CENTRAL BANK OF
TRINIDAD & TOBAGO

Heritage and Stabilisation Fund

Quarterly Investment Report
April - June 2017

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[1] This section includes economic developments to July 14, 2017.

EXECUTIVE SUMMARY

- The global economic momentum continued during the second quarter of 2017, albeit, uneven across the major economies. In the United States (US), the slowdown in consumer spending has adversely affected the economic outturn. However, improving labour market conditions continued to be a favourable indicator for the economy. As expected, the Federal Open Market Committee (FOMC) increased the Federal Funds rate by 25 basis points to the range 1 per cent to 1.25 per cent at its June meeting.

- Elsewhere, growth picked up in the Euro zone amidst increased manufacturing activity, lower unemployment and reduced political uncertainty. Meanwhile, output in the United Kingdom (UK) has been relatively sluggish given concerns about the housing market and the pending Brexit negotiations. In Japan, the inflation rate continued to be in positive territory as the economy progressed along a modest growth path.

- During the second quarter, financial markets were influenced by political developments, particularly in the US, Euro zone and the UK. Monetary policy announcements by the major central banks also impacted investor sentiments. Despite these issues, global equity markets generated positive returns. Fixed income securities in the US also returned gains, with the investment grade corporate sector being the best performing sector.

- In the developed fixed income markets, the 10-year yield on German bunds, UK gilts, Canadian sovereign bonds and Japanese Government bonds rose over the quarter, while similar bonds in the US, France and Italy experienced yield declines.

- The HSF composite portfolio returned 2.74 per cent in the three months to June 2017, outperforming its Strategic Asset Allocation benchmark, which gained 2.44 per cent. All four mandates generated positive absolute returns. However, the US Core Domestic Equity mandate was the only asset class that underperformed its benchmark.

- The total net asset value of the Fund as at the end of June 2017 was US$5,619.3 million, compared with US$5,473.0 million at the end of the previous quarter. Of this total, the investment portfolio was valued at US$5,618.6 million, while the remaining portion (US$0.7 million) was held in cash to meet the day-to-day expenses that arise from the management of the Fund.

Table 1
Absolute Quarterly Returns
For the period April 2017 – June 2017
/per cent/

	Absolute Return HSF	Absolute Return Benchmark
Composite Portfolio	**2.74**	**2.44**
US Short Duration Fixed Income	0.46	0.38
US Core Domestic Fixed Income	1.61	1.45
US Core Domestic Equity	3.42	3.69
Non-US Core International Equity	7.06	6.48

Table 2
Contributions to Quarterly Returns
For the Three Months to March 2017 and June 2017
/per cent/

	3 Months Weighted Return as at 30-Jun-2017		3 Months Weighted Return as at 31-Mar-2017	
	HSF	Benchmark	HSF	Benchmark
Composite Portfolio	**2.74**	**2.44**	**3.17**	**2.92**
US Short Duration Fixed Income	0.10	0.09	0.09	0.09
US Core Domestic Fixed Income	0.62	0.58	0.41	0.33
US Core Domestic Equity	0.69	0.64	1.38	1.15
Non-US Core International Equity	1.32	1.12	1.26	1.33

NB: Differences in totals are due to rounding.

SECTION 1 – INTERNATIONAL ECONOMIC ENVIRONMENT

United States

The latest data on US GDP showed that the economy expanded at an annualised rate of 1.4 per cent in the first quarter of 2017 compared with growth of 2.1 per cent in the previous quarter. This slower pace of growth reflected the fall-off in consumer and government spending as well as the deceleration in inventory investment. Consumer spending which accounts for roughly two-thirds of US economic activity, increased by 1.1 per cent in the first quarter compared with an increase of 3.5 per cent one quarter earlier.

Following the sluggish start to the year, data for the second quarter of 2017 were mixed as retail sales slowed and consumer sentiments declined. However, industrial production and labour market conditions continued to show signs of improvement. On a year-on-year basis, industrial production rose on average by 1.9 per cent during the second quarter of 2017, up from 0.6 per cent in the previous three months. This movement was largely reflective of increased activity in the manufacturing sector, which accounts for approximately 75 per cent of total industrial production. Meanwhile, in the labour market, non-farm payroll employment increased in the second quarter of 2017, averaging 194,000 monthly, up from an average of 166,000 in the previous quarter. This marked the highest quarterly increase in employment since the third quarter of 2016. The industries that recorded the highest gains were health care, and professional and business services. Accordingly, the unemployment rate declined over the quarter to end June at 4.4 per cent, down from 4.5 per cent in March 2017.

On the other hand, consumer spending as measured by retail sales continued to be relatively weak during the second quarter of 2017, exhibiting a flat performance compared with an average increase of 0.1 per cent in the previous quarter. Lower sales of gasoline, electronics and appliances and motor vehicles contributed to this slowdown. Consequently, the most recent University of Michigan consumer confidence index, which provides a gauge of current and future economic conditions, declined to 93.1 in July from 97.0 three months prior. Meanwhile, the inflation rate continued its gradual decline over the quarter, measuring 1.6 per cent in the twelve months to June 2017 compared with 2.4 per cent in March. Falling gasoline and vehicle prices contributed to the slower rate of increase in consumer prices. However, the Federal Open Market Committee (FOMC) expressed that the deceleration in prices is temporary and as expected, raised the Federal Funds rate by 25 basis points to the range 1 per cent to 1.25 per cent at its June meeting. The Committee also indicated that it would commence the reduction of its balance sheet later this year and would closely monitor the near-term downside risks to its economic outlook.

Euro Zone

The most recent GDP data for the Euro zone revealed that the economy gained momentum during the first quarter of 2017, expanding by 0.6 per cent compared with growth of 0.5 per cent in the previous quarter. This marked the best performance for the economy since the first quarter of 2015. Other indicators have suggested that the positive momentum continued into the second quarter as manufacturing activity rose, the unemployment rate declined while political uncertainty have receded somewhat, following the French Presidential elections which took place in April and May and the finalisation of another bailout package for Greece.

In the manufacturing sector, the Markit Manufacturing PMI remained robust over the second quarter, reaching 57.4 in June compared with 56.6 in March. This indicated that the sector expanded at a faster pace in the June quarter. The member states which accounted for this outturn included Austria, Germany and the Netherlands where the countries' PMIs attained their highest levels in six years.

The Euro zone unemployment rate remained unchanged at 9.3 per cent over the quarter to May 2017, down from 9.4 per cent at the end of March. Germany and the Czech Republic were among the member countries that recorded the lowest jobless rate for the quarter thus far, while Greece and Spain registered the highest unemployment rates.

