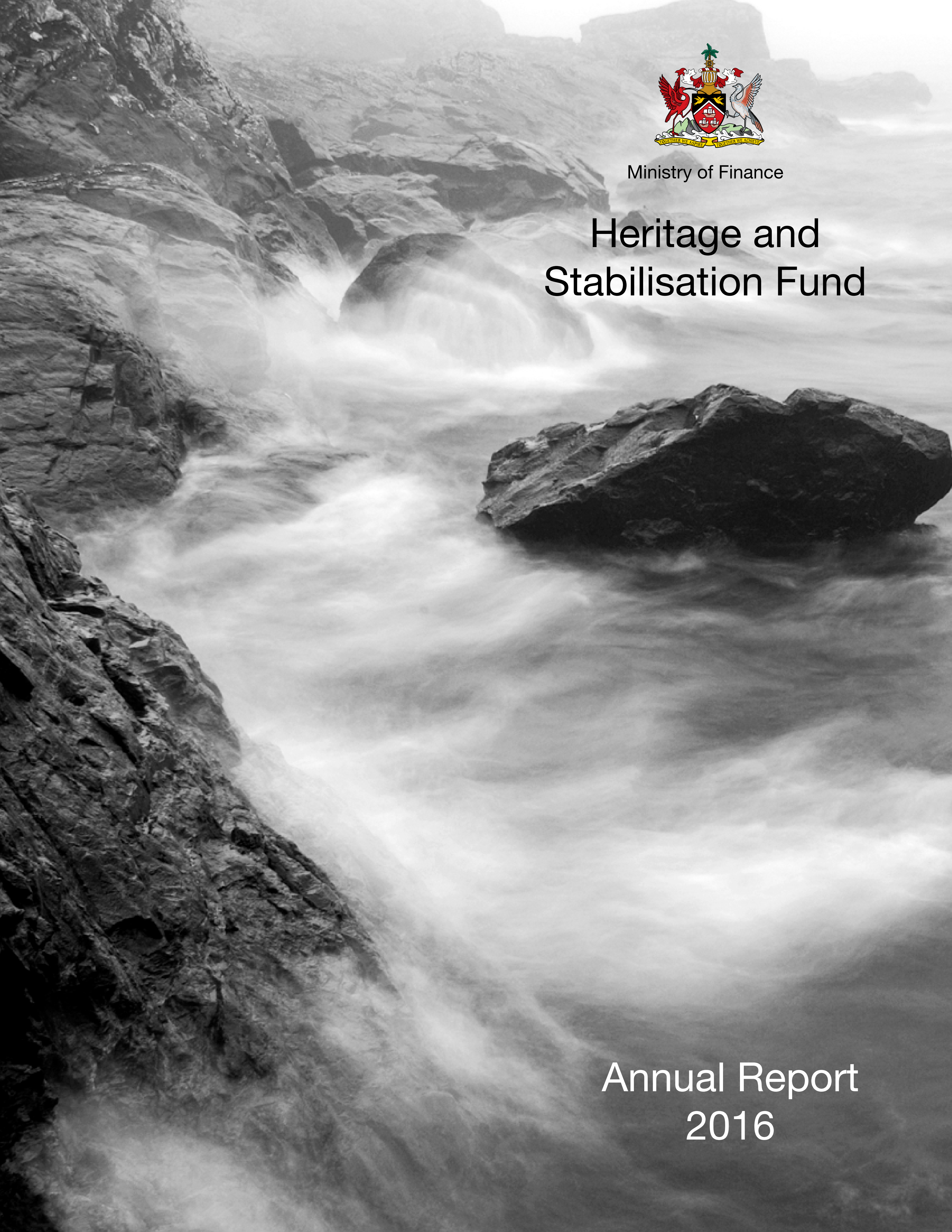


Ministry of Finance

Heritage and Stabilisation Fund

Annual Report 2016

**TRINIDAD AND TOBAGO
HERITAGE AND STABILISATION FUND**

PURPOSE

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

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

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

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

CONTENT

CHAIRMAN'S FOREWORD

On behalf of the Board of Governors, I am pleased to present the Annual Report of the Trinidad and Tobago Heritage and Stabilisation Fund for the year ending September 30, 2016.

Following a sharp collapse in 2015, oil and gas prices remained generally depressed for most of FY 2016, constraining the Government's ability to generate surpluses for transfers to the Heritage and Stabilisation Fund. Indeed, notwithstanding the introduction of a series of revenues measures and a sharp cutback in Government's expenditure, the overall deficit of the Central Government accounts increased sharply in FY 2016 compared with the previous year.

In these circumstances, as foreshadowed in the Mid-Year Budget Review and consistent with the provisions of Section 15 of the HSF Act (2007), the Government decided to have access to the HSF to contribute to the financing of the budget. Accordingly, there was a withdrawal of US$375 million from the Fund, in respect of the shortfall in energy revenue relative to the budget estimates in FY 2015.

This withdrawal represented the first time that the Government had accessed the Fund since its inception in March 2007. It is also worth noting that the withdrawal was about one-half the amount to which the Government was entitled according to the formula specified in the HSF Legislation.

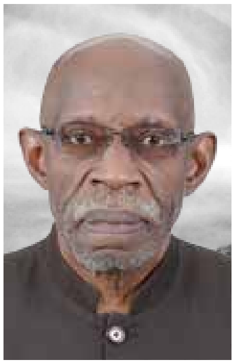
For the year ended September 30, 2016, the Heritage and Stabilisation Fund generated a return of 5.83 percent underperforming the benchmark return of 6.29 percent. While the fixed income portfolio outperformed the benchmark, both the US and non-US portfolio under-performed. Despite the 2016 performance, the cumulative annualised return since the inception of the Fund, at 5.34 percent, continues to outperform the benchmark of 4.87 percent.

The cumulative excess return, achieved in a period of constant turbulence in global financial markets and macro-economic instability caused by volatile energy prices, testifies to the astute portfolio selection and management exercised by the Central Bank and the external managers they have selected. The Bank should also be complimented for the rigour with which they have monitored portfolio performance and maintained high disclosure standards.

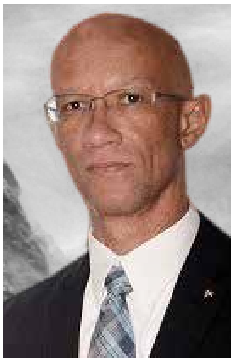
An overall review of the performance of the Fund is scheduled to take place later this year at which time amendments to the existing HSF legislation to take account of the major changes that have taken place in global energy markets, will be proposed for the consideration of Parliament.

Finally, as my term as Chairman of the HSF comes to an end, I take this opportunity to express my gratitude to the Board Members with whom I have worked for the past three years for the commitment, dedication and insight that they have brought to the oversight of the Heritage and Stabilisation Fund.

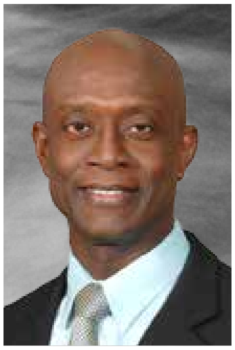
BOARD OF GOVERNORS



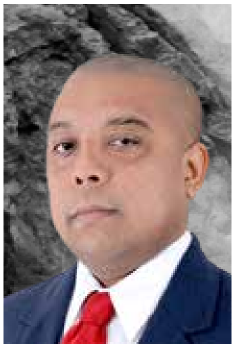
Dr. Ralph Henry – Chairman



Mr. Maurice Suite – Member



Dr. Alvin Hilaire – Member



Mr. Bevan Narinesingh – Member

Mrs. Judith Morrain-Webb – Member

Mr. Michael L. Raymond

- Economic Policy Analyst performing the functions of Corporate Secretary to the Board

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, 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.

GOVERNANCE (CONTINUED)

Withdrawals

Section 15 of the Act outlines the conditions under which amounts 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.

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.

INVESTMENT REPORT

Executive Summary

The Heritage and Stabilisation Fund (HSF) generated positive returns for the financial year ended September 30, 2016. The Fund's performance was attributed to gains in both equity and fixed income markets globally, as sovereign bond yields declined and equity markets rallied over the 12 month period.

Several prominent themes dominated the economic and financial analyses over the year, including persistent volatility in oil prices, geopolitical tensions, global economic uncertainty, and to a significant extent, central banking policy actions, both anticipated and actual. China regained the spotlight during the year, as renewed uncertainty over the economy's growth trajectory coupled with equity market volatility dampened the global growth outlook whilst "Brexit", Britain's vote to leave the European Union (EU), heightened market volatility.

Over the year, global economic growth remained positive but slow, with the continued disparity between advanced and emerging market economic growth. Amongst the advanced economies, economic activity was mixed and pointed to a deceleration in momentum. In the US, economic growth slowed to 1.5 per cent over the 12 month period ended at September 30, 2016, down from 2.2 per cent a year ago, while the UK expanded by a robust 2.3 per cent, despite the Brexit vote which was expected to have a negative impact on economic expansion in the quarter ending September 2016. Growth in the Eurozone and Japan remained fragile.

Equity market volatility was relatively elevated during the financial year, spiking in January, February and June 2016 when China's financial market and currency issues resurfaced, oil prices dipped and UK's referendum to leave the EU, respectively, roiled market sentiment. US and European equity market volatility declined, however, in the final quarter of the financial year, on the heels of a post-Brexit rebound.

For the financial year 2015/2016, the Fund returned 5.83 per cent, compared with gains of 6.29 per cent for the strategic asset allocation (SAA) benchmark. The equity portion of the Fund contributed approximately 3.2 per cent to the total return, while the fixed income portion added 2.6 per cent. US Equities were the strongest performing asset class in the portfolio, generating an absolute return of 13.4 per cent while Non-US International Equities also posted a relatively solid gain of 5.6 per cent.

During the financial year, pursuant to a directive from the Minister of Finance, US$375.1 million was withdrawn from the HSF and deposited into the Consolidated Fund. As at the end of September 2016, the Fund's Net Asset Value stood at US$5,584.2 million, down from US$5,655.1 million at the end of September 2015.

Macroeconomic Environment

Economic growth globally was positive for the financial year ended September 30 2016, even though developed economy growth lagged that of the emerging markets. Chinese economic growth continued to moderate as the country dealt with a potential hard landing throughout the financial year. According to the International Monetary Fund (IMF) in its latest World Economic Outlook publication, global growth for calendar 2016 is expected to decline slightly to 3.1 per cent from a 3.2 per cent estimate in calendar 2015, driven by a decline in developed economy growth from 2.1 per cent in calendar 2015 to 1.6 per cent in calendar 2016. Emerging economy growth is expected to uptick by 0.2 percentage points to 4.2 per cent in calendar 2016 from 4.0 per cent in calendar 2015.

INVESTMENT REPORT (CONTINUED)

In the **United States** (US), the economy lost momentum during the first half of the financial year as a strong US dollar, lower oil prices, as well as a decline in inventory and capital investment weighed on growth. The year-on-year change in GDP was 1.5 per cent for the 12 months ended September 2016. However, activity picked up in the second half, alleviating concerns of a sustained slowdown. The weakness in the manufacturing sector appears to have subsided, and consumer spending continues to be supported by strong fundamentals, such as better job prospects and higher wages.

