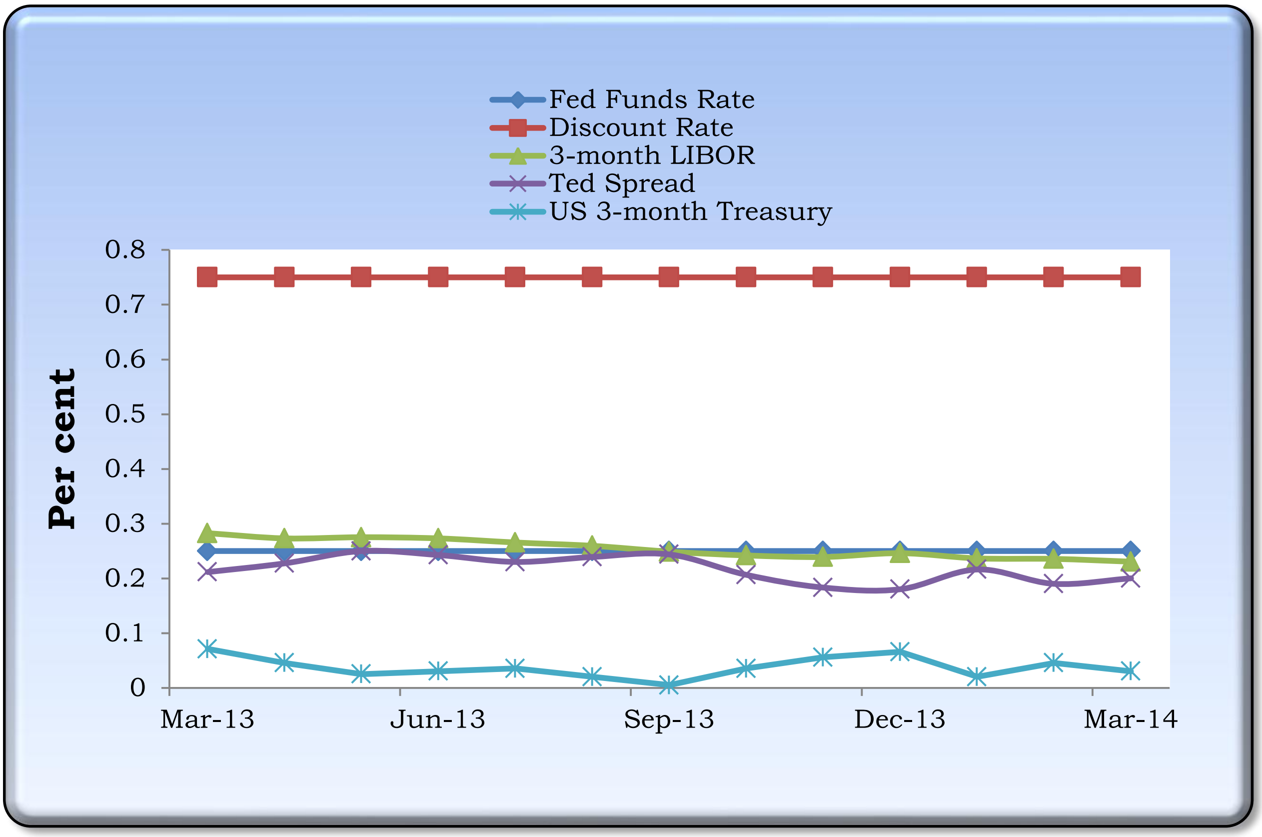
Italian 10-year rates declined the most among the G-7 nations, falling by 79 basis points as yields ended the quarter at 3.29 per cent. A more stable political situation in Italy and the European Central Bank continuing its easy monetary policy and ultra low rates helped to drive Italian yields lower. German 10-year yields remain at depressed levels ending the first quarter at 1.57 per cent falling 36 basis points over the quarter, while French yields fell by 47 basis points to close at 2.08 per cent at the end of the quarter.

UK Gilt yields fell by 29 basis points to 2.74 per cent at the end of the first quarter of 2014. Adjusted forward guidance from the Bank of England, which states that interest rate increases will be dependent on a variety of factors including unemployment and that the rate hikes will not threaten the ongoing recovery, have helped to push UK bond yields lower for the quarter. Meanwhile, yields on 10-year Japanese bonds (JGBs) fell by 10 basis points to end the period at 0.64 per cent, as the Bank of Japan continued its accommodative monetary policy, which included purchasing Japanese government bonds.

Money Market

Short-term interest rates declined during the first quarter of 2014. Major central banks continued their accommodative monetary stance, including the Bank of Japan and the European Central Bank. The 3-month US Treasury bill rate decreased from 0.07 per cent at the end of the fourth quarter of 2013 to 0.03 per cent at the end of the first quarter of 2014. The 3-month London Inter-Bank Offered Rate (LIBOR) also declined at the end of the first quarter of 2014 to 0.23 per cent from 0.25 per cent at the end of the fourth quarter of 2013.