Inflationary pressures eased during the second quarter as the inflation rate averaged 1.5 per cent compared with 1.8 per cent in the prior three months. This deceleration was mainly driven by the decline in energy prices. Given that the economic improvements appeared to have not been fully translated into higher consumer prices, the European Central Bank's (ECB) left its benchmark refinancing rate unchanged at its June meeting. In addition, the ECB removed the "easing bias" from its policy message given the low probability of reducing interest rates in the present economic environment.

United Kingdom

According to the latest available GDP data, the UK economy slowed significantly during the first quarter of 2017, growing by 0.2 per cent compared with an expansion of 0.7 per cent in the previous quarter. This relatively weak performance mainly reflected the slowdown in household consumption and the contraction in the distribution, hotel and restaurant sector. Data for the second quarter suggested that the sluggish pace of growth continued since the housing market has slowed and elevated levels of political uncertainty persisted throughout the quarter. On June 8, 2017, Prime Minister Theresa May's Conservative Party failed to secure a parliamentary majority in the general elections but was able to form an alliance with Northern Ireland's Democratic Unionist Party. Subsequently, the new government commenced discussions to negotiate the UK's withdrawal from the European Union. It is expected that the Brexit negotiation process is likely to result in some uncertainty over the next two years.

In the housing market, the Halifax house price index increased on a year-on-year basis by 2.6 per cent in the three months to June compared with an increase of 3.8 per cent in the twelve months to March 2017. This deceleration was attributed to households experiencing greater difficulty to access financing given higher consumer prices, slower wage growth and higher stamp duty taxes on second homes. On the price front, headline inflation averaged 2.7 per cent over the second quarter, up from an average of 2.1 per cent in the first quarter. In May 2017, the inflation rate peaked at 2.9 per cent, the highest rate in over four years. While the Bank of England has expressed concerns about rising consumer prices, these were slightly outweighed by the slowdown in household spending and lower wage growth. As such, the Bank of England kept its benchmark rate unchanged at 0.25 per cent at its June meeting. However, three of the eight members voted to increase the rate by 25 basis points.

Japan

Final GDP data for the first quarter of 2017 indicated that the Japanese economy expanded by 0.3 per cent, the same growth rate as the previous two quarters. The faster pace of increase in private consumption was offset by the deceleration in government consumption and the contraction in public investments. During the second quarter of 2017, increased industrial production suggested that economic activity may have expanded during the quarter. On a year-on-year basis industrial production rose by 6.1 per cent compared with an increase of 3.8 per cent in the twelve months to March 2017. Meanwhile, in the labour market, the latest unemployment rate measured 3.1 per cent in May compared with 2.8 per cent in March 2017. This marked the highest unemployment rate since December 2016 and reflected in part, an increase in the labour force participation rate, which moved from 59.6 per cent in March to 60.8 per cent in May. Moreover, the jobs-to-applicants ratio rose to its highest level since February 1974, reaching 1.49 in May, up from 1.45 in March.

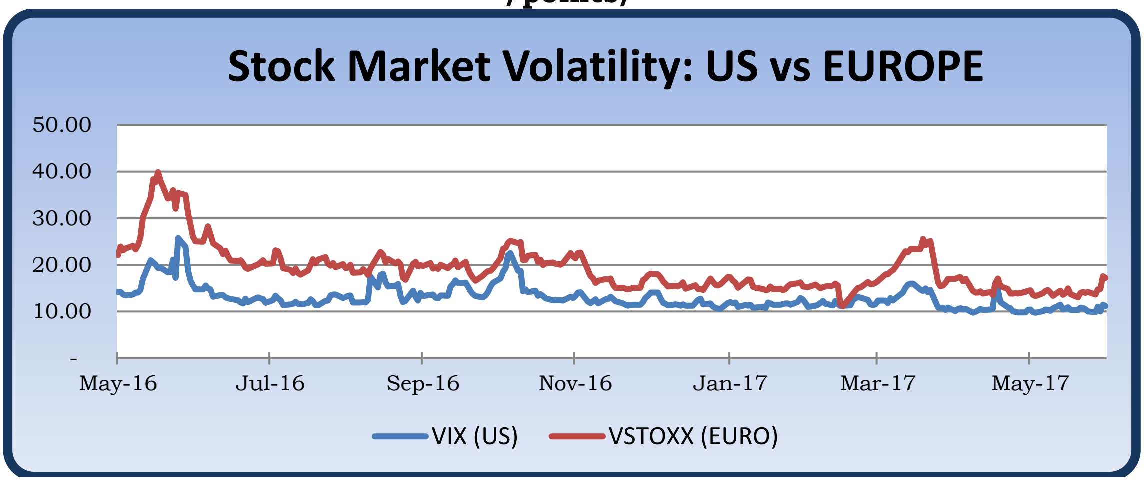
The latest available data to May 2017 showed that consumer prices edged slightly higher during the second quarter as the inflation rate averaged 0.4 per cent compared with 0.3 per cent in the first three months of 2017. However, the rate remained below the Bank of Japan's (BOJ) price stability target of 2 per cent. Accordingly, the Bank of Japan left its monetary policy stance unchanged at its June 2017 meeting.

SECTION 2 – CAPITAL AND MONEY MARKET REVIEW

Political developments and concerns about the future path of monetary policy across the major central banks exhibited the greatest influence on global financial markets during the second quarter of 2017. At the start of the period, investors' uncertainty about the outcome of the French Presidential elections, as well as the snap election in the UK, resulted in an increase in the demand for developed market sovereign bonds. However, towards the end of the quarter, the decision by the Federal Reserve to increase its policy rate and indications that the BoE and the ECB may soon tighten their monetary policy stance, contributed to a reversal of earlier gains generated by UK gilts and German Bunds.

Volatility in the European financial market was on average, higher than that in the US market, reflecting greater uncertainty surrounding elections in the region. The Euro Stoxx 50 Volatility Index (VSTOXX) increased by 1 point, to end the quarter at 16.50 points. Meanwhile, the Chicago Board Options Exchange Volatility Index (VIX) fell 0.25 points to 11.47 points (refer to Figure 1). Both indices reached a high of 25.09 points and 15.96 points, respectively in April amidst geopolitical concerns about North Korea and Syria. Nonetheless, global equity market returns were largely positive over the quarter as corporate earnings remained strong and investor sentiment improved. Meanwhile, the US Dollar continued to depreciate throughout the period, influenced by some disappointing economic data and doubts about President Trump's ability to implement expansionary fiscal policies.