After much anticipation, the Federal Reserve Bank (Fed) announced, at its December 2015 Monetary Policy Meeting, that it would raise its target range for the Federal Funds rate by 25 basis points from 0.25 per cent to 0.50 per cent. While initial expectations were for a gradual rise in interest rates thereafter, the Fed kept its target range and monetary policy unchanged throughout the rest of the financial year 2015/2016. At its most recent meeting in November 2016, the Fed decided to wait for "some further evidence" of improved economic conditions. Nonetheless, the committee acknowledged that the case for a rate increase had strengthened, given the gains in the labour market as well as signs that inflation was gradually moving towards its 2.0 per cent target.

On the political front, following a contentious election cycle, Donald Trump became the President-elect on November 8th, 2016. Though there is uncertainty surrounding Trump's policies, it is widely anticipated that they will include significant financial stimulus to the US economy including tax cuts and infrastructure spending.

Over the financial year ended September 2016, the **Eurozone** expanded 1.6 per cent, lower than the previous year's 1.9[1] per cent. Growth was fragile over the period, remaining sensitive to monetary policy action, energy prices and, to a larger extent, financial market dislocations and disharmony among its member states. Growth in core economies like Germany, France and Italy moderated over the period, while growth in peripheral states such as Portugal and Italy gained momentum, despite ongoing headwinds.

Inflation, as measured by the Consumer Price Index (CPI), was persistently below the ECB's 2 per cent target and was almost flat over the twelve months. The inflation rate reached 0.0 per cent in March 2016 and then peaked at 0.4 per cent in September 2016. Euro Area's labour market continued to improve over the financial year ended September 2016, albeit uneven across member states.

In an aggressive effort to fight low inflation and growth, in June 2016 the European Central Bank (ECB) extended its monthly asset purchase program to March 2017 and introduced a corporate bond buying programme. The ECB also kept rates at record low levels, with its main refinancing operations, the marginal lending facility and the deposit facility at 0.0 per cent, 0.25 per cent and -0.40 per cent respectively. A second round of its Targeted Long-Term Refinancing Options (TLTROII) was also conducted over the period.

The **United Kingdom** (UK) economy strengthened in the 12 months ended September 2016, as GDP rose 2.3 per cent, higher than the previous year's 1.9[2] per cent growth. This improvement was mainly

1 FY 2015-2016 GDP growth was revised upward to 1.9 per cent, from 1.6 per cent as reported in the HSF's Annual Report 2014-2015

2 FY 2015-2016 GDP growth was revised upward to 1.9 per cent, from 1.6 per cent as reported in the HSF's Annual Report 2014-2015

INVESTMENT REPORT (CONTINUED)

attributable to a strong services sector. Despite improved growth and inflation over the period, the highlight of the financial year was the outcome of unprecedented Brexit vote (referendum to stay or leave the European Union) on June 23rd, 2016. On June 24th, the results showed that British had voted for a departure from the European Union (EU), by a 52 per cent to 48 per cent sweep, sending shockwaves through the domestic and international markets.

After keeping the Bank rate on hold at 0.50 per cent, in August 2016, the Bank of England (BoE) took the decision to cut its Bank rate to 0.25 per cent in addition to other measures, following the unexpected Brexit vote. This marked the first interest rate cut since 2009 and was aimed at stimulating the economy.

On July 13th 2016, Theresa May was confirmed as Britain's 56th Prime Minister (PM), after David Cameron resigned in the aftermath of the referendum. It was subsequently announced that Article 50 would be triggered before the end of March 2017. In November 2016, the High Court ruled that the Parliament must give its approval before the process could begin. This ruling has since been appealed and the case will now be heard in the Supreme Court in December, 2016.

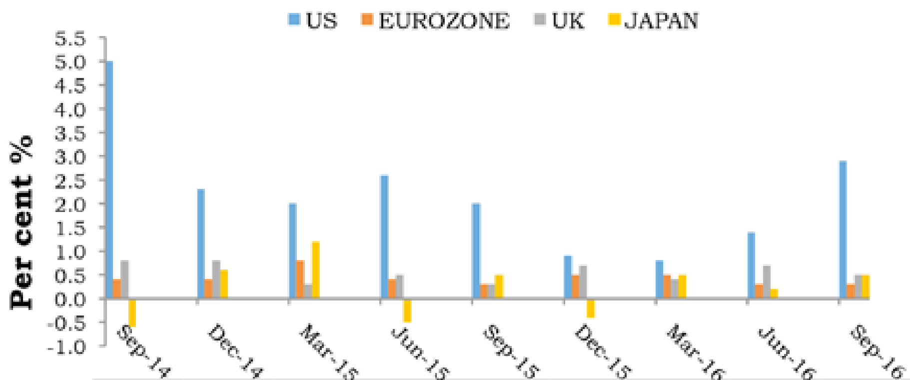
The **Japanese** economy recovered from negative growth in the fourth quarter of 2015 to expand at an average seasonally adjusted annualised rate of 0.78 per cent over the financial period 2015/2016. However, the recovery remained fragile, as growth was driven by stronger exports. Domestic consumption continued to be tepid, despite continued improvements in the labour market.

The Bank of Japan (BoJ) expanded its efforts to spur inflation and promote economic growth during the 12-month period. Policymakers lowered the bank's interest rate into negative territory, increased its Exchange Traded Fund (ETF) purchases, and overhauled its policy framework away from base-money targeting to yield-curve targeting. Nonetheless, prices fell over the financial year. The consumer price index fell 0.5 per cent in September 2016 from a year earlier.

On the fiscal front, the government approved a 28.1 trillion yen stimulus package and further delayed the second scheduled sales tax increase, in an attempt to support the economy. In addition, the ruling Liberal Democratic Party's upper house win provided Prime Minister Abe with the opportunity to implement key structural reforms. However, any gains were expected to be incremental, as the country struggles to emerged from over two decades of economic malaise.

INVESTMENT REPORT (CONTINUED)

CHART 1
GDP Growth: Selected Developed Economies Quarter-over-Quarter

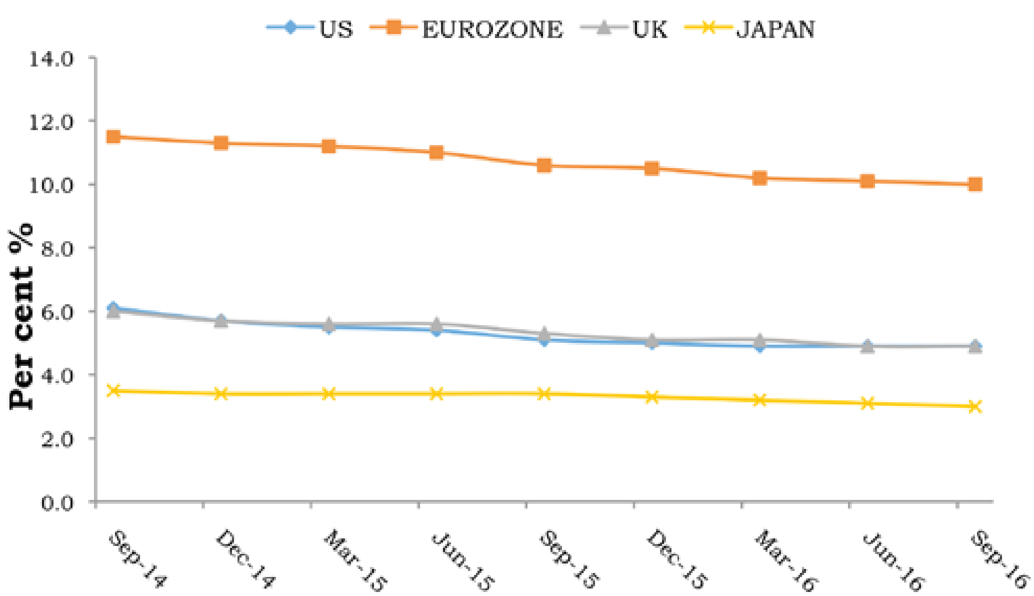


	M09-14	M12-14	M03-15	M06-15	M09-15	M12-15	M03-16	M06-16	M09-16
US	5.0	2.3	2	2.6	2.0	0.9	0.8	1.4	2.9
EUROZONE	0.4	0.4	0.8	0.4	0.3	0.5	0.5	0.3	0.3
UK	0.8	0.8	0.3	0.5	0.3	0.7	0.4	0.7	0.5
JAPAN	-0.6	0.6	1.2	-0.5	0.5	-0.4	0.5	0.2	0.5

Source: Bloomberg.

September 2016 data are preliminary and may be subject to revisions. US data is annualised.

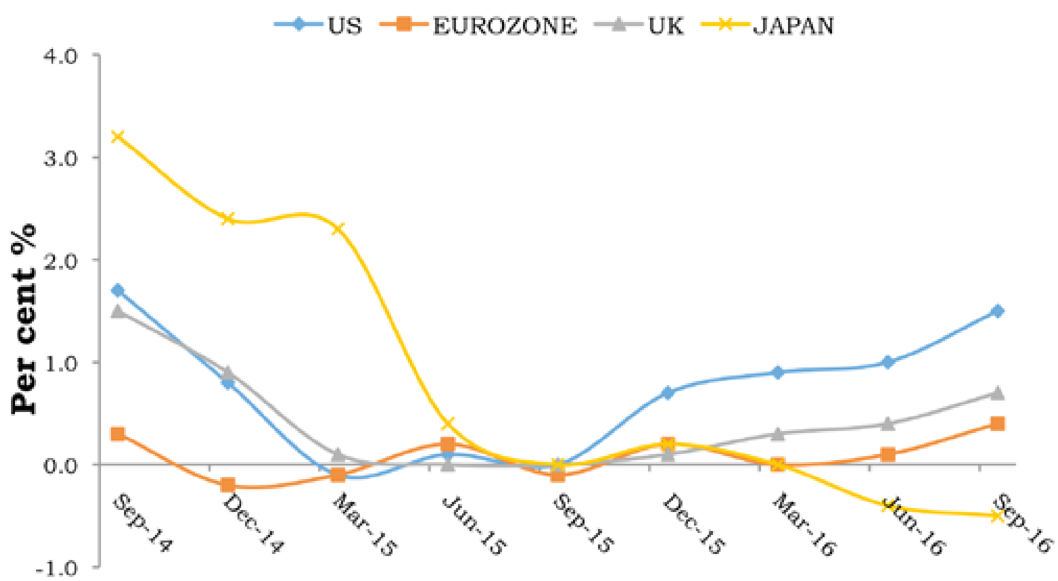
CHART 2
Unemployment Rates: Selected Developed Economies



Source: Bloomberg.

INVESTMENT REPORT (CONTINUED)

CHART 3
Inflation Rates: Selected Developed Economies Year-on-Year



Source: Bloomberg.

Financial Market Review

Over the financial year ended September 2016, global financial markets endured several bouts of volatility which stemmed from major events. In January 2016, the Chinese government intervened in the market in an effort to "sure up" mainland stocks and address concerns around its devalued currency and waning growth. Markets were then also shocked at the end of January by the Bank of Japan's decision to cut interest rates into negative territory. In February, unstable oil prices again affected markets, with the price per barrel falling to approximately US $26. Whilst there was some decline in volatility, subsequent to these events, volatility again spiked in June 2016, when the UK's unprecedented Brexit vote saw investors seek safe-haven assets. The uncertainties surrounding the rate hike by the Fed also impacted investor sentiment.

In the fixed income space, there was a significant flattening in the US Treasury curve, as shorter dated Treasuries rose while longer dates maturities declined. The spread between the 2-10 year portion of the curve fell 57.6 basis points to 83.1 basis points. Developed global sovereign bond yields also plunged over the financial year ended September 30 2016, on account of investors placing funds into the safe haven of developed market sovereign bonds. This stemmed from both major market events as well as the increasing uncertainty over the global growth outlook.