Figure 4
US Money Market Rates
/per cent/



Source: Bloomberg

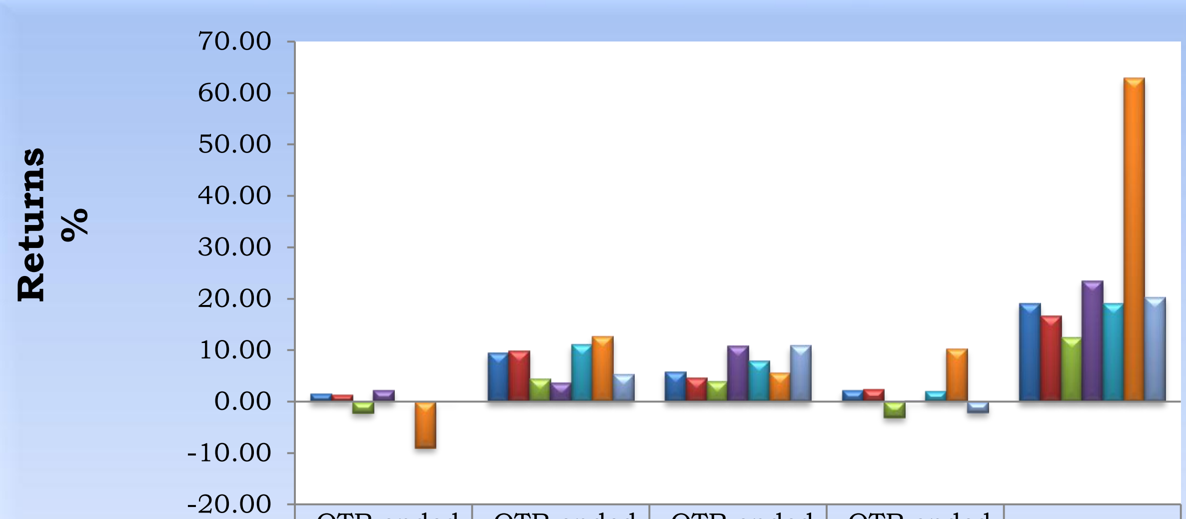
Equity Markets

In the first quarter of 2014, equity markets were volatile as stock returns declined in January, rebounded significantly in February and were relatively flat in March . Investors risk appetite declined during the quarter as tensions worsened in the Russia-Ukraine situation and economic sanctions were levied against both Russian and Ukraine leaders. Adverse weather conditions hobbled US economic data during the quarter, but were mostly shrugged off by equity investors. An uncontested increase in the US debt ceiling and the continued accommodative stance by the US Federal Reserve helped to buoy equity markets during the month of February.

In the US, the S&P 500 index gained 1.30 per cent during the first quarter, compared with a return of 9.92 per cent during the fourth quarter. Nine out of ten sectors in the index recorded gains in the first quarter. Utilities and Healthcare lead the index higher during the quarter, while the Consumer Discretionary sector lagged the index and produced a negative return. The Russell 3000 Growth index underperformed the Value index while Small Cap stocks underperformed Large Cap stocks over the period.

The MSCI EAFE was flat over the first quarter of 2014. The Euro-zone added to the indices' performance, while the United Kingdom and Japan detracted from performance. In the Euro zone, Germany's DAX 30 index remained relatively flat, increasing by 0.04 per cent, the French CAC 40 index returned 2.22 per cent and the Italian FTSE MIB index added 14.38 per cent over the three months ending March 31, 2014. In the United Kingdom however, the FTSE 100 fell 2.23 per cent over the period and Japan's Nikkei 225 fell 8.98 per cent in the first quarter of 2014, as equities in Japan were dragged down by dampened growth and declining consumer confidence due to the introduction of the consumption tax increase carded for April 1 2014.

Figure 5
Price Returns on Equity Indices
/Per cent/



	QTR ended Mar-14	QTR ended Dec-13	QTR ended Sept-13	QTR ended Jun-13	FY 12/13
Russell 3000	1.50	9.56	5.83	2.17	19.11
S&P 500	1.30	9.92	4.69	2.36	16.72
FTSE 100 - UK	-2.23	4.44	3.97	-3.06	12.54
CAC 40 - France	2.22	3.68	10.82	0.20	23.51
DAX 30 - Germany	0.04	11.14	7.98	2.10	19.10
Nikkei 225 - Japan	-8.98	12.70	5.69	10.32	62.97
MSCI EAFE	0.00	5.36	10.94	-2.11	20.35