Figure 1
Equity Market Volatility
/points/

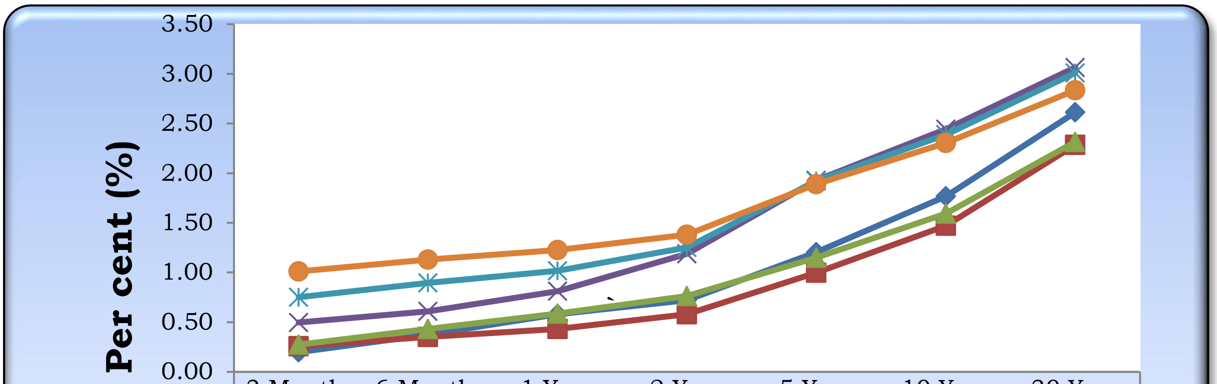


Source: Bloomberg.

Fixed Income

The US Treasury yield curve continued to flatten during the quarter ended June 2017 as yields at the shorter end of the curve rose in anticipation of the FOMC increasing the Federal Funds rate while longer-term yields declined amidst falling inflation expectations. The slow implementation of President Trump's pro-growth fiscal policies, along with relatively weaker than expected economic data, has caused investors to temper their outlook for economic growth and inflation. The 10-year benchmark US Treasury yield declined by 9 basis points over the quarter, falling to 2.30 per cent at the end of June, from 2.39 per cent three months earlier.

Figure 2
US Treasury Yield Curve
/per cent/

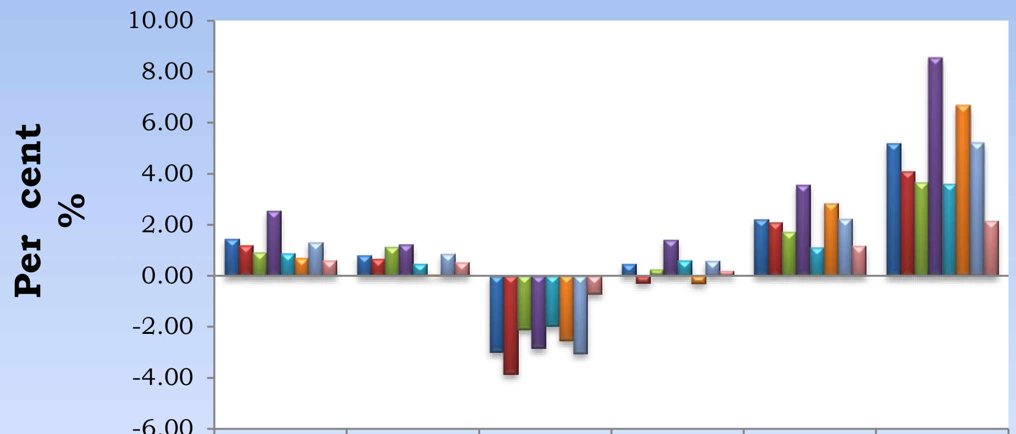


	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
Mar-16	0.20	0.38	0.58	0.72	1.20	1.77	2.61
Jun-16	0.26	0.35	0.43	0.58	1.00	1.47	2.28
Sep-16	0.27	0.43	0.59	0.76	1.15	1.59	2.32
Dec-16	0.50	0.61	0.81	1.19	1.93	2.44	3.07
Mar-17	0.75	0.90	1.02	1.25	1.92	2.39	3.01
Jun-17	1.01	1.13	1.23	1.38	1.89	2.30	2.83

Source: Bloomberg.

In the broader US fixed income market, the Barclays US Aggregate Index earned 1.45 per cent in the second quarter of 2017. All the sectors comprising the index posted positive absolute returns. Investment grade corporate bonds generated the largest gains, returning 2.54 per cent, as the sector benefitted from strong corporate earnings and continued optimism about the economic outlook. Other top performing sectors were Commercial Mortgage Backed Securities, US Treasuries and US Agency bonds which returned 1.31 per cent, 1.19 per cent and 0.93 per cent, respectively. In contrast, the relatively poor performance of collateralized auto loan products weighed on the returns of US Asset Backed Securities which produced the lowest return among the sectors.

Figure 3
Returns on Fixed Income Indices
/per cent/



	QTR ended June-17	QTR ended Mar-17	QTR ended Dec-16	QTR ended Sep-16	QTR ended Jun-16	FY 15/16
Barclays U.S. Aggregate	1.45	0.82	-2.98	0.46	2.21	5.19
U.S. Treasuries	1.19	0.67	-3.84	-0.28	2.10	4.09
U.S. Agencies	0.93	1.13	-2.10	0.25	1.73	3.68
U.S. Corporate	2.54	1.22	-2.83	1.41	3.57	8.56
U.S. MBS	0.87	0.47	-1.97	0.60	1.11	3.61
G-7 Global Bonds (Hedged)	0.70	0.09	-2.53	-0.30	2.84	6.69
CMBS Index	1.31	0.86	-3.03	0.59	2.24	5.22
ABS Index	0.60	0.54	-0.70	0.20	1.17	2.16

Source: Bloomberg

In the other G-7 developed nations, monetary authorities and political developments influenced the movement of sovereign bond yields during the quarter. European yields were mostly subdued but, towards the end of the quarter, the relatively hawkish comments by BoE and ECB officials prompted a sell-off of bonds in the region causing yields to increase. On the other hand, political events narrowed the premium, relative to German Bunds, as seen in French and Italian sovereign bond yields. Both countries saw political risks receded after pro-European Emmanuel Macron assumed office and the likelihood of an early Italian general election subsided. Meanwhile, the Japanese economy experienced sustained reflationary pressures which were reflected in bond yields.

