CENTRAL BANK OF
TRINIDAD & TOBAGO

Heritage and Stabilisation Fund

Quarterly Investment Report
January - March 2017

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[1] This section includes economic developments to April 21, 2017.

EXECUTIVE SUMMARY

According to the International Monetary Fund's (IMF) April 2017 World Economic Outlook, global activity is projected to expand by 3.5 per cent in 2017 compared with growth of 3.1 per cent in 2016. Economic indicators for the first quarter of 2017 suggested that the global growth momentum has continued, fuelled by improved consumer and business sentiments. Moreover, global inflation has picked up, consistent with the rising expectation for growth. Nonetheless, downside risks remain in the form of political uncertainty across the major economies. In the United States (US), manufacturing activity accelerated over the quarter while the labour market experienced its lowest unemployment rate in almost a decade. Stronger signs of an improving economic environment provided the impetus for the Federal Reserve to increase the Federal Fund Rate in mid-March 2017 by 25 basis points, following a similar increase in December 2016. In the Euro Area, the Composite Purchasing Managers Index[2] (PMI) rose to a six-year high of 56.4, from 54.4 three months earlier. Meanwhile, conditions in the labour market continue to improve as the unemployment rate declined to its lowest level in eight years. The United Kingdom (UK) economy appeared to have been adversely impacted by the developments surrounding Britain's exit from the European Union as there was a marked decline in economic sentiments over the first quarter of 2017. Further, the UK Composite PMI showed a slowdown in both the manufacturing and services sectors over the period. However, inflationary pressures intensified causing the inflation rate to surpass the Bank of England's (BOE) target of 2 per cent. In Japan, the manufacturing sector continued to expand while the latest unemployment rate declined to 2.8 per cent in February 2017, the lowest level in about 22 years.

The generally positive global economic environment boosted financial markets as investors became more optimistic about the prospects for global growth and inflation. For most of the quarter, this state of optimism appeared to have overshadowed concerns about President Trump's ability to implement the proposed tax reform and infrastructure spending, the disagreements in the UK Parliament over the Brexit bill and the upcoming national elections in Europe. As a result, developed equity markets

[2] An index value in excess of 50 per cent indicates an expansion in activities in the manufacturing sector, while a posting below 50 per cent represents a contraction.

generated positive returns with the exception of the Japan's export-driven market which was adversely impacted by the strengthening of the Yen vis-à-vis the US dollar. Meanwhile, in the fixed income market, the movement in 10-year sovereign yields was mixed as the yield on US Treasuries and UK Gilts fell while those in Germany, France and Japan rose. In the US, the increase in the Federal Reserve's policy interest rate led to an increase in short-term yields while the impact on longer-term bonds was relatively muted.

In terms of the performance of the Heritage and Stabilisation Fund (HSF), the investment portfolio gained 3.17 per cent for the quarter ended March 2017, compared with a return of 2.92 per cent for the Strategic Asset Allocation (SAA) benchmark. The Equity portion of the Fund contributed over 80 per cent of the total returns as both the US Core Domestic Equity and the Non-US Core International Equity mandates which accounted for 39 per cent of the Fund, posted absolute returns of 6.9 per cent and 7.4 per cent, respectively over the quarter. However, the latter mandate was the only sub-portfolio to underperform its benchmark. As at March 31, 2017, the net asset value of the Fund stood at US$5,473.0 million, down from US$5,555.0 million at the end of December 2016. During the month of March 2017, pursuant to a directive from the Minister of Finance, a total of US$252.55 million was withdrawn from the HSF consistent with the HSF Act (2007).

Table 1
Absolute Quarterly Return
For the period January 2017 – March 2017
/per cent/

	Absolute Return HSF	Absolute Return Benchmark
Composite Portfolio	**3.17**	**2.92**
US Short Duration Fixed Income	0.44	0.37
US Core Fixed Income	1.01	0.82
US Core Domestic Equity	6.91	6.68
Non US Core International Equity	7.36	7.77

Table 2
Contributions to Quarterly Returns
For the Three Months to December 2016 and March 2017
/per cent/

	3 Months Weighted Return as at 31-Dec-2016		3 Months Weighted Return as at 31-Mar-2017	
	HSF	**Benchmark**	**HSF**	**Benchmark**
Composite Portfolio	**-0.46**	**-0.98**	**3.17**	**2.92**
US Short Duration Fixed Income	-0.24	-0.27	0.09	0.09
US Core Domestic Fixed Income	-1.18	-1.19	0.41	0.33
US Core Domestic Equity	0.99	0.70	1.38	1.15
Non US Core International Equity	-0.03	-0.21	1.26	1.33

NB: Differences in totals are due to rounding.