Source: Bloomberg

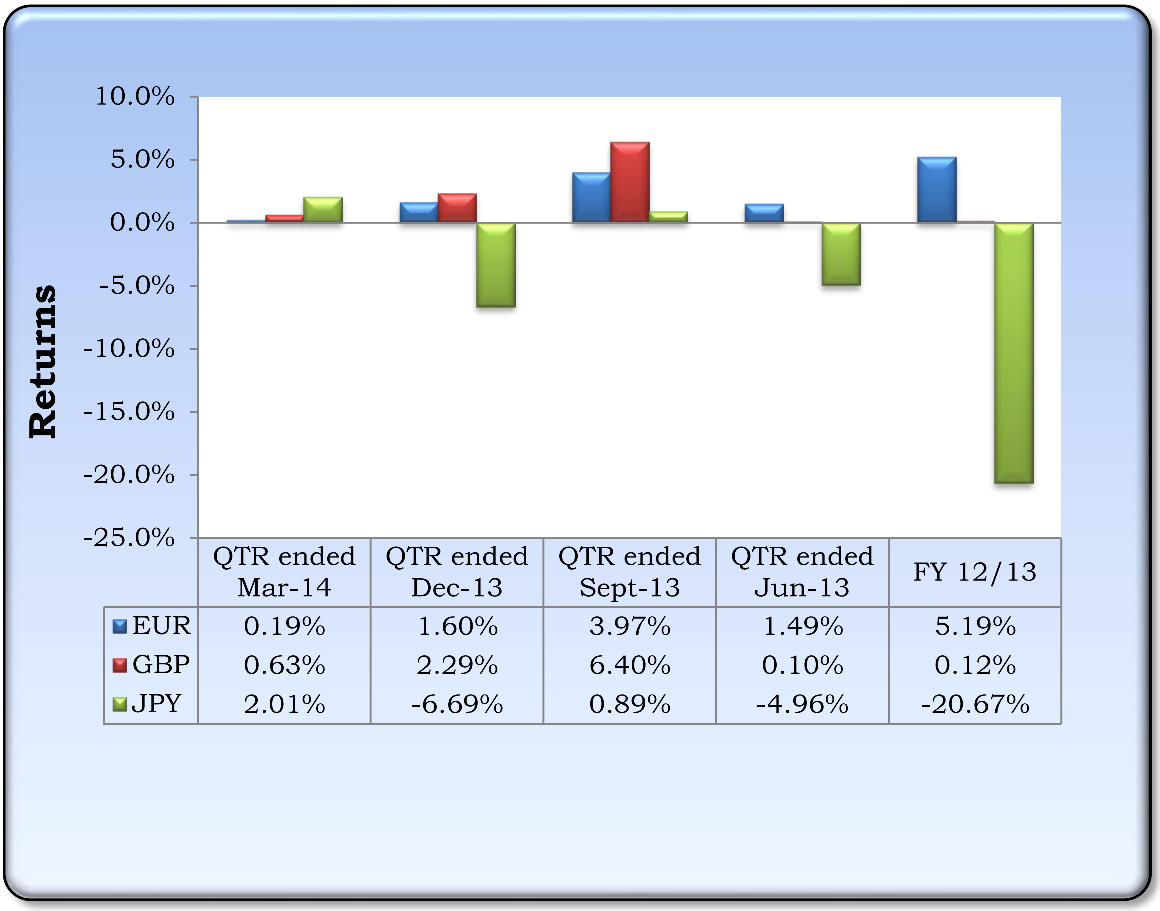
Currency Markets

The US dollar was relatively flat in the first quarter of 2014 as the economy continued to grow despite cold weather and the US debt limit was increased in February. The US Dollar index ended the first quarter of 2014 at 80.10 up slightly from its fourth quarter close of 80.04. Continued GDP growth in the fourth quarter of 2013 in the US economy and improved non-farm payrolls for the month of March helped the dollar index to recover losses incurred in February and end the month of March up 0.51 per cent at 80.10.

The Euro strengthened over the quarter, rising 0.19 per cent over the past three months. The pace of the recovery in the Euro zone picked up in the fourth quarter, as the ECB continued its accommodative stance and real GDP improved by 0.5 per cent. In addition, agreement with respect to the establishment of a Single Resolution Mechanism during the quarter, helped to buoy the Euro currency. The British Pound also appreciated in the first quarter, strengthening 0.63 per cent, as the economy continues to improve on the strength of positive economic data.

The Japanese Yen was the best performing G10 currency, appreciating 2.01 per cent vis-à-vis the US dollar over the quarter. Geopolitical risks in the Russia and Ukraine, and continued currency deterioration in key emerging markets, caused investors to pour into the Japanese yen as a safe haven currency over the first quarter.