Table 3
G-7 Generic Government 10-Year Yields
/per cent/

Country	Generic Government 10 Year Yields		Change (basis points)
	Jun-17	Mar-17	
US	2.30	2.39	-8.37
UK	1.26	1.14	11.80
France	0.81	0.97	-15.30
Germany	0.47	0.33	14.00
Italy	2.15	2.31	-15.80
Canada	1.76	1.62	13.80
Japan	0.08	0.07	1.40

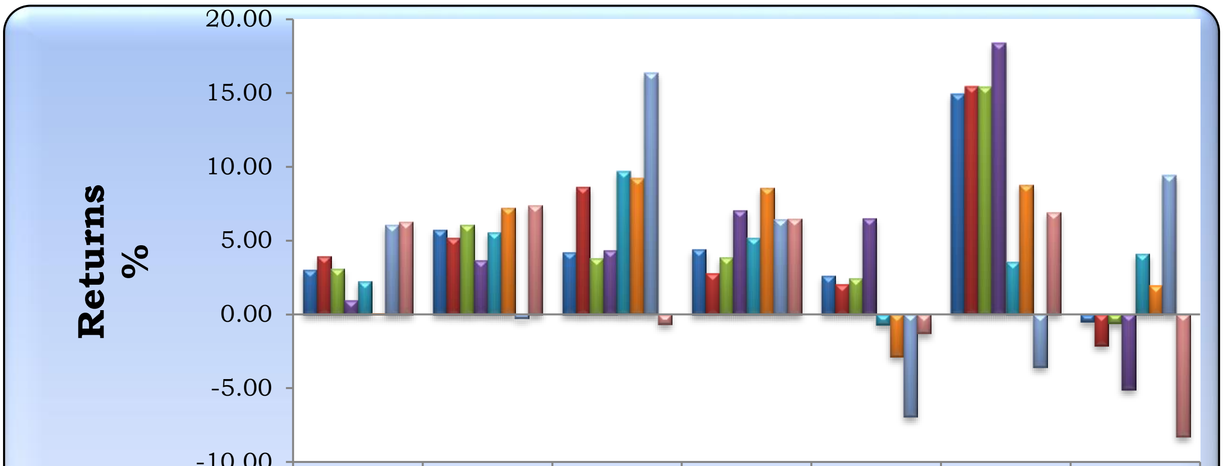
Source: Bloomberg.

Equity Markets

Developed equity markets gained over the second quarter of 2017; supported by an improvement in business sentiment, strong corporate earnings and the decline in political risk in the Euro zone. Despite the mixed economic data in the US, the S&P 500 gained 3.09 per cent over the period. Nine of the eleven sectors generated gains, led by the performance of stocks in the health care sector. This sector returned 7.09 per cent over the quarter as upcoming regulatory changes, specifically with respect to drug pricing, were perceived to be favourable for the industry. Industrial and financial stocks also performed well, returning 4.74 per cent and 4.25 per cent, respectively. Conversely, the worst performing stocks were from the energy and telecommunication services sector which lost 6.32 per cent and 7.05 per cent, respectively.

The FTSE 100 index returned 0.98 per cent over the quarter, although experiencing bouts of volatility stemming from political uncertainty and the possibility of tighter monetary policy by the BoE. Elsewhere in Europe, France's CAC 40 index gained 2.25 per cent as investor sentiment surged after the French elections. All sectors contributed positively to the index's performance, except for energy and mineral companies which were affected by lower commodity prices. The German DAX 30 index returned 0.10 per cent with health care and utility stocks being the best performers. In Asia, the Japanese Nikkei 225 returned 6.06 per cent over the period supported in part, by a weaker currency.

Figure 4
Total Returns on Equity Indices
/Per cent/



	QTR Ended Jun-17	QTR Ended Mar-17	QTR Ended Dec-16	QTR Ended Sep-16	QTR Ended Jun-16	FY 15/16	FY 14/15
Russell 3000	3.01	5.74	4.20	4.39	2.62	14.93	-0.49
Dow Jones	3.95	5.18	8.65	2.78	2.06	15.44	-2.10
S&P 500	3.09	6.06	3.81	3.85	2.45	15.39	-0.62
FTSE 100 - UK	0.98	3.67	4.34	7.07	6.52	18.39	-5.09
CAC 40 - France	2.25	5.58	9.71	5.20	-0.69	3.56	4.10
DAX 30 - Germany	0.10	7.25	9.23	8.58	-2.86	8.80	1.96
Nikkei 225 - Japan	6.06	-0.25	16.38	6.44	-6.92	-3.55	9.42
MSCI EAFE	6.26	7.39	-0.65	6.48	-1.28	6.93	-8.26

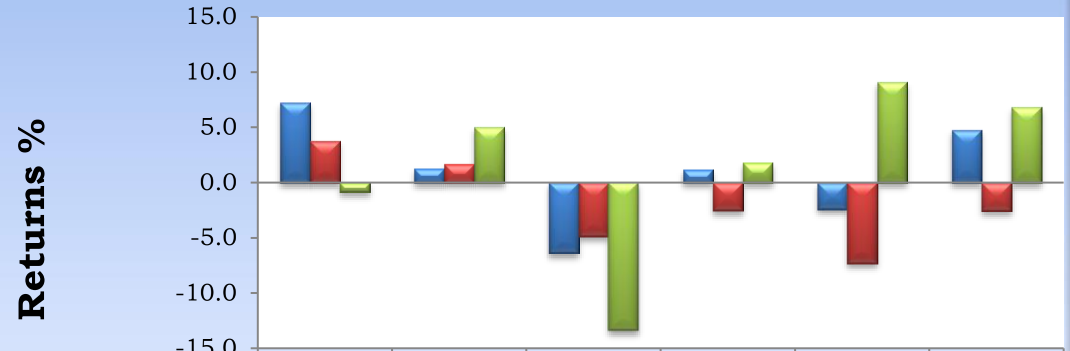
Source: Bloomberg.

Currency Markets

During the second quarter of 2017, activity in global currency markets were dominated by political events. The US dollar extended its first quarter losses as US foreign policy and domestic political controversies troubled investors. Furthermore the IMF downgraded the US growth forecasts for 2017 and 2018 as it discounted the likelihood that President Trump's fiscal plans would provide the necessary economic stimulus. Consequently, Dollar Spot Index (DXY) which represents US dollar strength against a basket of major currency fell 4.71 per cent. The euro and British pound appreciated 7.27 per cent and 3.78 per cent, respectively relative to the US dollar. On the other hand, the Japanese Yen depreciated 0.85 per cent versus the US Dollar as safe-haven flows to Japan receded during the quarter.