In equity markets, the US stock market ended the year on a high note with the Standard and Poor's (S&P) 500 index returning a solid 15.39 per cent over the year ended September 2016, once again

INVESTMENT REPORT (CONTINUED)

forging new record highs during the period. Non-US equity markets, as measured by the MSCI EAFE index, returned a relatively modest 6.91 per cent. In Europe, equity markets were under pressure as bank stocks underperformed alongside a downturn in overall investor sentiment in light of pre- and post-Brexit uncertainties. The UK's FTSE 100, however, outperformed its global counterparts, as a surprising post-Brexit recovery, on account of a persistently weakening pound sterling, which boded well for the index. The Japanese Nikkei declined 3.65 per cent mainly due to the impact of the appreciation of the currency which adversely impacted Japanese companies' competitiveness. The currency fluctuated between 100 yen and 110 yen to the US dollar, particularly over the final quarter of the financial year.

CHART 4
Stock Market Volatility

Source: Bloomberg.

Source: Bloomberg.

(a) Money Market

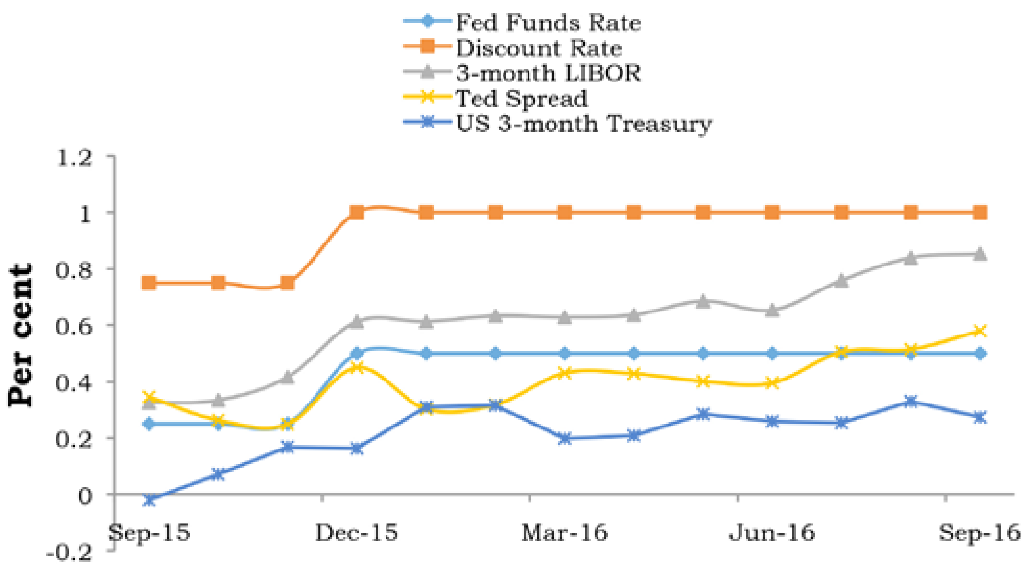
Short term interest rates rose over the 12 months ended September 2016, particularly following the Fed's December 2015 rate hike. As expected, the Federal Funds rate rose from 0.25 per cent to 0.50 per cent, up from its 0 to 0.25 per cent range for the prior twelve-month period. Rates then followed a general upward path thereafter, especially from May 2016 onwards, following new regulations in the US money market, the Money Market Reform[3]. The expected shift in Money Market Funds (MMFs) resulted in a noticeable rise in short term borrowing costs as investors fled to other short dated liquid assets. The US 3-month London Inter-Bank Offered Rate (LIBOR) rose to 0.85 per cent in September 2016 from 0.33 per cent in September 2015 while the US 3-month Treasury bill rate increased to 0.27 per cent, up from -0.02 per cent in September 2015. Accordingly, the spread between the 3-month US Treasury bill rate and the 3-month LIBOR rate, widened to 58 basis points in September 2016 from 34.53 basis points over the twelve month period (Chart 5 opposite refers).

3 1. The rules would require institutional prime and municipal money market funds to move from a stable $1.00 price per share to a floating net asset value. Money market funds sold to individual investors can maintain the fixed $1.00 share price.

2. The SEC's amendments also include new rules about liquidity fees and gates (temporary suspension of redemptions) allowing a fund's board of directors to directly address runs on a fund.

INVESTMENT REPORT (CONTINUED)

CHART 5
Selected Money Market Rates in the US
/per cent/



Source: Bloomberg.

(b) Fixed Income Market

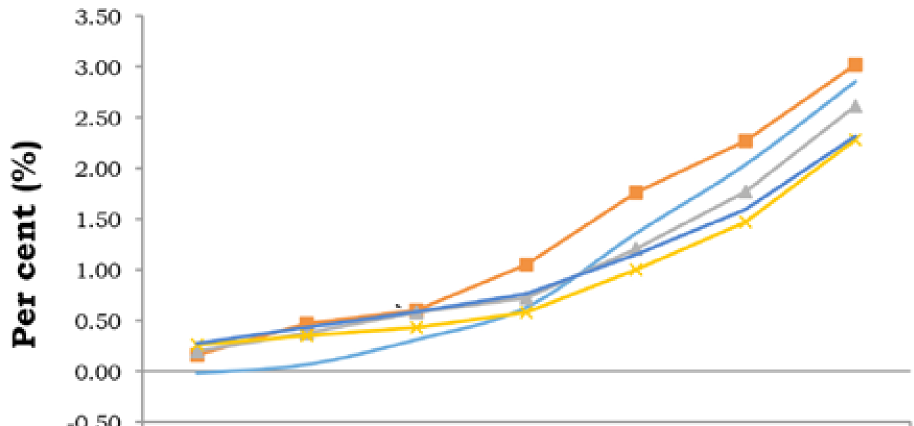
The US Federal Reserve (Fed) raised rates for the first time since 2006 at its December 2015 meeting and initially indicated the potential for four quarter-point increases in 2016. However, as the financial year progressed, expectations were adjusted to reflect a much slower rate path, due to a range of both domestic as well as external factors. Moreover, bouts of risk aversion in the market created strong flows into safe haven assets, and placed downward pressure on rates. A re-emergence of fears around the outlook for global growth following a collapse in commodity prices, and the uncertainty surrounding the United Kingdom's decision to exit the European Union fueled demand for US Treasuries.

The US Treasury curve flattened and the spread between the 2-10 year portion of the curve fell 57.6 basis points to 83.1 basis points. The 2-year yield rose modestly by 13.3 basis points to 0.76 per cent, fueled by the expectation of one rate hike before the end of 2016. Meanwhile the 10-year yield declined 44.3 basis points to 1.60 per cent, as the Fed lowered its terminal Fed Funds rate[4] forecast over the period. In addition, continued monetary policy divergence among central banks increased the relative attractiveness of longer dated US Treasuries versus other developed market sovereign bonds and bolstered foreign demand for Treasuries.

4 The terminal Fed Funds rate, also known as the neutral rate, is the rate at which the Federal Reserve feels comfortable that the US economy can operate, in terms of full employment and containing inflation.

INVESTMENT REPORT (CONTINUED)

CHART 6
US Treasury Yield Curve



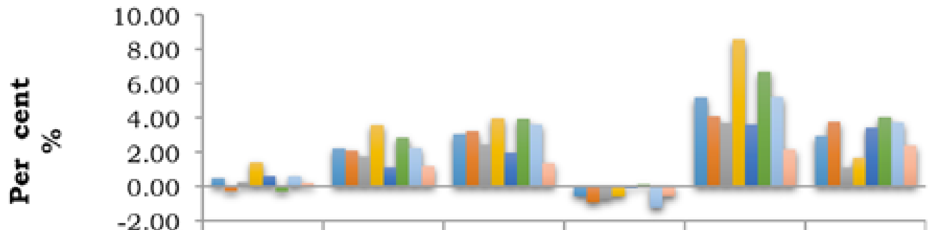
	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
September 30, 2015	-0.02	0.07	0.31	0.63	1.36	2.04	2.85
December 31, 2015	0.16	0.47	0.60	1.05	1.76	2.27	3.02
March 31, 2016	0.20	0.38	0.58	0.72	1.20	1.77	2.61
June 30, 2016	0.26	0.35	0.43	0.58	1.00	1.47	2.28
September 30, 2016	0.27	0.43	0.59	0.76	1.15	1.59	2.32

The broader US Fixed income market as measured by the Barclays US Aggregate Index generated a return of 5.19 per cent for the year ended September 30, 2016. The index delivered positive returns for most of the financial year, except for the three months to December 2015, when the Federal Reserve's decision to raise rates increased yields.

Over the financial year 2015/2016, spread products outperformed similar-duration treasuries and credit spreads narrowed. In the U.S. Investment grade corporate sector, spreads narrowed 30.9 basis points to 138.3 basis points while the agency mortgage-backed security sector was supported by strong demand from banks and non-U.S. investors. As the inflation outlook improved, "breakeven inflation rates" rose and Treasury Inflation Protection Securities delivered positive performance.

INVESTMENT REPORT (CONTINUED)

CHART 7
Returns on Fixed Income Indices



	QTR ended Sep-16	QTR ended Jun-16	QTR ended Mar-16	QTR ended Dec-15	FY 15/16	FY 14/15
Barclays U.S. Aggregate	0.46	2.21	3.03	-0.57	5.19	2.94
U.S. Treasuries	-0.28	2.10	3.20	-0.94	4.09	3.76
U.S. Agencies	0.25	1.73	2.43	-0.75	3.68	1.10
U.S. Corporate	1.41	3.57	3.97	-0.58	8.56	1.66
U.S. MBS	0.60	1.11	1.98	-0.10	3.61	3.43
G-7 Global Bonds (Hedged)	-0.30	2.84	3.93	0.11	6.69	4.03
CMBS Index	0.59	2.24	3.61	-1.24	5.22	3.72
ABS Index	0.20	1.17	1.36	-0.57	2.16	2.38

The sovereign bond yields of the G7 countries declined over the year as central banks maintained or expanded their level of monetary policy accommodation. In addition to the Fed holding its benchmark rate, the Bank of England (BoE), the European Central Bank (ECB) and the Bank of Japan (BoJ) all increased their stimulus measures. Investors were more sensitive to risk, driven by a collapse in oil prices as well as the United Kingdom's decision to exit the European Union, which boosted demand for global sovereign developed bonds.

The 10-year United Kingdom Gilt declined by 101.6 basis points over the period to 0.75 per cent while negative policy rates by the ECB and BoJ resulted in negative yields in Germany and Japan. The 10-year German sovereign bond yield fell 70.8 basis points to minus 0.12 per cent, while yields on 10-year Japanese government bonds (JGBs) fell 44.5 basis points to minus 0.09 per cent.

(c) Equity Market

Equity markets across the globe ended the financial year positively, despite an unstable path over the year. Developed equity markets endured consecutive rounds of volatile periods, plummeting in January as concerns around China's economic footing resurfaced and bottoming out in February when oil prices fell to its lowest point for the year. A recovery in equity markets ensued thereafter and was sustained until the financial year ended in September 2016, particularly supported by the shift in investor sentiment post-Brexit, which resulted in solid gains.

INVESTMENT REPORT (CONTINUED)

Over the period, central banking actions also continued to steer markets. In the US, equity markets ended the financial year as at September 30, 2016 on strong footing, despite relatively sharp intra-period highs and lows as investors reacted to economic and other developments. For the year ended September 2016, the S&P capped a 15.39 per cent return. Although it fell to a period low in February 2016 when the index closed at 1864.78 points, down from 1951.36 at the beginning of the October 2015, it rose to a period high of 2179.98 in August 2016. Similarly, the Russell 3000 index returned 14.93 per cent while the Dow Jones added 15.44 per cent.