Figure 6
Foreign Exchange Returns for Major Currencies vis-à-vis the US Dollar
/per cent/



	QTR ended Mar-14	QTR ended Dec-13	QTR ended Sept-13	QTR ended Jun-13	FY 12/13
EUR	0.19%	1.60%	3.97%	1.49%	5.19%
GBP	0.63%	2.29%	6.40%	0.10%	0.12%
JPY	2.01%	-6.69%	0.89%	-4.96%	-20.67%

Source: Bloomberg

SECTION 3 – PORTFOLIO PERFORMANCE

Strategic Asset Allocation

Over the period December 2013 to March 2014, the asset classes of the Fund deviated from their Strategic Asset Allocation (SAA) and the US Core Domestic Equity mandate and the US Core Fixed Income Mandate fell out of the permitted (+/- 5 per cent) range. As at February 28, 2014, the US Core Fixed Income Mandate had an allocation of 34.91 per cent, or 5.09 per cent below the SAA of 40.0 per cent. As at March 31, 2013, the US Core Domestic Equity mandate had an allocation of 22.56 per cent, which was 5.06 per cent above the SAA of 17.50 per cent. The approved SAA for the HSF investment portfolio is as follows:

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

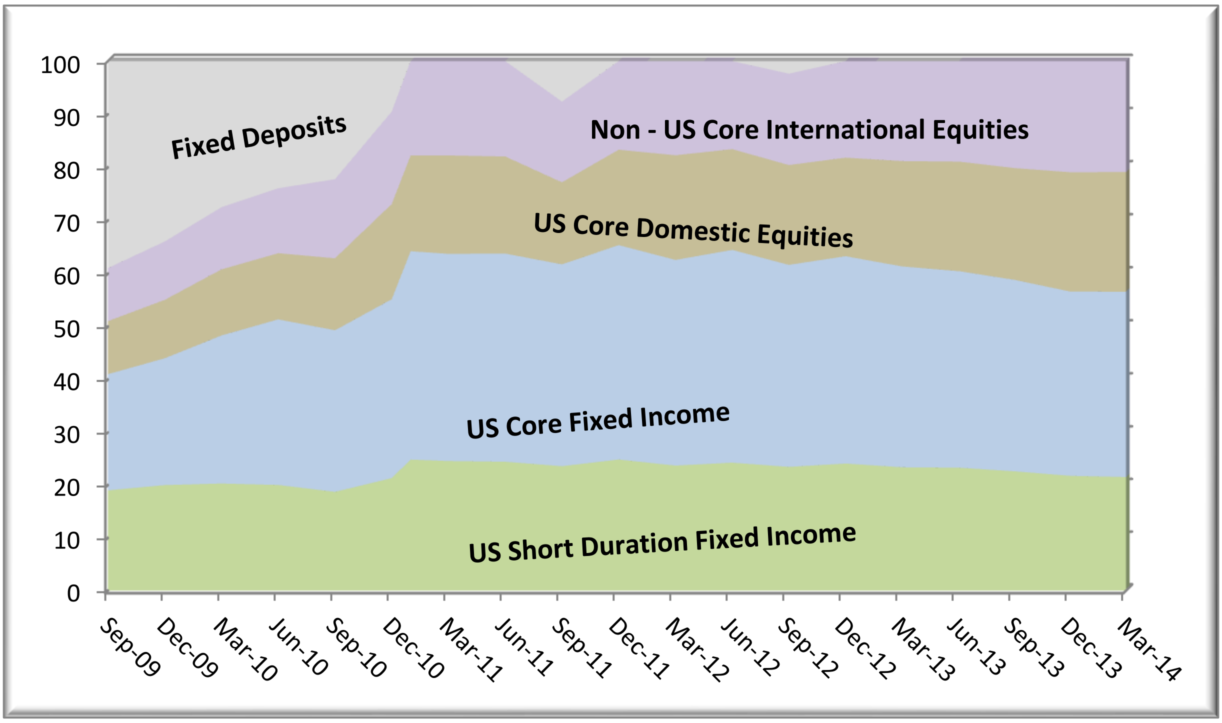
Throughout the quarter, the two equity mandates carried overweight allocations relative to their SAA weights and these resulted from their stronger performance when compared with their fixed income counterparts. By the end of the quarter, the asset class with the largest overweight was the US Core Domestic Equity mandate while the US Core Fixed Income mandate had the largest underweight position.

The total net asset value of the Fund as at the end of March 2014 totaled US$5,429.6 million, compared with US$5,354.7 million at the end of the previous quarter. Of this total, the investment portfolio was valued at US$5,428.8 million, while the remaining portion (US$0.8 million) was held in cash to meet the day-to-day expenses that arise from the management of the Fund. The Fund's target asset allocation and the portfolio weightings for the period March 31, 2013 to March 31, 2014 are shown in Table 1, overleaf.