Figure 5

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



	QTR Ended Jun-17	QTR Ended Mar-17	QTR Ended Dec-16	QTR Ended Sep-16	QTR Ended Jun-16	Sep-16 FYTD
EURUSD CURNCY	7.27	1.28	-6.39	1.16	-2.41	4.77
GBPUSD CURNCY	3.78	1.70	-4.87	-2.55	-7.31	-2.55
JPYUSD CURNCY	-0.85	5.03	-13.39	1.82	9.11	6.82

Source: Bloomberg.

SECTION 3 – PORTFOLIO PERFORMANCE

Strategic Asset Allocation

During the period April 2017 to June 2017, the asset classes of the Fund deviated from their Strategic Asset Allocation (SAA) but their weights were all within the permitted (+/- 5 per cent) range. The approved SAA for the HSF investment portfolio is as follows:

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

By the end of the quarter, the asset class with the largest overweight was the US Core Domestic Equity mandate while the US Short Duration Fixed Income mandate had the largest underweight position.

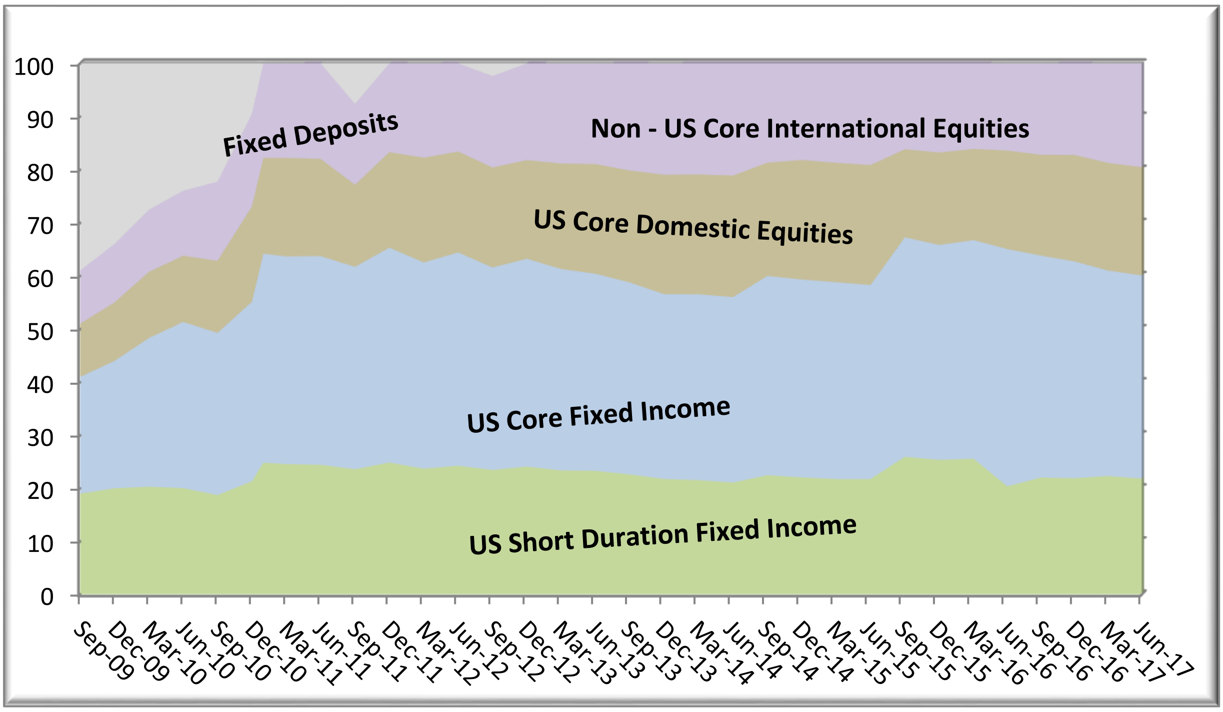
The total net asset value of the Fund as at the end of June 2017 was US$5,619.3 million, compared with US$5,473.0 million at the end of the previous quarter. Of this total, the investment portfolio was valued at US$5,618.6 million, while the remaining portion (US$0.7 million) was held in cash to meet the day-to-day expenses that arise from the management of the Fund. The Fund's target asset allocation and the portfolio weightings as at June 30, 2017 are shown in Table 4 below.

Table 4
Portfolio Composition relative to the Approved SAA
/per cent/

	Asset Class	Target Weight SAA	Sep-16 Actual % of Fund	Dec-16 Actual % of Fund	Mar-17 Actual % of Fund	Jun-17 Actual % of Fund
Portfolio Weights	US Short Duration Fixed Income	25.00	22.03	21.90	22.32	21.82
	US Core Domestic Fixed Income	40.00	41.80	40.82	38.69	38.27
	US Core Domestic Equity	17.50	18.98	20.05	20.25	20.38
	Non-US Core International Equity	17.50	17.19	17.23	18.75	19.52

Totals may not sum to 100 due to rounding.

Figure 6
Asset Composition of the HSF Portfolio
/per cent/



Performance of the Investment Portfolio

The HSF investment portfolio generated a return of 2.74 per cent during the second quarter of 2017, outperforming its SAA benchmark[2] which gained 2.44 per cent. Approximately 73 per cent of the Composite Portfolio's return was attributed to the performance of the equity mandates which contributed approximately 2.02 per cent while the fixed income portfolios added the remaining 0.72 per cent. All four mandates generated positive absolute returns. However, the US Core Domestic Equity mandate was the only mandate that underperformed its benchmark.

The **US Core Domestic Equity** mandate gained 3.42 per cent during the second quarter of 2017 compared with a benchmark return of 3.69 per cent. This underperformance was due to stock selection decisions as the combination of stocks selected by the investment managers produced lower returns relative to those stocks in the benchmark. The underweighting of specific stocks in the information technology and financial sectors detracted from performance as these equity securities increased in value over the quarter. The net asset value of this mandate as at June 30, 2017 was **US$1,145.2 million**, compared with US$1,107.9 million on March 31, 2017.

The **Non-US International Equities** mandate returned 7.06 per cent over the period April to June 2017, compared with a gain of 6.48 per cent for its benchmark, the MSCI EAFE ex Energy index. The outperformance of the portfolio relative to the benchmark was due to favourable stock and country selection. Stock selection was most beneficial in the UK, Australia and Switzerland while country allocations to Austria and Finland also added to relative performance. The net asset value of the Non-US Core International Equity mandate as at June 30, 2017 increased to **US$1,097.0 million**, from US$1,025.8 million at the end of March 2017.