Overall performance in non-US equity markets, as measured by the MSCI EAFE, also traced a similar unstable trend over the financial year, returning 6.91 per cent. On a disaggregated level, UK and Japan, which account for roughly 15 per cent and 25 per cent of the MSCI EASFE index respectively, contributed the majority of the index's total return.

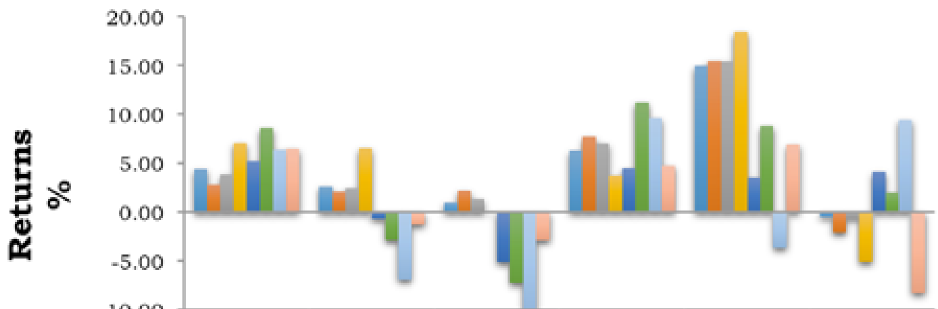
In Euro Area's major equity markets, Germany's DAX 30 returned a solid 8.80 per cent, while France's CAC 40 lagged, adding 3.56 per cent over the financial year. Despite both indices peaking in November 2015, global macro and financial events and political instability in Euro Area member states triggered volatility over the period. Adding to these pressures, European banks were also brought under scrutiny over the period, after stress tests revealed that negative interest rates in particular and flat yield curves were adversely impacting the monetary transmission mechanism in the Euro Area.

For the year ended September 2016, the UK's FTSE 100 returned 18.39 per cent, outperforming its global counterparts. Despite this, the FTSE 100 fluctuated between gains and losses month-on-month, collapsing in January and February in tandem with oil prices. The index recovered thereafter but declined again in June as the UK's Brexit referendum neared. It was not until July 2016 when the index showed a rebound mainly attributable to the weakening pound which benefited the export-heavy index.

The Japanese Nikkei 225 was the sole negative performer among developed equity markets, declining 3.65 per cent for the year ended September 2016. A major contributor to this underperformance stemmed from apprehensive sentiment toward the BoJ's Negative Interest Rate Policy (NIRP) in January 2016 and the announcement of a revised strategic fiscal package, including measures on growth and inflation targets. Adding to this, the currency began appreciating over the period resulting in a significant local equity market sell-off.

INVESTMENT REPORT (CONTINUED)

CHART 8
Total Return on Equity Indices



	QTR ended Sep-16	QTR ended Jun-16	QTR ended Mar-16	QTR ended Dec-15	FY 15/16	FY 14/15
Russell 3000	4.39	2.62	0.95	6.26	14.93	-0.49
Dow Jones	2.78	2.06	2.18	7.70	15.44	-2.10
S&P 500	3.85	2.45	1.34	7.03	15.39	-0.62
FTSE 100 - UK	7.07	6.52	0.08	3.72	18.39	-5.09
CAC 40 - France	5.20	-0.69	-5.12	4.47	3.56	4.10
DAX 30 - Germany	8.58	-2.86	-7.24	11.21	8.80	1.96
Nikkei 225 - Japan	6.33	-6.92	-11.19	9.62	-3.65	9.42
MSCI EAFE	6.46	-1.28	-2.89	4.75	6.91	-8.26

(d) Currency Market

There was significant volatility in the foreign exchange market over the period. Following a strong performance during the previous financial year, the US dollar, as measured by the US Dollar Index[5] (DXY), depreciated by a modest 0.92 per cent in the 12 months to September 2016. Though the US dollar briefly strengthened following the Fed's rate hike in December 2015, the currency retreated as the timing of the Fed's second rate increase was continually delayed, resulting in expectations for a significantly slower rate hiking cycle.

The Yen strengthened 18.28 per cent over the financial year 2015/2016. Demand for the Yen rose as bouts of risk aversion, especially during the first six months of 2016, fueled safe haven flows. The collapse in commodity prices and the surprise decision by the United Kingdom to exit the European Union drove investors to seek traditional safe haven assets such as the Japanese Yen.

The British Pound depreciated 14.25 per cent over the period. The pound weakened ahead of the June referendum, as the upcoming vote weighed on sentiment. The currency plunged following the results of the referendum, and the British Pound remained at these lower levels given the higher amount of uncertainty in the market. In addition, the greater degree of accommodation by the Bank of England placed further downward pressure on the British Pound.

5 The Dollar index measures the US dollar's relative value to a trade weighted basket of currencies, which are the US's most significant trade partners.

INVESTMENT REPORT (CONTINUED)

The euro currency appreciated modestly over the period, gaining 0.52 per cent over the 12 months to September 2016. The ECB delivered additional easing measures in the first half of the financial year, but the central bank kept its monetary policy unchanged thereafter, and did not extend its asset purchase programme as anticipated. In addition, relatively better sentiment and lower expectations regarding the United States rate hiking cycle, helped to support a stronger euro.

CHART 9
Foreign Exchange Returns: Major Currencies vis-à-vis the US Dollar /per cent/

	QTR ended Sept-16	QTR ended Jun-16	QTR ended Mar-16	QTR ended Dec-15	FY 15/16	FY 14/15
EUR	1.16%	-2.41%	4.77%	-2.82%	0.52%	-11.51%
GBP	-2.55%	-7.31%	-2.55%	-2.59%	-14.25%	-6.69%
JPY	1.83%	9.08%	6.80%	-0.28%	18.28%	-8.53%

Strategic Asset Allocation

(a) Portfolio Desired Allocation

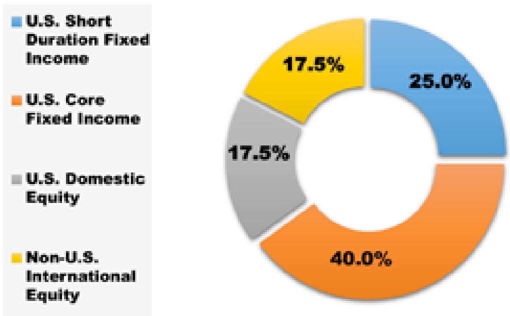
In 2008, the Board of Governors approved the Strategic Asset Allocation (SAA)[6] for the Fund. Given the onset of the financial crisis, the three-year implementation of the SAA was delayed until August 2009. By January 2011, the Fund's investment portfolio[7] was fully invested in the four major asset classes shown in Chart 10 opposite.

6 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.

7 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 (CONTINUED)

CHART 10
The Fund's Strategic Asset Allocation



(b) Portfolio Composition

During the financial year ended September 2016, the asset classes of the Fund deviated from their Strategic Asset Allocation (SAA) as a result of changes in assets' market values. Following the withdrawal of funds in May 2016, subsequent asset valuation changes resulted in the US Short Duration Mandate deviating from its SAA allocation by -5.05 per cent in July 2016, which exceeded the allowable range (+/- 5 per cent) stipulated in the investment policy statement. The portfolio was rebalanced in August with a total of US$120 million transferred from the US Core Fixed Income mandate to the US Short Duration Fixed Income mandate in order to bring each mandate into compliance with the permitted SAA deviation. As at September 30, 2016, all mandates were within the 5% allowable deviation; the US Core Domestic Equities and US Core Fixed Income mandates carried slight overweight allocations of 1.48 per cent and 1.80 per cent respectively, whilst the Non-US Core International Equity and US Short Duration Fixed Income mandates carried allocations below their target weights of 0.31 per cent and 2.97 per cent respectively.

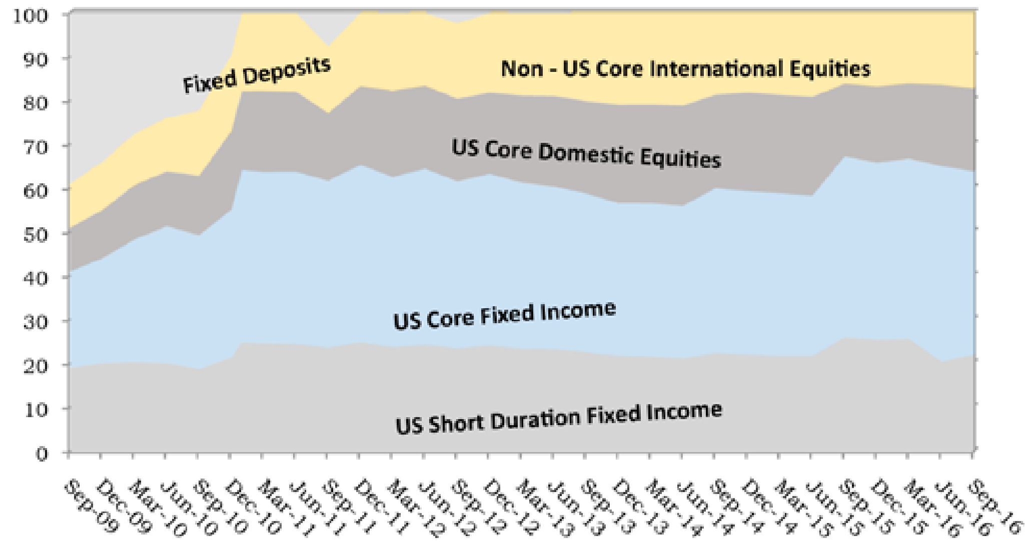
The Fund's SAA and the portfolio composition over the 2015/2016 financial year are shown below (Table 1, refers).

TABLE 1:
Portfolio Composition Relative to the Approved SAA
/Per Cent/

	Asset Class		Dec-15	Mar-16	Jun-16	Sep-16
		Target Weight SAA	Actual % of Fund	Actual % of Fund	Actual % of Fund	Actual % of Fund
Portfolio Weights	Cash	0.00	0.00	0.00	0.00	0.00
	US Short Duration Fixed Income	25.00	25.37	25.57	20.36	22.03
	US Core Domestic Fixed Income	40.00	40.45	41.16	44.69	41.80
	US Core Domestic Equity	17.50	17.40	17.17	18.54	18.98
	Non-US Core International Equity	17.50	16.77	16.10	16.40	17.19

INVESTMENT REPORT (CONTINUED)

CHART 11
Asset Composition of the Portfolio
/Per Cent/



(c) Fund Value

As at September 30 2016, the Fund's Net Asset Value stood at US$5,584.2 million, compared with US$5,655.1 million at the end of September 2015. Whilst the portfolio generated positive returns over the period, this was offset by the withdrawal of US$375.1 million in May 2016, resulting in an overall decline in the value of the Fund.