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

Portfolio Weights	Asset Class		Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
		Target Weight SAA	*Actual % of Fund*	*Actual % of Fund*	*Actual % of Fund*	*Actual % of Fund*	*Actual % of Fund*
	Cash	0.00	0.00	0.00	0.00	0.00	0.00
	US Short Duration Fixed Income	25.00	23.38	23.30	22.61	21.76	21.53
	US Core Domestic Fixed Income	40.00	37.92	37.11	36.15	34.80	35.01
	US Core Domestic Equity	17.50	19.86	20.64	21.07	22.49	22.56
	Non-US Core International Equity	17.50	18.84	18.95	20.17	20.95	20.90

Figure 7
Asset Composition of the HSF Portfolio
/per cent/



Performance of the Investment Portfolio

For the first quarter of 2014, the HSF investment portfolio gained 1.46 per cent, compared with a return of 1.30 per cent for the SAA benchmark[1]. This outperformance of 16 basis points can be attributed to favorable security selection as well as the deviation between the portfolio and SAA weightings. The bulk of the HSF portfolio's returns were generated by the fixed income portion of the Fund, which contributed 0.80 per cent to the overall performance, while the equity mandates added 0.67 per cent to the overall return. In terms of contribution to composite portfolio weighted return by asset class, all mandates except the US Core Fixed Income mandate contributed higher returns than their respective benchmarks during the quarter ended March 31, 2014.

The **US Short Duration Fixed Income** portfolio posted an absolute return of 0.35 per cent during the first quarter of 2014, outperforming its benchmark, the Bank of America Merrill Lynch US Treasury 1-5 year index, by 11 basis points. This outperformance was attributed to the portfolio's exposure to spread products (Agency RMBS and CMBS) and non-US government bonds as spreads tightened during the quarter and global government bond yields fell. The net asset value of this mandate as at March 31, 2014 was **US$1,168.9 million,** compared with US$1,165.1 million at the end of the previous quarter.

The longer duration fixed income mandate which consists of **US Core Fixed Income** securities, posted a return of 2.06 per cent during the first quarter of 2014, outperforming its benchmark, the Barclays Capital US Aggregate Bond index, which returned 1.84 per cent. The outperformance of this portfolio relative to the benchmark

[1] The SAA benchmark is a blended benchmark which comprises, Bank of America/Merrill Lynch US Treasury 1-5 Years Index (25%), Barclays US Aggregate Bond Index (40%), Russell 3000 ex Energy Index (17.5%), and MSCI EAFE ex Energy Index (17.5%).

resulted from its overweight allocations to the corporate credit sector and to the Commercial Mortgage Backed Securities sector. Security selection added to overall returns over the period especially within the Mortgage backed security and Agency Bond sectors. The net asset value of this mandate as at March 31, 2014 increased in comparison to the previous quarter, totaling **US$1,900.8 million** compared with US$1,863.0 million as at December 31, 2013.

The **Non-US International Equities** mandate generated a gain of 1.30 per cent for the first quarter of 2014, compared with a return of 0.59 per cent for its benchmark, the MSCI EAFE ex Energy index. This outperformance was mainly due to favorable stock selection. The largest impact from stock selection was recorded from holdings in Australia, France, Switzerland, Germany and Finland. Additionally, stock selections within the Consumer Discretionary and Utilities sectors also benefited the portfolio. The net asset value of the Non-US Core International Equity mandate as at March 31, 2014 grew to **US$1,134.5 million**, from US$1,121.5 million at the end of December 2013.