The **US Short Duration Fixed Income** mandate returned 0.46 per cent during the second quarter of 2017, outperforming its benchmark, the Bank of America Merrill

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

Lynch US Treasury 1-5 year index, by 8 basis points. This outperformance was attributed to the portfolio's allocation to spread products, namely non-US Government and Agency commercial mortgage backed securities. Additionally, the portfolio's shorter duration position relative to its benchmark was also positive for performance as US yields on the shorter-end of the curve rose over the quarter. The net asset value of this mandate as at June 30, 2017 stood at **US$1,226.2 million,** compared with US$1,221.2 million at the end of the previous quarter.

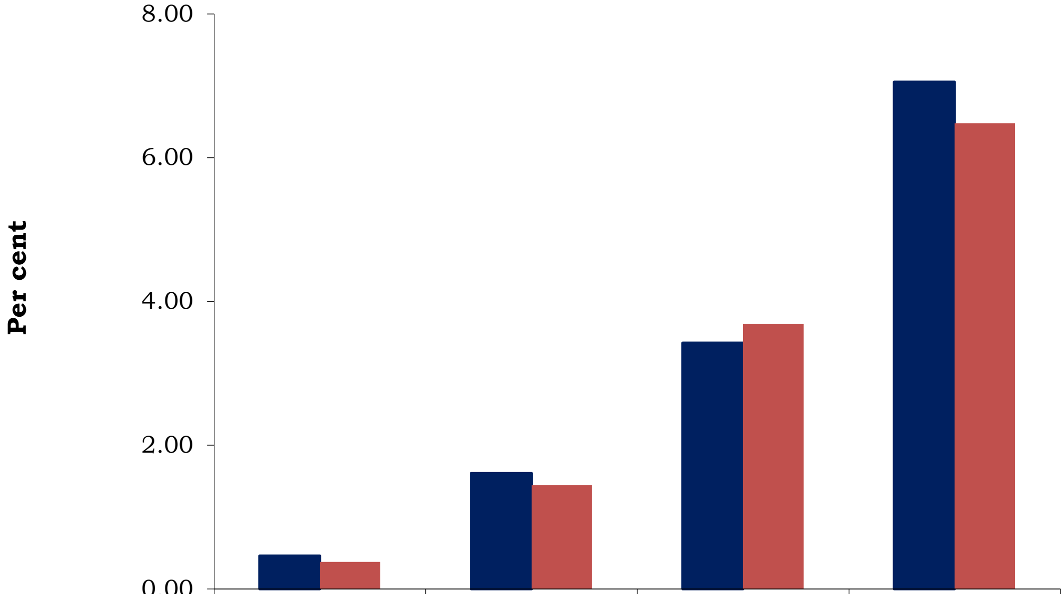
The longer duration **US Core Domestic Fixed Income** mandate, gained 1.61 per cent, outperforming its benchmark, the Barclays Capital US Aggregate Bond index, which returned 1.45 per cent. This outperformance was due to the portfolio's underweight exposure to the MBS sectors as well as the overweight exposure to the corporate sector, in particular, the financials sub-sector. The net asset value of this mandate as at June 30, 2017 stood at **US$2,150.2 million** compared with US$2,117.0 million at the end of March 2017.

Table 5
Contribution to Quarterly Return
For the period April 2017 – June 2017
/per cent/

	SAA Weights	Portfolio Weights as at 31-Jun-2017	Weighted Return HSF	Weighted Return Benchmark
Composite Portfolio	100.00	100.00	2.74	2.44
US Short Duration Fixed Income	25.00	21.82	0.10	0.10
US Core Domestic Fixed Income	40.00	38.27	0.62	0.58
US Core Domestic Equity	17.50	20.38	0.69	0.64
Non US Core International Equity	17.50	19.52	1.32	1.12

NB: Differences in totals are due to rounding. Mandates' contributions relative to benchmarks' contributions may not reflect over or under performance given the differences in weights.

Figure 7
Absolute Returns by Mandate
For the period April 2017 – June 2017
/per cent/



	US Short Duration	US Core Fixed Income	US Core Domestic Equities	Non US Core International Equities
Composite Portfolio Return	0.46	1.61	3.42	7.06
SAA Benchmark Return	0.38	1.45	3.69	6.48

Mandate

SECTION 4 – COMPLIANCE AND PORTFOLIO RISKS

Compliance

During the second quarter of 2017, an investment manager, which was in breach of one of the underperformance thresholds as outlined in the investment guidelines, was back in compliance by the end of the quarter, following an improvement in performance. The Bank, as manager of the Fund, is presently conducting a formal review of all the asset managers, with a view to mitigate underperformance of the Fund relative to the SAA benchmark.

Portfolio Risks

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

Credit Risk

Within the **money market portion** of the Fund, Credit Risk is minimized by the strict adherence to the following standards: (i) all counterparties must have a minimum credit rating of either A-1 from the Standard and Poor's rating agency or P-1 from Moody's; and (ii) a maximum exposure limit for counterparties of no more than 5.0 per cent of the market value of the portfolio.

For **fixed income instruments**, Credit Risk is mitigated by the use of credit concentration limits as well as minimum credit quality ratings. Bonds must have an implied investment grade rating as defined by Standard and Poor's, Moody's or Fitch. Should the required ratings on an existing fixed income security fall below the minimum standards, the security must be sold within an agreed upon timeframe. Table 6 below shows the Average Credit Quality of the US Short Duration and US Core Fixed Income Portfolios as at June 30, 2017.

Table 6
Average Credit Rating

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

Concentration Risk

Concentration or Diversification Risk is minimised by investing across various asset types. The portfolio is currently invested across four asset groupings as follows - US Short Duration Fixed Income, US Core Domestic Fixed Income, US Core Domestic Equity and Non-US Core International Equity. The Asset classes in which the Fund invests react differently under a given market condition. As such, it is likely that when one asset class has strong returns, another may have lower returns. The Fund's investments are also diversified across a number of assets with the aim of securing a positive return over a range of market conditions and lowering the total risk of the portfolio. In addition, Concentration Risk is minimized within asset groups. For the **equity portfolios**, this Risk is managed by imposing a maximum percentage holding of 3.0 per cent of any security's outstanding shares, as well as a maximum sector deviation relative to the benchmark of 5.0 per cent.

Interest Rate Risk

Interest Rate Risk is managed using a weighted average effective duration limit on the respective portfolios, with an allowable range of one (1) year longer or shorter than the weighted average duration of the respective benchmark. Table 7 shows the weighted average duration for the US Short Duration and US Core Domestic Fixed Income portfolios as at June 30, 2017.