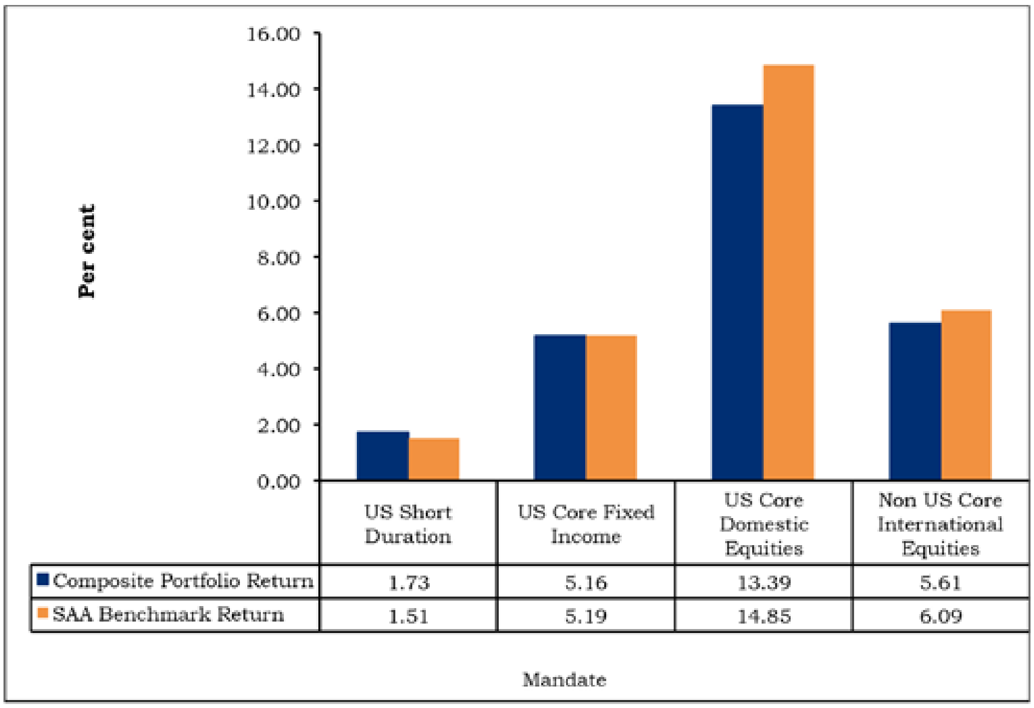
Portfolio Performance

Over the financial year ended September 2016, the Fund's investment portfolio gained 5.83 per cent, compared with returns of 6.29 per cent for the SAA benchmark. The modest performance of US equity markets on a total return[8] basis helped the US Core Domestic equity mandate to be the main driver of the overall portfolio return. The fixed income portion also added 1.5 per cent to the overall portfolio performance.

8 Total return includes interest income, capital gains (price gains), dividends and distributions realised over a period.

INVESTMENT REPORT (CONTINUED)

CHART 12
Absolute Returns by Asset Class FY 2015/2016
/per cent/



	US Short Duration	US Core Fixed Income	US Core Domestic Equities	Non US Core International Equities
Composite Portfolio Return	1.73	5.16	13.39	5.61
SAA Benchmark Return	1.51	5.19	14.85	6.09

On an absolute return basis, the Equity portion of the Fund posted a positive performance over the financial year ended September 2016, significantly outpacing the prior financial year's return. However, the benchmark returned more than the equity portfolio for the financial year. Both the US and Non-US equity portfolios underperformed their SAA benchmarks during the year. However, the US equity portfolio performed better than the Non-US developed portfolio for the period (in absolute return terms). The majority of global developed equity markets rallied for the 12 months ending September 2016, with the notable exception of Japan, as the Nikkei 225 declined by more than 3 per cent for the period. The UK equity market was the best performer during the financial year, followed by the US equity markets. As at September 30, 2016, the net asset value of the equity holdings were US$2,019.5 million, compared with a value of US$1,851.1 million one year earlier.

The US Core Domestic Equity portfolio gained 13.39 per cent, compared with a total return of 14.85 per cent for its benchmark, the Russell 3000 ex Energy Index. The underperformance of the portfolio

INVESTMENT REPORT (CONTINUED)

relative to its benchmark was significantly impacted by security selection in the Health Care sector during the financial year, as this sector was hard hit by pricing scandals and regulatory oversight. Additionally, sector allocations to the Financial Services, Health Care and Consumer Discretionary sectors also detracted from excess returns.

The other equity mandate, the Non-US International Equity portfolio, increased 5.61 per cent underperforming the MSCI EAFE ex Energy Index, which rose 6.09 per cent in total return terms. The underperformance of the portfolio can be divided between hedged country allocations and stock selection. Unfavourable exposure to securities in some countries such as Ireland, Denmark and Israel hurt the performance of the portfolio. Security selection in Japan and the Netherlands also hindered performance of the portfolio.

The Fixed Income portion of the Fund contributed positively to the overall performance of the HSF, helped by the US Short Duration Fixed Income mandate outperforming its SAA benchmark during the financial year, while the US Core Fixed Income mandate slightly underperformed its benchmark. The decline in government bond yields and tightening of spreads over the year positively impacted the performance of the majority of fixed income securities. Additionally, with the flattening of the US treasury curve, the 10 year yield declined by 45 basis points, while the 1 year yield increased by 28 basis points, and assisted performance. As at the end of September 2016, the net asset value of the two fixed income mandates totaled US$3,563.5 million, down from US$3,803.8 million one year earlier. This decrease in value is reflected in part by the withdrawal of US$375.05 million in May 2016.

The US Short Duration Fixed Income mandate returned 1.73 per cent, compared with a gain of 1.51 per cent for its benchmark, the Bank of America Merrill Lynch 1- 5 year US Treasury Index. The outperformance of the portfolio relative to its benchmark was attributed to the portfolio's exposure to inflation linked US government securities and spread products including agency MBS and non-US government securities.

The other fixed income mandate, the US Core Domestic Fixed Income portfolio, gained 5.16 per cent over the financial year ended September 2016. The portfolio slightly underperformed its benchmark, the Barclays Capital US Aggregate Bond index, which returned 5.19 per cent. The portfolio's duration strategy during the year and its exposure to corporate bonds detracted from performance in the year. Underweight duration positioning in the portfolio hurt performance as yields declined, especially after the Brexit vote. Additionally, overweight positioning to corporate spreads including energy and industrial names also contributed to under-performance.

Portfolio Risks

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

(a) Credit Risk

For the money market portion of the Fund, credit risk is minimised 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

INVESTMENT REPORT (CONTINUED)

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 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 3 shows the weighted average duration for the US Short Duration and US Core Domestic Fixed Income portfolios as at September 30, 2016.

TABLE 3
Weighted Average Duration
/Years/

Mandate	Portfolio	Benchmark
US Short Duration	2.66	2.66
US Core Domestic Fixed Income	5.37	5.51

INVESTMENT REPORT (CONTINUED)

(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.

TABLE 4*
Portfolio Currency Exposure

CURRENCY	Per Cent
US DOLLAR	83.61
EURO CURRENCY	4.67
JAPANESE YEN	3.78
POUND STERLING	3.30
SWISS FRANC	1.26
AUSTRALIAN DOLLAR	1.05
HONG KONG DOLLAR	0.77
NEW ZEALAND DOLLAR	0.32
NORWEGIAN KRONE	0.30
CANADIAN DOLLAR	0.26
DANISH KRONE	0.24
SWEDISH KRONA	0.23
NEW ISRAELI SHEQEL	0.21
SINGAPORE DOLLAR	0.02
COMPOSITE TOTAL	100.00

* Figures may not sum to 100 due to rounding.

Outlook & Risks to the Portfolio

During the next financial year, the external asset managers of the HSF will continue to employ diverse strategies to position the respective portfolios to take advantage of current and expected market conditions in addition to employing risk mitigating strategies as deemed appropriate.

Looking forward to 2017, the International Monetary Fund has forecast continued growth in the U.S. and Japan, while a slight decrease in Euro Area growth and a more significant deceleration in the U.K. following Brexit are expected. Positive overall global growth is anticipated as emerging markets in particular, are forecast to experience a pick-up in economic conditions.

For the fixed income managers, the main headwinds over the next year include improved economic conditions in the US leading to an increase in interest rates faster than market expectations in addition to increasing concerns about the effectiveness of the developed central banks' monetary policies.

In the equity markets, weak economic growth in the US and/or a collapse in the Chinese property market, which could exacerbate a 'hard landing' in the world's second largest economy, will be closely monitored. Furthermore, anticipated policy shifts from the US President-elect may result in increased anxiety amongst investors and heightened market volatility. In Europe, the handling of Brexit by the UK government and a series of elections characterised by populist sentiments and nationalist rhetoric in Germany, France and Italy may threaten an already fragmented Europe. Finally, there is the potential for oil price volatility as OPEC tries to find a common ground.

APPENDICES

APPENDIX I
Heritage and Stabilisation Fund - Financial Year Portfolio Valuation
/USD/

Valuation Date	Net Asset Value	Financial Year Total Comprehensive Income	Accumulated Surplus & Unrealised Capital Gains/Losses	(Withdrawals) / Contributions
September 30, 2007	1,766,200,701	41,966,361	41,966,361	321,706,043
September 30, 2008	2,888,421,556	68,412,770	110,379,131	1,054,174,457
September 30, 2009	2,964,686,478	76,248,691	186,755,766	-
September 30, 2010	3,621,984,041	177,645,460	364,361,226	477,344,263
September 30, 2011	4,084,016,158	9,715,841	374,074,067	451,400,519
September 30, 2012	4,712,376,278	420,693,705	794,770,772	207,550,846
September 30, 2013	5,154,027,747	399,007,950	1,193,778,722	42,519,782
September 30, 2014	5,533,425,248	379,167,024	1,572,945,746	-
September 30, 2015	5,655,143,565	120,639,605	1,693,585,351	-
September 30, 2016	5,584,246,290	305,452,096	1,999,037,447	(375,050,860)

APPENDICES (CONTINUED)

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
September 2014	7.65	5.60	204.51	5.69	5.22	47.69
September 2015	2.47	1.13	134.06	5.31	4.73	58.12
September 2016	5.83	6.29	-45.72	5.34	4.87	47.12

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

Note:

1. In May 2008, US Treasury instruments were added to the HSF portfolio. As a result, the performance benchmark for the HSF portfolio became a blended benchmark which comprised of 2.5% Merrill Lynch US Treasury 1-5 Years Index and 97.5% US One-month LIBID Index.
2. In August 2009, International Equities and Fixed Income Securities were added to the HSF portfolio. The performance benchmark for the HSF portfolio became a blended benchmark which comprise, Bank of America/Merrill Lynch US Treasury 1-5 Years Index, US One-month LIBID Index, Barclays US Aggregate, Russell 3000 ex Energy, and MSCI EAFE ex Energy.
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 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 2016

Section 116 of the Constitution of the Republic of Trinidad and Tobago and section 16 (1) of the Heritage and Stabilisation Fund Act, Chapter 70:09 (the Act) requires the Auditor General to audit the financial statements of the Heritage and Stabilisation Fund. The accompanying Financial Statements comprise a Statement of Financial Position as at 30 September 2016, a Statement of Comprehensive Income, a Statement of Changes in Equity and a Statement of Cash Flows for the year ended 30 September 2016 and Notes to the Financial Statements numbered 1 to 15.

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 was conducted in accordance with auditing standards which 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 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

OTHER 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.