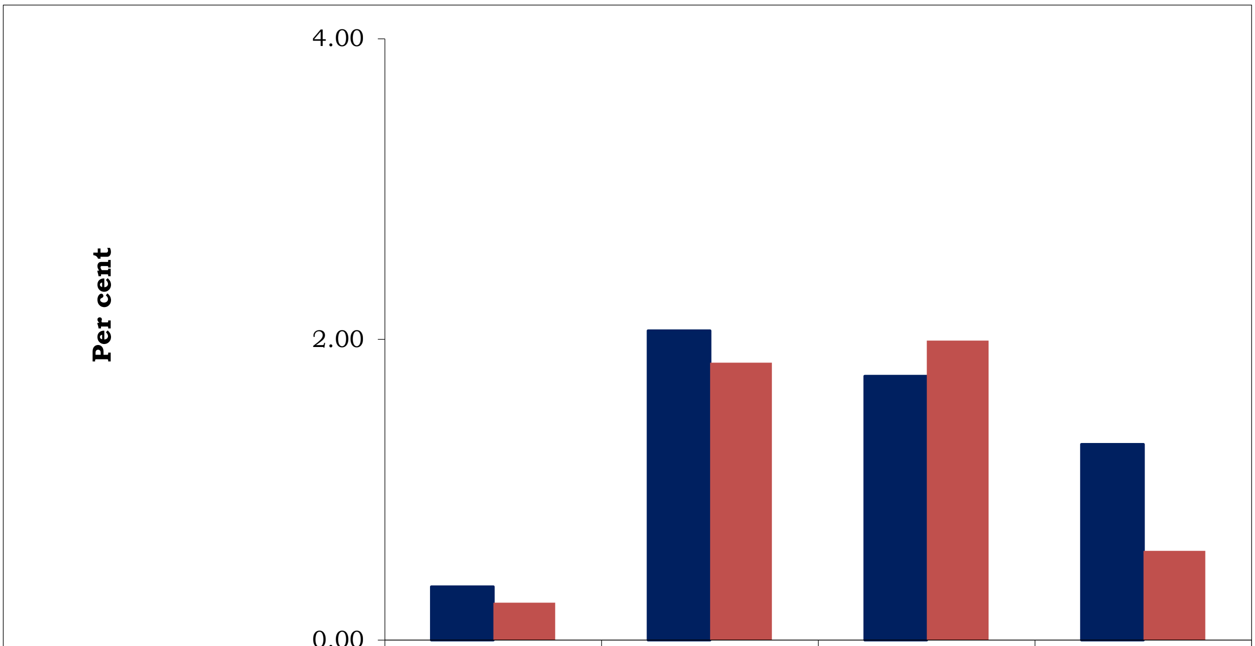
The **US Core Domestic Equities** mandate returned 1.76 per cent, compared with a benchmark return of 1.99 per cent. This underperformance was due to the managers' unfavorable stock selection and sector allocation decisions during the period. On a sector level, the Consumer Discretionary, Financial Services and Healthcare sectors detracted the most from excess returns. The stock selection within the aforementioned sectors also detracted from performance over the period. The net asset value of this mandate, as at March 31, 2014, was **US$1,224.6 million**, compared with US$1,203.8 million at the end of December 2013.

Table 2
Contribution to Quarterly Return,
For the period January 2014 – March 2014
/per cent/

	SAA Weights	Portfolio Weights as at 31-Mar-2014	Weighted Return HSF	Weighted Return Benchmark
Composite Portfolio	100.00	100.00	1.46	1.30
US Core Domestic Fixed Income	40.00	35.01	0.72	0.74
US Core Domestic Equity	17.50	22.56	0.39	0.37
Non US Core International Equity	17.50	20.90	0.28	0.14
US Short Duration Fixed Income	25.00	21.53	0.08	0.06

NB: Differences in totals are due to rounding.

Figure 8
Absolute Returns by Asset Class
For the period January 2014 – March 2014
/per cent/



	US Short Duration	US Core Fixed Income	US Core Domestic Equities	Non US Core International Equities
Composite Portfolio Return	0.35	2.06	1.76	1.30
SAA Benchmark Return	0.25	1.84	1.99	0.59

Mandate

SECTION 4 –COMPLIANCE AND PORTFOLIO RISKS

Compliance

At the end of February and March 2014, the US Core Fixed Income and Core Domestic equity mandates (respectively) exceeded the maximum 5.0 per cent variation from the Strategic Asset Allocation as highlighted previously. Following these breaches, the Fund has undertaken to review portfolio rebalancing strategies in light of current market conditions and the outlook for the various asset classes with a view to bringing exposures back within the permitted limits.

Portfolio Risks

The main risks for the HSF portfolio are Credit, Concentration, Interest Rate, and Currency risks. The following paragraphs give a description of how these risks are mitigated.

Credit Risk

Within 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. Table 3 below shows the Average Credit Quality of the US Short Duration and US Core Fixed Income Portfolios as at March 31, 2014.

Table 3
Average Credit Rating

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

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 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 over a range of market conditions and lowering the total risk of the portfolio. In addition, Concentration Risk is minimized 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.

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 March 31, 2014.

Table 4
Weighted Average Duration
/Years/

Mandate	Portfolio	Benchmark
US Short Duration	**2.38**	**2.70**
US Core Domestic Fixed Income	**4.94**	**5.40**

Currency Risk

Currency Risk is managed by containing and managing the exposure to non-US dollar instruments. 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. At the end of March 2014, the currency exposure for this portfolio was 98 per cent of its market value. During the quarter, all the portfolios were within their respective limits.