Table 7
Weighted Average Duration
/Years/

Mandate	**Portfolio**	**Benchmark**
US Short Duration	**2.57**	**2.63**
US Core Domestic Fixed Income	**5.80**	**6.01**

Currency Risk

Currency Risk is managed by containing and managing the exposure to non-US dollar instruments. For the Fixed Income and US Core Domestic Equity mandates, no more than 10 per cent of the market value of the portfolio can be invested in securities, which are denominated in currencies other than the US Dollar. The Non-US Core International Equity Portfolio is comprised primarily of non-US dollar denominated securities, and the Fund accepts the currency risk inherent in the relevant benchmark. For this mandate, currency hedging is permitted up to 15 per cent of the market value of the portfolio using the US dollar as the base currency. At the end of June 2017, the currency exposure for this portfolio was 98 per cent of its market value. During the quarter, all the portfolios were within their respective limits.

Appendix I
HSF Portfolio
Historical Performance

Quarter End	Current Returns			Financial YTD			Annualised Return Since Inception		
	Portfolio	Benchmark	Excess	Portfolio	Benchmark	Excess	Portfolio	Benchmark	Excess
	%	%	bps	%	%	bps	%	%	bps
FY 2010									
December	0.96	0.89	6.65	0.96	0.89	6.65	3.72	3.78	-6.16
March	1.61	1.68	-6.20	2.59	2.58	0.49	3.95	4.03	-7.76
June	-1.83	-1.89	6.05	0.71	0.64	6.69	3.07	3.12	-5.18
September	5.33	5.08	24.73	6.07	5.75	31.93	4.37	4.35	2.06
FY 2011									
December	2.29	2.21	8.15	2.29	2.21	8.15	4.70	4.65	4.13
March	1.62	1.54	7.24	3.94	3.79	15.68	4.81	4.76	5.72
June	1.88	1.81	6.68	5.89	5.67	22.91	4.98	4.91	7.00
September	-4.82	-4.28	-53.66	0.79	1.14	-34.89	3.57	3.63	-6.29
FY 2012									
December	2.74	3.03	-28.52	2.74	3.03	-28.52	3.97	4.08	-12.00
March	5.04	4.46	57.50	7.92	7.63	29.29	4.78	4.78	-0.08
June	-0.90	-0.60	-30.42	6.95	6.98	-3.72	4.37	4.43	-6.13
September	3.53	2.98	55.03	10.73	10.18	55.02	4.68	4.65	2.07
FY 2013									
December	1.49	1.45	4.11	1.49	1.45	4.11	4.88	4.83	4.76
March	3.29	2.90	39.19	4.82	4.38	44.01	5.23	5.12	11.20
June	-0.30	-0.69	39.05	4.51	3.66	84.64	4.97	4.80	17.26
September	3.95	3.47	47.35	8.63	7.26	137.06	5.40	5.16	24.01
FY 2014									
December	3.95	2.66	129.38	3.95	2.66	129.38	5.80	5.37	42.67
March	1.46	1.30	16.28	5.47	4.00	147.73	5.80	5.37	43.52
June	2.56	2.30	25.90	8.17	6.38	178.44	5.96	5.51	45.76
September	-0.48	-0.73	25.31	7.65	5.60	204.51	5.69	5.22	47.69
FY 2015									
December	2.25	1.63	62.27	2.25	1.63	62.27	5.81	5.26	54.46
March	2.29	2.25	3.95	4.60	3.92	67.71	5.92	5.39	53.34
June	-0.02	-0.51	49.43	4.58	3.39	119.07	5.74	5.16	57.93

Quarter End	Current Returns			Financial YTD			Annualised Return Since Inception		
	Portfolio	Benchmark	Excess	Portfolio	Benchmark	Excess	Portfolio	Benchmark	Excess
	%	%	bps	%	%	bps	%	%	bps
FY 2015									
September	-2.02	-2.19	16.83	2.47	1.13	134.06	5.31	4.73	58.12
FY 2016									
December	1.68	1.67	0.22	1.68	1.67	0.22	5.36	4.79	56.52
March	0.80	1.26	-46.14	2.48	2.95	-46.70	5.30	4.80	49.64
June	0.80	1.11	-30.92	3.30	4.09	-78.90	5.24	4.79	44.83
September	2.45	2.12	32.85	5.83	6.29	-45.72	5.37	4.89	47.33
FY 2017									
December	-0.46	-0.98	51.92	-0.46	-0.98	51.92	5.17	4.66	51.64
March	3.17	2.92	24.41	2.69	1.91	77.74	5.37	4.84	52.92
June	2.74	2.44	30.00	5.50	4.40	110.45	5.51	4.97	54.69

Notes:

(1) Differences in totals are due to rounding.

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

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

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

Appendix II
Heritage and Stabilisation Fund
Portfolio Valuation (USD)

Valuation Date	Net Asset Value	Total Comprehensive Income	Accumulated Surplus & Unrealized Capital Gains/Losses	Contributions / (Withdrawals)
Annual Portfolio Valuation				
September 30,2007	1,766,200,701	41,966,361	41,966,361	321,706,043
September 30,2008	2,888,421,556	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	42,414,251
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)
Quarterly Portfolio Valuation				
December 31, 2012	4,780,065,524	66,787,005	861,557,777	-
March 31, 2013	4,933,344,741	220,441,931	1,015,212,703	-
June 30, 2013	4,914,375,234	(18,801,609)	996,411,094	-
September 30, 2013	5,154,027,747	197,367,628	1,193,778,722	42,414,251
December 31, 2013	5,354,721,875	199,949,013	1,393,727,735	-
March 31, 2014	5,429,643,570	74,268,941	1,467,996,676	-
June 30, 2014	5,563,339,006	134,504,162	1,602,500,838	-
September 30, 2014	5,533,425,248	(29,555,092)	1,572,945,746	-
December 31, 2014	5,653,895,156	120,509,077	1,693,454,823	-
March 31, 2015	5,779,420,631	125,471,133	1,818,925,956	-
June 30, 2015	5,774,951,169	(4,765,278)	1,814,160,678	-
September 30, 2015	5,655,143,565	(120,575,327)	1,693,585,351	-
December 31, 2015	5,744,963,957	90,833,573	1,784,418,924	-
March 31, 2016	5,787,343,363	42,134,260	1,826,553,184	-
June 30, 2016	5,454,568,405	42,838,704	1,869,391,888	(375,050,860)
September 30, 2016	5,584,246,290	129,645,559	1,999,037,447	-
December 31, 2016	5,555,039,859	(29,605,256)	1,969,432,191	-
March 31, 2017	5,473,047,983	170,609,885	2,140,042,076	(252,548,047)
June 30, 2017	5,619,311,033	146,006,897	2,286,048,973	-