28th November, 2016
PORT OF SPAIN

MAJEED ALI
AUDITOR GENERAL

2016.11.28

HERITAGE AND STABILISATION FUND
OF THE REPUBLIC OF TRINIDAD AND TOBAGO

FINANCIAL STATEMENTS
for the year ended 30 September 2016

STATEMENT OF FINANCIAL POSITION

As at 30 September, 2016 (expressed in United States Dollars)

	Notes	Sep-16 $	Sep-15 $
ASSETS			
Current assets			
Cash and cash equivalents	4	177 033 394	79,608,995
Financial assets	5,6	5,505,352,562	5,586,879,944
Receivables and prepayments	7	192,397 836	450,512,239
TOTAL ASSETS		**5,874,783,792**	**6,117,001,178**
LIABILITIES			
Current liabilities			
Other payables	8	293,002,904	463,940, 115
Financial liabilities	9	920,234	2,601,645
TOTAL LIABILITIES		**293,923,138**	**466,541,760**
NET ASSETS		**5,580,860,654**	**5,650,459,418**
PUBLIC EQUITY			
Contributed capital		3,581,823,207	3,956,874,067
Available-for-sale financial assets			
Revaluation reserve		321,023,500	128,973,010
Accumulated surplus		1,678,013,947	l,564,612,341
TOTAL EQUITY		**5,580,860,654**	**5,650,459,418**

DR. RALPH HENRY
(Chairman)

DR. ALVIN HILAIRE

MR. MAURICE SUITE

MR. BEVAN NARINESINGH

MRS. JUDITH MORRAIN-WEBB

REPUBLIC OF TRINIDAD AND TOBAGO
2016.11.28
AUDITOR GENERAL

The accompanying notes form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the Year ended 30 September, 2016 (expressed in United States Dollars)

	Notes	Sep-16 $	Sep-15 $
Income			
Investment income	10	146,879,761	142,113,412
Investment expenses	11	(23,851 ,432)	(33,935,897)
Gain on sale of financial assets		285,125,430	457,425,572
Loss on sale of financial assets		(289,812,582)	(235,631 ,471)
Income from investments		**118,341,177**	**329,971,616**
Other income		322,549	146,856
Total income		**118,663,726**	**330,118,472**
Operating expenses			
Management fees		1,696,163	1,718,994
Subscription fees		14,353	14,155
Audit fees		15,810	10,376
Licence fees		4,000	4,000
Total operating expenses		**1,730,326**	**1,747,525**
Net profit for the year before tax		**116,933,400**	**328,370,947**
Withholding tax expense		3,531,794	3,394,071
Net profit for the year after tax		**113,401,606**	**324,976,876**
Other comprehensive income:			
Available-for-sale financial assets			
- Unrealised gain/(loss) from fair value changes		192,050,490	(204,337,271)
Other comprehensive income for the year		**192,050,490**	**(204,337,271)**
Total comprehensive income for the year		**305,452,096**	**120,639,605**

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the Year ended 30 September, 2016 (expressed in United States Dollars)

	Contributed Capital	Available-for Sale Financial Assets Revaluation Reserve	Accumulated Surplus	Total
	$	$	$	$
Balance as at 1 October 2014	3,956,874,067	333,310,281	I,239,635,465	5,529,819,813
Total comprehensive income for the year	-	(204,337,271)	324,976,876	120,639,605
Balance as at 30 September 2015	**3,956,874,067**	**128,973,010**	**1,564,612,341**	**5,650,459,418**
Balance as at I October 2015	3,956,874,067	128,973,010	1,564,612,341	5,650,459,418
Withdrawals by Government for the year	(375,050,860)	-	-	(375,050,860)
Total comprehensive income for the year	-	192,050,490	113,401,606	305,452,096
Balance as at 30 September 2016	**3,581,823,207**	**321,023,500**	**1,678,013,947**	**5,580,860,654**

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the Year ended 30 September, 2016 (expressed in United States Dollars)

	Note	Sep-16 $	Sep-15 $
Cash flows from operating activities			
Net profit for the year before withholding tax		116,933,401	328,370,947
Adjustments			
Interest income		(95,299,840)	(86,472,073)
Dividend income		(51,392,636)	(55,641,339)
Fair value adjustment on financial assets and liabilities at fair value through profit or loss		(187,285)	2,410,377
Net realised loss/(gain) from the sale of financial assets		4,687,152	(221,794,101)
Cash outflows before changes in operating assets and liabilities		(25,259,208)	(33,126,189)
Changes in operating assets and liabilities			
Decrease/(increase) in receivables and prepayments		256,125,690	(162,633,010)
(Decrease)/increase in other payables		(170,937,211)	111,807,270
Withholding tax paid		(3,531,794)	(3,394,071)
Net cash from/(used in) operating activities		**56,397,477**	**(87,346,000)**
Cash flows from investing activities			
Interest received		98,001,587	82,930,776
Dividend received		50,679,602	56,426,699
Net sale/(purchase) of financial assets		267,392,344	(261,032,830)
Net cash flows from/(used in) investing activities		**416,073,533**	**(121,675,355)**
Cash flows from financing activities			
Withdrawal from contributed capital by government		(375,050,860)	-
Net cash flows used in financing activities		(375,050,860)	-
Effects of exchange rate changes on cash and cash equivalents		**4,249**	**43,805**
Net increase/(decrease) in cash and cash equivalents		97,424,399	(208,977,550)
Cash and cash equivalents at beginning of year		79,608,995	288,586,545
Cash and cash equivalents at end of year	4	**177,033,394**	**79,608,995**

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 30 September, 2016 (expressed in United States Dollars)

1. Corporate information

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, including 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) moneys transferred from the Interim Revenue Stabilisation Fund;

b) petroleum revenues deposited into the Fund in accordance with Section 13; and

c) assets acquired and earned from investments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

2. Accounting policies

a) Basis of preparation

The Financial Statements of the Fund have been prepared in accordance with International Financial Reporting Standards as adopted by the Institute of Chartered Accountants of Trinidad and Tobago. The Financial Statements have been prepared under the Historical Cost Convention as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities at fair value through profit or loss.

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 cash flow. 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) Financial assets

i. Initial recognition

The Fund's financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss or as available-for-sale financial assets, as appropriate.

Regular purchases and sales are recognised on the trade date. Thus, any agreements made before the reporting date, with expectations of settlement thereafter, will give rise to both a financial asset and financial liability, which are recognised in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

2. Accounting policies (continued)

d) Financial assets (continued)

ii. Subsequent Measurement

Available-for-sale

Available-for-sale financial assets are those which 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 Board. These financial assets are initially measured at fair value and subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in Other Comprehensive Income (revaluation reserve). When the financial asset is derecognised or is determined to be impaired, the cumulative gain or loss previously reported in the revaluation reserve is included in the income statement as 'Gain or Loss from financial assets'.

Fair value through profit or loss

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

a. 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');

b. 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

c. it is settled at a future date.

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. Net changes in fair value are presented in the Statement of Comprehensive Income .

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

2. Accounting policies (continued)

d) Financial assets (continued)

ii. Subsequent measurement (continued)

Fair value through profit or loss (continued)

The Fund holds the following derivative instruments (see Notes 5 and 9):

a) Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price. Options held by the Fund are exchange traded. The Fund is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

b) Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts. Interest rate swaps relate to contracts taken out by the Fund with major brokers in which the Fund either receives or pays a floating rate of interest in return for paying or receiving a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other. In a currency swap, the Fund pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are gross-settled.

iii. Fair value measurement/estimation

Fair value is the price at which an asset can be exchanged in an orderly arm's length transaction between knowledgeable and willing market participants. The fair value for financial instruments traded in active markets at the reporting date is based on their quoted 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 market transactions adjusted as necessary and/or reference to the current market value of another transaction that is substantially the same.

Financial assets for which fair value is measured and disclosed in the financial statements are categorised within the three-level fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. The levels are:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

2. Accounting policies (continued)

d) Financial assets (continued)

iii. Fair value measurement/estimation (continued)

Level I - unadjusted quoted prices in active markets for identical assets

Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

iv. Impairment of financial assets

At the end of each reporting period, the Fund assesses whether there is any objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are recognised if, and only if there is objective evidence that one or more events occurred after initial recognition of the asset ('loss event') and the loss event's impact on the estimated future cash flows of the financial asset can be reliably estimated.

v. Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Fund has transferred substantially all of the risks and rewards of ownership or where the Fund has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

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 accrual basis.

Dividend income is recognised on the accrual 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) Receivables

Receivables are stated at their expected realisable value.

k) Other payables

Other payables 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.
- **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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

2. Accounting policies (continued)

m) Statement of cash flows (continued)

- 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.

o) Withdrawals

In accordance with Section 15 of the Act, subsection 1, subject to subsections (2) and (3), 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 as follows, whichever is the lesser amount:

i) Either sixty per cent of the amount of the shortfall of petroleum revenues for that year; or

ii) Twenty-five per cent of the balance outstanding to the credit of the Fund at the beginning of that year

Subsection 2 states that the amount withdrawn from the Fund in accordance with subsection 1 shall be deposited into the Consolidated Fund within forty eight hours of such withdrawal.

Subsection 3 states that notwithstanding subsection 1, no withdrawal may be made from the Fund in any financial year, where the balance standing to the credit of the Fund would fall below one billion dollars in the currency of the United States of America, if such withdrawal were to be made.

p) Critical accounting estimates and judgements

The Fund makes estimates and assumptions that affect the reported amounts of the assets and liabilities within the financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events.

The resulting accounting estimates will seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are illustrated below:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

2. Accounting policies (continued)

p) Critical accounting estimates and judgements (continued)

- **Fair value of financial instruments**

  Where the fair value of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

3. Financial risk management

The Fund is exposed to a variety of financial risks including credit risk, concentration risk, market risk and liquidity risk. The Fund is also exposed to operational risk, the risk of loss arising from inadequate or failed processes, systems or external events. The management of these risks is undertaken by the Bank along with a global custodian as the guardian of all assets of the Fund, and highly qualified and experienced international asset managers; guided by the operational and investment policies that are approved and reviewed by the Board of Governors.

The Fund's risk management policy seeks to preserve the long-term real value of the Fund whilst constraining the risk of not meeting its performance objectives over rolling 5-year periods. The Fund's policy allows for the use of derivative securities so as to mitigate certain risk exposures such as interest rate and currency risks as well as to enhance the value of the Fund. The use of derivative securities or contracts to create economic leverage is strictly prohibited. Purchasing securities on margin, except for futures or swaps, against which are held a risk equivalent amount of cash or liquid securities is also prohibited.

The Fund's policy allows for the management of risk relative to its Strategic Benchmark as well as from a sector or country or issuer level. These measures are explained below.

a) The Strategic Benchmark

The Fund's Investment Portfolio is invested in a manner to achieve the objective of preserving its real value measured over 5-year rolling periods. It is invested in accordance with the strategic asset allocation (SAA) approved by the Board of Governors. The SAA for the Fund is as follows:

Asset Class	Allocation
U.S. Equities	17.5%
Non-U.S. Equities	17.5%
U.S. Core Domestic Fixed Income Securities	40.0%
U.S. Government Treasury 1-5 Years Securities	25.0%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

3. Financial risk management (continued)

a) The Strategic Benchmark (continued)

This SAA limits the allowable underperformance of the overall portfolio relative to the composite benchmark, to an annual budget of risk of 2.0% measured over rolling one-year periods. In other words, the expected net variation of return of the portfolio and the composite benchmark is 2.0%.

The benchmarks and the risk budget for each of the asset classes are as follows:

Asset class	Performance Index	Risk Budget
U.S. Equities	Russell 3000 ex-energy Index comprised of the 3,000 largest market capitalisation stocks in the United States and accounts for roughly 97% of the total market capitalisation of that country.	4.00%
Non U.S. Equities	MSCI EAFE ex-energy Index, which comprises the following countries: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands , New Zealand, Norway , Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.	4.50%
U.S. Government Treasuries 1-5 Years	Merrill Lynch U.S. Treasuries 1-5 Years Index	0.50%
U.S. Core Domestic Fixed Income	Barclays Capital U.S. Aggregate Index	1.00%

The risk budget for each asset class is defined as the target annualised tracking error, measured ex-post, on a monthly rolling three-year basis, versus the Benchmark. The tracking error is defined as the annualised standard deviation of monthly excess returns relative to the Benchmark.