Appendix I
HSF Portfolio
Historical Performance since Inception

Quarter End	Current Returns			Financial YTD			Annualised Return Since Inception		
	Portfolio	Benchmark	Excess	Portfolio	Benchmark	Excess	Portfolio	Benchmark	Excess
	%	%	bps	%	%	bps	%	%	bps
FY 2010									
December	0.96	0.89	6.65	0.96	0.89	6.65	3.72	3.78	-6.16
March	1.61	1.68	-6.20	2.59	2.58	0.49	3.95	4.03	-7.76
June	-1.83	-1.89	6.05	0.71	0.64	6.69	3.07	3.12	-5.18
September	5.33	5.08	24.73	6.07	5.75	31.93	4.37	4.35	2.06
FY 2011									
December	2.29	2.21	8.15	2.29	2.21	8.15	4.70	4.65	4.13
March	1.62	1.54	7.24	3.94	3.79	15.68	4.81	4.76	5.72
June	1.88	1.81	6.68	5.89	5.67	22.91	4.98	4.91	7.00
September	-4.82	-4.28	-53.66	0.79	1.14	-34.89	3.57	3.63	-6.29
FY 2012									
December	2.74	3.03	-28.52	2.74	3.03	-28.52	3.97	4.08	-12.00
March	5.04	4.46	57.50	7.92	7.63	29.29	4.78	4.78	-0.08
June	-0.90	-0.60	-30.42	6.95	6.98	-3.72	4.37	4.43	-6.13
September	3.53	2.98	55.03	10.73	10.18	55.02	4.68	4.65	2.07
FY 2013									
December	1.49	1.45	4.11	1.49	1.45	4.11	4.88	4.83	4.76
March	3.29	2.90	39.19	4.82	4.38	44.01	5.23	5.12	11.20
June	-0.30	-0.69	39.05	4.51	3.66	84.64	4.97	4.80	17.26
September	3.95	3.47	47.35	8.63	7.26	137.06	5.40	5.16	24.01
FY 2014									
December	3.95	2.66	129.38	3.95	2.66	129.38	5.80	5.37	42.67
March	1.46	1.30	16.28	5.47	4.00	147.73	5.80	5.37	43.52

Notes:

(1) Differences in totals are due to rounding.

(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).

(4) With effect from the quarter ended December 2012, the Annualised Returns Since Inception were computed using a geometric average and not the previously used arithmetic average. For comparative purposes, prior period annualized returns since inception shown above were computing using a geometric average.

Appendix II
Heritage and Stabilisation Fund
Portfolio Valuation (USD)

Valuation Date	Net Asset Value	Quarterly Income	Accumulated Surplus & Unrealized Capital Gains/Losses	Contributions

Annual Portfolio Valuation

September 30, 2007	1,766,200,701	41,966,361	41,966,361	321,706,043
September 30, 2008	2,888,421,556	67,177,392	110,379,131	1,054,174,457
September 30, 2009	2,964,686,478	34,782,418	186,755,766	-
September 30, 2010	3,621,984,041	87,931,196	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	42,414,251

Quarterly Portfolio Valuation

December 31, 2011	4,191,162,904	10,474,106	481,361,876	-
March 31, 2012	4,397,263,070	42,045,281	687,290,865	-
June 30, 2012	4,378,930,036	34,014,167	642,769,982	26,241,964
September 30, 2012	4,712,376,278	38,688,423	794,770,772	181,308,882
December 31, 2012	4,780,065,524	42,243,928	861,557,777	-
March 31, 2013	4,933,344,741	70,726,991	1,015,212,703	-
June 30, 2013	4,914,375,234	56,685,027	996,411,094	-
September 30, 2013	5,154,027,747	143,120,358	1,193,778,722	42,414,251
December 31, 2013	5,354,721,875	77,853,526	1,393,727,735	-
March 31, 2014	5,429,643,570	86,362,097	1,467,996,676	-

Appendix III
Summary Characteristics of Composite Benchmarks
Fixed Income Benchmarks

Key Characteristics	Barclays US Aggregate Index	Merrill Lynch 1-5 Index
Total Holdings	8,571	145
Coupon (%)	3.38	1.81
Duration (Years)	5.40	2.65
Average Life (Years)	7.24	2.73
Yield to Maturity (%)	2.30	0.79
Option Adjusted Spread (bps)	38	0
Average Rating (S&P)	AA+	AA+
Minimum Rating (S&P)	BBB-	AA

Equity Benchmarks

Key Characteristics	Russell 3000 (ex energy)	MSCI EAFE (ex energy)
Total Holdings	2,806	858
Earnings Per Share (EPS Growth 3-5y fwd)	9.77	10.54
Price Earnings (P/E fwd)	15.59	13.72
Price / Book (P/B)	2.95	1.72
Weighted Average Market Capitalization* (Bn)	$87.79	$60.9

*Market capitalization is a measurement of the size of a company (share price x the number of outstanding shares). The weighted average market capitalization of a stock market index represents the average size of the firms comprising the index where each is weighted according to its market capitalization.