Appendix III
Summary Characteristics of Composite Benchmarks
Fixed Income Benchmarks

Key Characteristics	Barclays US Aggregate Index	Merrill Lynch 1-5 Index
Total Holdings	9,355	156
Coupon (%)	3.06	1.91
Duration (Years)	6.01	2.63
Average Life (Years)	8.27	2.73
Yield to Maturity (%)	2.56	1.53
Option Adjusted Spread (bps)	43	0
Average Rating (S&P)	AA+	AA+
Minimum Rating (S&P)	BBB-	AA

Equity Benchmarks

Key Characteristics	Russell 3000 (ex-Energy)	MSCI EAFE (ex-Energy)
Total Holdings	2,826	891
Earnings Per Share (EPS Growth 3-5y fwd)	12.0	8.85
Price Earnings (P/E fwd)	18.5	15.35
Price / Book (P/B)	3.00	1.74
Weighted Average Market Capitalization* (Bn)	$140.85	$54.63

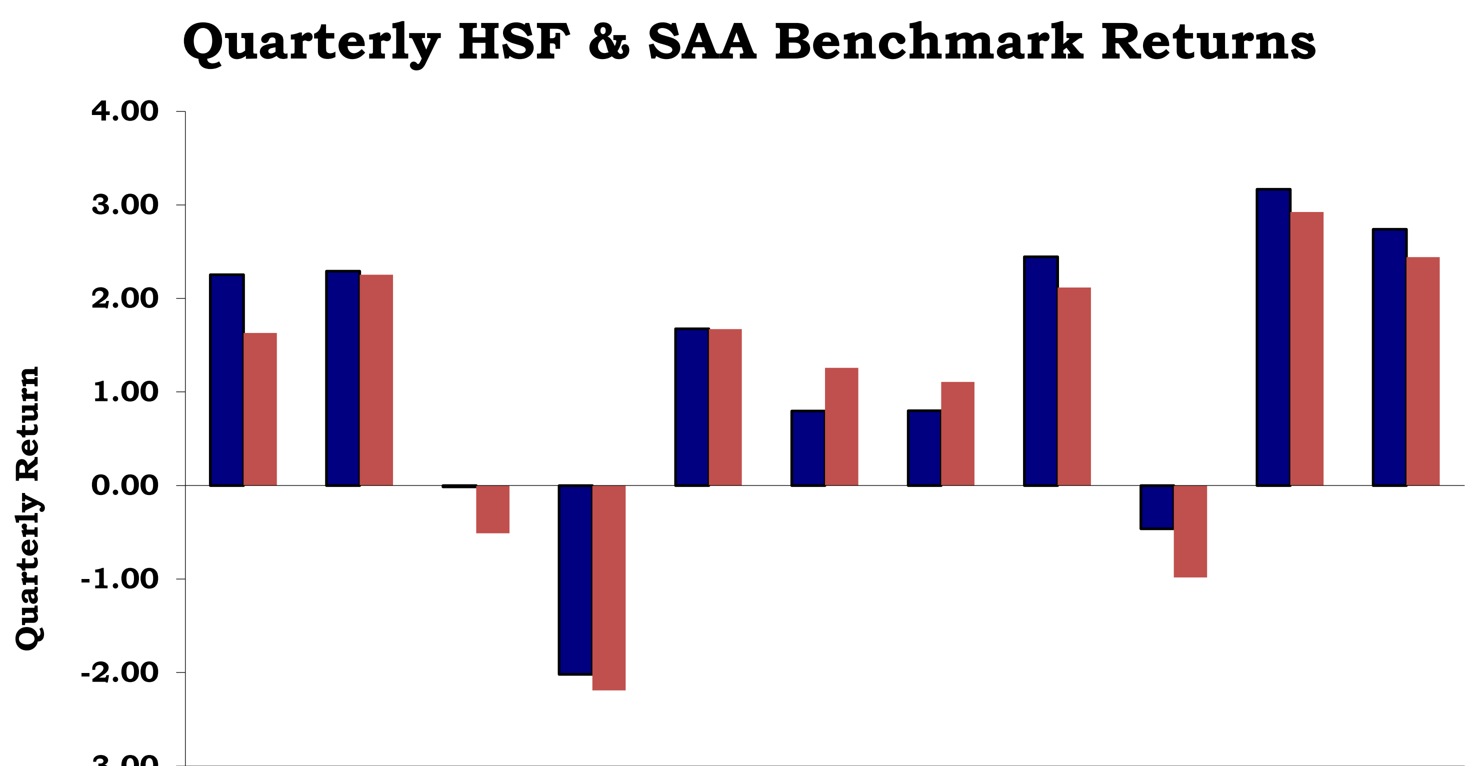
*Market capitalization is a measurement of the size of a company (share price x the number of outstanding shares). The weighted average market capitalization of a stock market index represents the average size of the firms comprising the index where each is weighted according to its market capitalization.

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

	Jun-16	**Sep-16**	**Dec-16**	**Mar-17**	**Jun-17**
Total Fund Value	**5,454**	**5,584**	**5,555**	**5,473**	**5,619**
Total Value of Equity	**1,905**	**2,019**	**2,071**	**2,134**	**2,242**
US Core Domestic Equity	1,011	1,060	1,114	1,108	1,145
Non-US Core International Equity	894	959	957	1,026	1,097
Total Value of Fixed Income	**3,547**	**3,563**	**3,484**	**3,338**	**3,376**
US Short Duration Fixed Income	1,110	1,230	1,216	1,221	1,226
US Core Domestic Fixed Income	2,437	2,333	2,267	2,117	2,150
Total Value of Cash or Cash Equivalents	**2**	**1**	**1**	**1**	**1**

NB: Differences in totals are due to rounding.

Appendix V
HSF Portfolio Quarterly Returns
/per cent/



	FY2015 Q1	FY2015 Q2	FY2015 Q3	FY2015 Q4	FY2016 Q1	FY2016 Q2	FY2016 Q3	FY2016 Q4	FY2017 Q1	FY2017 Q2	FY2017 Q3
HSF Portfolio	2.25	2.29	-0.02	-2.02	1.68	0.80	0.80	2.45	-0.46	3.17	2.74
Benchmark	1.63	2.25	-0.51	-2.19	1.67	1.26	1.11	2.12	-0.98	2.92	2.44