The overall performance of the SAA is evaluated against the composite benchmark return computed as the weighted returns of the benchmarks of the various asset classes with weights equal to the SAA weights.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

3. Financial risk management (continued)

b) Portfolio performance

The portfolio performance for the year ended 30 September, 2016 was as follows:

12 Month Performance			
Portfolio	**Fund**	**Benchmark Return**	**Benchmark Composition**
Composite	5.83%	6.29%	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	0.41%	0.38%	Merrill Lynch US Government Treasury 1-5 Years Index
US Core Fixed Income	2.18%	2.05%	Barclays Capital US Aggregate Bond Index
US Core Domestic Equity	2.27%	2.57%	Russell 3000 (Ex Energy)
Non-US Core International Equity	0.90%	1.20%	MSCI EAFE (Ex Energy)

c) 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. The main concentration of credit risk arises from the Fund's investments in debt securities. The Fund is also exposed to counterparty credit risk on cash and cash equivalents.

Credit risk is mitigated by the establishment of ratings standards. These standards require U.S. Treasury, Government-Related and Securitised debt securities to have a minimum credit quality of AA-1/Aa3 from at least one of the Nationally Recognised Statistical Rating Organisations, Standard & Poor's or Moody's. Corporate debt should have a minimum credit quality of investment grade, at least Baa3 by Moody's or BBB- by Standard & Poor's. An investment grade corporate bond is considered to have a relatively low risk of default.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Credit risk (continued)

The table below summarises the credit quality of the Fund's debt securities as at September 30,2016.

Debt securities by rating category

Credit Rating	2016	2015
AAA	13.5%	7.9%
AA	60.9%	67.0%
A	6.5%	7.9%
BBB	18.8%	16.9%
Not Rated*	0.3%	0.3%

* Not Rated debt securities refer to securities that are issued or unconditionally guaranteed by the agency of a sovereign government. The rating for each of these investments is implicitly tied to the credit rating of the government of the United States of America or the United Kingdom.

Money-market counterparts should have a minimum credit rating of A 1 from Standard & Poor's, or PI from Moody's. Counterparty credit risk is also managed by limiting the exposure of a single counterparty to 3% of the Fund.

Concentration risk

Concentration risk is the risk of loss attributable to holding investments in a single security or to a limited number of investment styles or asset classes. The Strategic Asset Allocation (SAA) reduces this risk by ensuring the Fund's assets are invested across various asset classes and styles. The Fund is invested in three broad asset classes:- Fixed Income including Government and Government Related, Supranational, Corporate, and Securitised bonds; Equities including financial, consumer discretionary, healthcare, utilities, information technology, industrials, consumer staples and telecom services; and Cash Equivalents including U.S. Treasury and agency bills, Certificates of deposits and Money Market funds managed by the custodian with an AAAm rating and comprising only of the eligible asset classes defmed in the Fund's investment policy.

Each asset class in which the Fund invests, reacts differently under the same market conditions, and usually when one asset class has strong returns another will have lower returns. Diversification across asset classes reduces the total risk of the Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Concentration risk (continued)

Concentration risk is also managed at the portfolio level, relative to the Strategic benchmark. Total net exposure to each of the sub-sectors of the Barclays Capital U.S. Aggregate Bond Index (U.S. Treasury, Government-Related, Corporate and Securitised) cannot exceed plus or minus 20% versus the benchmark. Sector deviations relative to the Russell 3000 (Ex Energy) and MSCI EAFE (Ex Energy) indices are limited to plus or minus 5%. The Fund's policy also prescribes concentration limits for the various asset classes, including no more than 3% of the portfolio to any one corporate issuer and country allocation limited to plus or minus 10% of the MSCI EAFE (Ex Energy) index.

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.

i. Currency risk

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

The Fund invests in international bonds and equities denominated in currencies other than the United States Dollar, the base currency of the Fund. Currency risk is managed at the portfolio level. For the Fixed Income and U.S. 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 United States Dollar. For the Non US Core International Equity mandate, currency hedging is allowed for up to 15% of the market value of the portfolio.

A 1% change in the US dollar relative to other currencies (see below) in which the Fund trades would have changed the net assets of the Fund as at 30 September 2016 and 30 September 2015 as follows:

	Sep-16 $	Sep-15 $
Change in net assets	14,137,923	12,736,268

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Market risk (continued)

i. Currency risk (continued)

Foreign currency concentration exposure on financial assets and financial liabilities

Financial assets	**Sep-16**	**Sep-15**
Currency	**% of financial assets**	**% of financial assets**
Australian dollar	1.05	0.39
Canadian dollar	0.26	0.00
Danish krone	0.24	0.92
Euro	4.67	5.30
Hong Kong dollar	0.77	0.28
New Israel sheqel	0.21	0.18
Japanese yen	3.78	4.53
New Zealand dollar	0.31	0.03
Norwegian krone	0.30	0.06
Singapore dollar	0.02	0.09
Swedish krona	0.23	0.55
Swiss franc	1.26	0.72
British pound	3.30	2.62
United States dollar	83.60	84.33
Total	**100.00**	**100.00**

Financial liabilities	**Sep-16**	**Sep-15**
Currency	**% of financial liabilities**	**% of financial liabilities**
Euro	29.73	-
Swedish krona	8.05	0.72
Japanese yen	6.10	-
Norwegian krone	0.02	-
British pound	62.87	10.52
United States dollar	22.96	59.03
Total	**100.00**	**100.00**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Market risk (continued)

ii. Interest rate risk

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

The Fund invests in fixed and floating rate debt securities that expose it to fair value and cash flow interest rate risk. Interest Rate Risk is managed at the portfolio level whereby the average weighted effective duration of the U.S. Short Duration Fixed Income mandate must not vary from that of the Benchmark by more than plus or minus six (6) months. The weighted average effective duration of the U.S. Core Fixed Income mandate may range between one (I) year longer or shorter than the weighted average duration of the Benchmark.

	2016		2015	
	Portfolio	**Index**	**Portfolio**	**Index**
US Short Duration Fixed Income	2.66	2.66	2.43	2.68
US Core Fixed Income	5.37	5.51	5.51	5.39

iii. 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 fmancial instruments traded in the market.

Price risk is managed through asset class diversification and selection of securities within the limits approved by the Board of Governors. The Fund's policy limits its holdings of any equity security to no more than 3% of that security's outstanding shares.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Market risk (continued)

iii. Price risk (continued)

The tables below summarise the sector concentrations within the Fund:

US Short Duration Fixed Income - Sector Concentrations

	2016		2015	
	US Short Duration Mandate	Merrill Lynch US Treasury 1-5 Year Index	US Short Duration Mandate	Merrill Lynch US Treasury 1-5 Year Index
US Treasuries	50.1%	100.0%	69.9%	100.0%
Agencies	18.8%	-	14.6%	-
Non-US Government	13.0%	-	0.3%	-
Supranationals	9.8%	-	2.4%	-
Agency CMBS	4.8%	-	0.0%	-
Agency RMBS	1.6%	-	0.0%	-
Local Government Obligations	1.5%	-	0.8%	-
Municipals	0.4%	-	0.6%	-
Credits	0.0%	-	5.9%	-
ABS/CMBS	0.0%	-	4.8%	-
Mortgages	0.0%	-	0.7%	-
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Market risk (continued)

iii. Price risk (continued)

US Core Fixed Income - Sector Concentrations

	2016		2015	
	US Core Fixed Income Mandate	Barclays US Aggregate Bond Index	US Core Fixed Income Mandate	Barclays US Aggregate Bond Index
Corporates	38.0%	26.0%	38.9%	24.0%
US Treasuries	16.4%	36.3%	18.8%	36.4%
Residential Mortgage Backed Securities	15.9%	0.0%	14.2%	0.0%
Mortgage Backed Securities	13.9%	27.6%	13.0%	28.4%
Asset Backed Securities	8.2%	0.5%	5.6%	0.6%
Commercial Mortgage Backed Securities	3.5%	1.6%	5.2%	1.9%
Government Related Securities	3.2%	7.9%	3.6%	8.6%
Emerging Market Debt	0.9%	0.0%	0.5%	0.0%
Covered Bonds	0.0%	0.1%	0.1%	0.1%
Convertibles	0.0%	0.0%	0.1%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Market risk (continued)

iii. Price risk (continued)

US Core Domestic Equity - Sector Concentrations

	2016		2015	
	US Core Equity Mandate	**Russell 3000 Ex-Energy Index**	**US Core Equity Mandate**	**Russell 3000 Ex-Energy Index**
Financials	20.3%	21.2%	21.2%	21.6%
Technology	19.4%	18.7%	18.5%	17.7%
Health Care	15.4%	15.0%	16.1%	15.2%
Consumer Discretionary	15.3%	14.9%	17.2%	16.0%
Producer Durables	12.1%	11.4%	11.4%	11.5%
Consumer Staples	7.6%	8.5%	7.2%	8.3%
Utilities	5.8%	6.1%	5.2%	5.7%
Materials & Processing	4.1%	4.2%	3.2%	4.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Market risk (continued)

iii. Price risk (continued)

Non-US International Equity - Sector Concentrations

	2016		2015	
	Non-US International Equity Mandate	**MSCI EAFE EX-Energy Index**	**Non-US International Equity Mandate**	**MSCI EAFE EX-Energy Index**
Financials	19.9%	20.1%	27.8%	27.1%
Industrials	15.0%	14.8%	14.4%	13.1%
Consumer Staples	12.2%	13.5%	11.0%	12.6%
Consumer Discretionary	12.0%	12.8%	14.7%	13.8%
Health Care	11.6%	12.0%	10.8%	12.4%
Materials	10.7%	7.9%	7.5%	6.9%
Telecommunication Services	7.0%	5.0%	6.0%	5.1%
Real Estate	4.9%	4.2%	0.0%	0.0%
Information Technology	4.2%	5.8%	4.6%	5.0%
Utilities	2.5%	3.9%	3.2%	4.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The table below summarises the sensitivity of the Fund's net assets attributable to redeemable shares to equity price movements as at 30 September. The analysis is based on the assumption that the share price increased by l% and decreased by l%, with all other variables held constant, and that the fair value of the Fund's portfolio of equity securities moved according to their historic correlation with the price.

	Sep-16 $	Sep-15 $
Effect on net assets attributable to redeemable shares of a 1% increase/decrease in the share price	**19,872,228**	**18,185,345**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Liquidity risk

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

One of the strategic objectives of the Fund is the maintenance of sufficient liquidity to cover its obligations at short notice and in accordance with the Act. In order to meet this stated objective, the Fund holds a combination of cash and short term assets such as U.S. Treasury and agencies bills and notes, certificates of deposits and money market funds managed by the custodian with an AAAm rating containing eligible asset classes in accordance with the investment policy. The Fund's investments in aggregate of any fixed income security must not exceed 5% of that security's outstanding par value.