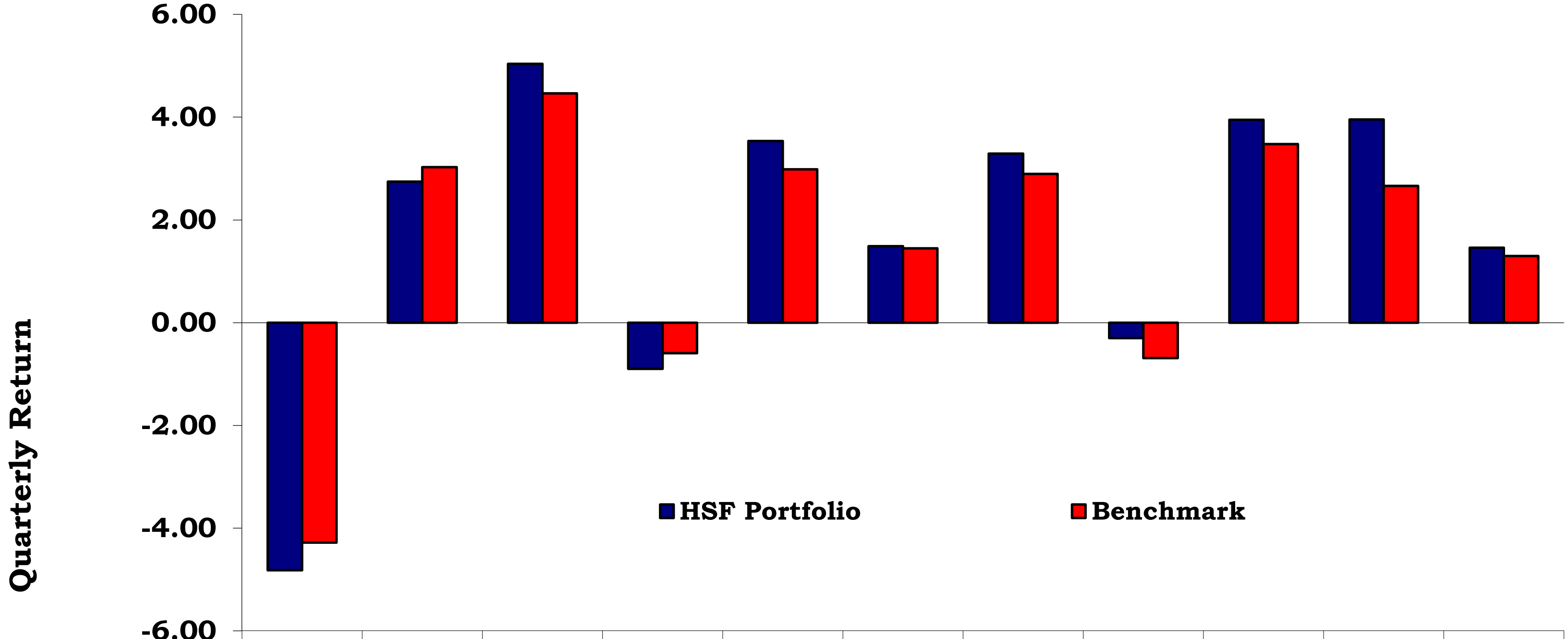
Appendix IV
Summary of the Fund's Net Asset Value by Mandate
/US$ Million/

	March 2013	**June 2013**	**September 2013**	**December 2013**	**March 2014**
Total Fund Value	**4,933**	**4,914**	**5,154**	**5,355**	**5,429**
Total Value of Equity	**1,909**	**1,945**	**2,125**	**2,325**	**2,359**
US Core Domestic Equity	980	1,013	1,086	1,204	1,225
Non-US Core International Equity	929	931	1,039	1,122	1,135
Total Value of Fixed Income	**3,023**	**2,969**	**3,027**	**3,028**	**3,070**
US Short Duration Fixed Income	1,153	1,145	1,165	1,165	1,169
US Core Domestic Fixed Income	1,870	1,823	1,863	1,863	1,901
Total Value of Cash or Cash Equivalents	**1**	**1**	**2**	**1**	**1**

NB: Differences in totals are due to rounding.

Appendix V
HSF Portfolio Quarterly Returns
/per cent/

Quarterly HSF & SAA Benchmark Returns



	FY2011 Q4	FY2012 Q1	FY2012 Q2	FY2012 Q3	FY2012 Q4	FY2013 Q1	FY2013 Q2	FY2013 Q3	FY2013 Q4	FY2014 Q1	FY2014 Q2
HSF Portfolio	-4.82	2.74	5.04	-0.90	3.53	1.49	3.29	-0.30	3.95	3.95	1.46
Benchmark	-4.28	3.03	4.46	-0.60	2.98	1.44	2.90	-0.69	3.47	2.66	1.30