The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

	Less than 1 month $	1 - 6 months $	6 - 12 months $	Total $
Sep-16				
Non-derivative financial liabilities				
Investment purchased	248,663,157	2,983,750	-	251,646,907
Foreign currency purchased	18,578,445	19,247,029	-	37,825,474
Interest payable	-	5,778	-	5,778
Due to money market	38,172	-	-	38,172
Due to brokers	95,208	-	-	95,208
Accrued expenses	3,102,938	283,189	5,238	3,391,365
	270,477,920	**22,519,746**	**5,238**	**293,002,904**
Sep-15				
Non-derivative financial liabilities				
Investment purchased	336,815,979	41,347,500	-	378,163,479
Foreign currency purchased	6,054,542	72,791,704	-	78,846,246
Interest payable	-	162,067	-	162,067
Due to brokers	2,078,541	-	-	2,078,541
Accrued expenses	1,638,934	2,403,605	647,243	4,689,782
	346,587,996	**116,704,876**	**647,243**	**463,940,115**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Liquidity risk (continued)

The table below analyses the Fund's derivative financial instruments in a loss position.

	More than 12 months	Total
	$	$
Sep-16		
Derivative financial liabilities		
Credit default swap	271,426	271,426
Interest rate swap	648,808	648,808
	920,234	**920,234**
Sep-15		
Derivative financial liabilities		
Credit default swap	65,860	65,860
Interest rate swap	2,535,785	2,535,785
	2,601,645	**2,601,645**

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.

4. Cash and cash equivalents

	Sep-16	Sep-15
	$	$
Cash at bank	1,573,106	1,313,230
Cash at broker	2,166,388	6,305,157
US Government Money Market	173,293,126	71,994,083
	177,032,620	79,612,470
Net effect of exchange rate changes	774	(3,475)
	177,033,394	**79,608,995**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

5. Financial assets

	Sep-16 $	Sep-15 $
Available-for-sale	5,505,352,562	5,586,714,154
Fair value through profit or loss	-	165,790
	5,505,352,562	**5,586,879,944**
Available-for-sale financial assets		
Cost/amortised cost	5,184,663,095	5,458,485,014
Net appreciation	320,689,467	128,229,140
	5,505,352,562	**5,586,714,154**
Represented by:		
Fixed income investments		
Amortised cost	3,443,402,930	3,735,915,438
Net Appreciation in market value	74,726,799	32,264,844
	3,518,129,729	**3,768,180,282**
Equity		
Cost	1,741,260,165	1,722,569,576
Net appreciation in market value	245,962,668	95,964,296
	1,987,222,833	1,818,533,872
Total available-for-sale financial assets	**5,505,352,562**	**5,586,714,154**
Financial assets at fair value through profit or loss		
Cost	-	136,514
Fair value adjustments	-	29,276
Total financial assets at fair value through profit or loss	-	**165,790**

6. Fair value of financial assets

(a) Debt and equity securities

	Sep-16		Sep-15	
	Fair value $	% of net assets	Fair value $	% of net assets
Total debt securities	3,518,129,729	63.04	3,768,180,282	66.69
Total equity	1,987,222,833	35.61	1,818,533,872	32.18
Financial assets at fair value through profit or loss	-	-	165,790	0.01
Total financial assets	**5,505,352,562**	**98.65**	**5,586,879,944**	**98.88**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

6. Fair value of financial assets (continued)

(b) Fair value hierarchy

Various methods are used in estimating the fair value of a financial instrument. The Fund classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making measurements.

The fair value of the Fund's investment securities are analysed by the fair valuation hierarchy below:

	Sep-16			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial assets				
Asset-backed securities	-	255,677,065	1,333,786	257,010,851
Collateralised mortgage-backed securities (CMO)	-	221,526,731	81,756	221,608,487
Corporate bonds	-	1,047,940,969	-	1,047,940,969
Government issues	-	1,356,766,036	-	1,356,766,036
Mortgage-backed securities	-	611,716,284	-	611,716,284
Municipals	-	23,087,102	-	23,087,102
Fixed income	**-**	**3,516,714,187**	**1,415,542**	**3,518,129,729**
Common stock	1,926,666,126	-	-	1,926,666,126
Depository receipts	7,589,122	-	-	7,589,122
Preferred stock	3,081,511	-	-	3,081,511
Real estate investment trust	49,886,074	-	-	49,886,074
Equity	**1,987,222,833**	**-**	**-**	**1,987,222,833**
Total financial assets	**1,987,222,833**	**3,516,714,187**	**1,415,542**	**5,505,352,562**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

6. Fair value of financial assets (continued)

(b) Fair value hierarchy (continued)

	Sep-15			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Financial assets				
Asset-backed securities	-	195,330,138	-	195,330,138
Collateralised mortgage-backed securities (CMO)	-	253,941163	-	253,941163
Convertible bonds	-	1,115,174	-	1,115,174
Corporate bonds	-	978,196,387	-	978,196,387
Government issues	-	1,744,725,454	-	1,744,725,454
Mortgage-backed securities	-	562,778,754	-	562,778,754
Municipals	-	32,093,112	-	32,093,112
Fixed income	-	3,768,180,282	-	3,768,180,282
Common stock	1,734,567,306	25,402	-	1,734,592,708
Depository receipts	43,132,664	-	-	43,132,664
Limited partnership units	183,679	-	-	183,679
Preferred stock	1,919,800	-	-	1,919,800
Real estate investment trust	38,705,021	-	-	38,705,021
Equity	1,818,508,470	25,402	-	1,818,533,872
Credit default swap	-	165,790	-	165,790
Financial assets at fair value through profit or loss	**-**	**165,790**	**-**	**165,790**
Total investments	**1,818,508,470**	**3,768,371,474**	**-**	**5,586,879,944**

Valuation techniques

Investment Securities included in Level 1

Exchange listed price or a broker quote in an active market.

Investment Securities included in Level 2

Where a security has ceased trading the last trade price or a broker quote in a non active market is used. Additionally, securities closely related (e.g. when issued, fungible shares) where the security held is not trading but related security is traded.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

6. Fair value of financial assets (continued)

(b) Fair value hierarchy (continued)

Investment Securities included in Level 3

Security in which no indications or comparables are available and the company's financials/information or other market indicators are used to calculate valuation.

The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant observable and unobservable inputs used:

Investment Type	Level 2 Technique/Inputs	Level 3 Technique/Inputs
Asset-backed Securities and Collateralised Mortgage-Backed Securities (CMOs)	Evaluated price which is based on a compilation of primarily observable market information or a broker quote in a non-active market	Price calculated internally using primarily information not observable in the market place. The valuation technique here used a broker and market approach with the broker mark and discount margin used as unobservable inputs
Corporate Bonds	Evaluated price which is based on a compilation of primarily observable market information or a broker quote in a non-active market	
Government Issues	Evaluated price which is based on a compilation of primarily observable market information or a broker quote in a non-active market	
Mortgage Backed Securities	Evaluated price which is based on a compilation of primarily observable market information or a broker quote in a non-active market	
Municipals	Evaluated price which is based on a compilation of primarily observable market information or a broker quote in a non-active market	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

6. Fair value of financial assets (continued)

(c) Transfers between fair value hierarchy levels

As at 30 September, 2016, available for sale other asset backed securities and collateralised mortgage backed securities were transferred from Level 2 to Level 3 as the only pricing technique available to value these securities involved using a broker mark from a broker quote and the discount margin using a market approach to value the securities.

A reconciliation of the values of these instruments is shown below:

Security	Opening Market Value as at October 1, 2015 ($)	Closing Market Value as at September 30, 2016 ($)	Change in Value($)
CMO	407,437	81,756	325,681
Other asset-backed	1,380,680	1,333,786	46,894
Total	1,788,117	1,415,542	372,575

(d) Level 3 Fair Values

The following provides an analysis of the Level 3 instruments in the Fund's portfolio of investments:

Serurity	Valuation technique	Significant unobservable inputs	Possible shift in inputs+/-	Change in valuation +/-
CMO	Broker quote	Broker mark	10%	$8,200
Other asset-backed	Market approach	Discount margin	10%	$21,000

(e) Collateral

Securities pledged as collateral were as follows:

	Sep-16 $	Sep-15 $
Fixed income	1,595,000	2,115,000
Equity	450,000	585,000
	2,045,000	**2,700,000**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

7. Receivables and prepayments

	Sep-16	Sep-15
	$	$
Pending trades	168,985,415	424,665,587
Interest receivable	15,125,233	17,826,980
Dividends receivable	4,029,220	3,316,186
Other receivables	4,257,968	4,703,486
	192,397,836	**450,512,239**

Accounts receivable as at 30 September, 2016 include Pending Trades-Investments and Foreign Currency Sold in the amounts of USD131,141,385 and USD37,844,030 respectively, which will subsequently be settled during the period October-December 2016.

8. Other payables

	Sep-16	Sep-15
	$	$
Pending trades	289,472,382	457,009,725
Accruals	3,391,364	4,689,783
Other payables	139,158	2,240,607
	293,002,904	**463,940,115**

As at 30 September, 2016 there were Pending Trades-Investments and Foreign Currency Purchased of USD251,646,907 and USD37,825,475 respectively. Subsequent settlement will occur during the period October-December 2016.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

9. Financial liabilities

	Sep-16 $	Sep-15 $
(a) Financial liabilities at fair value through profit or loss		
Cost	682,681	2,147,531
Fair value adjustments	237,553	454,114
Financial liabilities at fair value through profit or loss	**920,234**	**2,601,645**

(b) Fair value of financial liabilities

	Level 1 $	Level 2 $	Level 3 $	Total $
Sep-16				
Financial liabilities				
Credit default swap	-	271,426	-	271,426
Interest rate swap	-	648,808	-	648,808
Financial liabilities at fair value through profit or loss	**-**	**920,234**	**-**	**920,234**
Total financial liabilities	**-**	**920,234**	**-**	**920,234**
Sep-15				
Financial liabilities				
Credit default swap	-	65,860	-	65,860
Interest rate swap	-	2,535,785	-	2,535,785
Financial liabilities at fair value through profit or loss	**-**	**2,601,645**	**-**	**2,601,645**
Total financial liabilities	**-**	**2,601,645**	**-**	**2,601,645**

(c) Valuation techniques

The techniques used to value all swaps are based on models which may include end of day net present values, spreads, ratings, credit analysis, industry, and company performance information. Broker quotes in a non-active market are also utilised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

10. Investment income

	Sep-16 $	Sep-15 $
Interest income		
Cash at bank	2,239	97
Available-for-sale financial assets	93,429,771	84,404,710
Amortisation of bond discount	1,855,564	2,066,506
Short term securities	12,266	760
	95,299,840	**86,472,073**
Dividend income	**51,392,636**	**55,641,339**
Fair value adjustments on financial assets and liabilities at fair value through profit or loss	**187,285**	**-**
Total	**146,879,761**	**142,113,412**

11. Investment expenses

	Sep-16 $	Sep-15 $
Amortisation premium	10,602,624	17,163,724
External manager fees	12,277,632	13,290,612
Fair value adjustments on financial assets and liabilities at fair value through profit or loss	-	2,410,377
Custodian fees	829,700	900,498
External manager expenses	128,704	170,686
Legal fees	12,772	-
Total	**23,851,432**	**33,935,897**

12. Asset management agreements

Under Section 10(1) of the Act, the Bank as Manager of the Fund is responsible for the management of the assets and other resources of the Fund.

13. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year ended 30 September, 2016 (expressed in United States Dollars)

14. 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 financial year ended 30 September, 2016, no capital contributions were made given the level of petroleum revenues collected.

15. Withdrawals

Withdrawals from the Fund are made in accordance with the criteria set out Section 15 of the Act, (see note 2 (o)). During the month of May 2016, the amount of USD375,050,860 was withdrawn from the Fund.

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Ministry of Finance

Heritage and Stabilisation Fund

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