SECTION 1 – INTERNATIONAL ECONOMIC ENVIRONMENT

United States

During the first quarter of 2017, macroeconomic conditions in the United States showed some improvement as indicators of growth, labour market conditions and consumer prices were generally favourable for the economy. Against the backdrop of an upward revision to US GDP for the fourth quarter of 2016, activity in the manufacturing sector continued to strengthen during over the first quarter of 2017. The Institute for Supply Management Manufacturing Purchasing Managers' Index (PMI) rose to 57 from a reading of 53.3 in the previous quarter. This improved performance for the sector occurred mainly on account of an acceleration in new orders and growth in production. Meanwhile, on a year-on-year basis, retail sales also trended upwards during the quarter, increasing on average by 5.4 per cent compared with 4.2 per cent over the prior three months. However, the pace of growth observed towards the start of the quarter, slowed as the period progressed due to lower purchases at motor vehicle and parts dealers, electronics and appliance stores and gasoline service stations.

With respect to the labour market, the unemployment rate declined to 4.5 per cent in March 2017 compared with 4.7 per cent in December 2016. This marked the lowest jobless rate in almost a decade. Complementing this rate decline was the favourable change in non-farm payroll employment which indicated that 533,000 jobs were created during the first quarter of 2017 compared with 443,000 jobs in the three months to December 2016.

During the quarter, inflationary pressures began to intensify as headline inflation approached a five-year high, averaging 2.5 per cent compared with an average of 1.8 per cent in the prior quarter. This acceleration in consumer prices reflected in part the increase in energy prices. However, the core inflation rate, which excludes the impact of food and fuel costs, remained unchanged over the quarter as it averaged 2.2 per cent. With the inflation rate surpassing the Federal Reserve's target of 2 per cent, along with indications that the economy is gaining momentum, the Federal Open Market Committee (FOMC) increased the Federal Funds rate by 25 basis points to the range 0.75 per cent to 1.00 per cent at its March meeting. The FOMC also indicated that there may be two additional 25 basis points increases in the benchmark rate in 2017.

Euro Area

The final estimate of GDP for the Euro Area confirmed that the economy expanded by 0.5 per cent during the fourth quarter of 2016 compared with preliminary estimates of 0.4 per cent. More recent economic data signalled continued expansion within the currency-bloc. The Markit Euro Zone PMI Composite Index trended upwards over the quarter reaching a six-year high of 56.4 in March from 54.4 in December 2016. This trend reflected continued expansion in both the manufacturing and services sectors as improved business sentiments contributed to increases in domestic demand and new export orders.

In the labour market, conditions continued to improve during the first quarter of 2017 as the latest unemployment rate measured 9.5 per cent in February, the lowest in almost eight years. This compares to an unemployment rate of 9.6 per cent at the end of the fourth quarter of 2016. Among the member countries, the lowest jobless rates were observed in Czech Republic (3.4 per cent) and Germany (3.9 per cent), while the highest rates were in Greece (23.1 per cent) and Spain (18 per cent).

On the price front, headline inflation accelerated over the quarter, averaging 1.8 per cent compared with 0.7 per cent over the prior three months. This faster pace of increase occurred on account of higher fuel costs. However, the core inflation rate which excludes the impact of items that face volatile price movements including energy, food, alcohol and tobacco, averaged 0.8 per cent for the first quarter of 2017, relatively unchanged from the previous quarter.

Despite the economic improvements in the Euro Area, the European Central Bank indicated that stimulus measures are still needed to boost growth and inflation. Consequently, at its March meeting, the ECB's Governing Council maintained its benchmark refinancing rates at zero per cent and reaffirmed that the Bank's monthly asset purchase programme will be reduced to €60 billion from €80 billion, with effect from April 2017.

United Kingdom

Despite the Brexit uncertainty, the UK economy experienced solid growth of 0.7 per cent during the final quarter of 2016, marking the fastest pace of expansion for the economy in 2016. However, throughout the first quarter of 2017, the Brexit Bill which would allow the Prime Minister to trigger Article 50 and start the negotiations to withdraw from the European Union was debated in the UK Parliament. Towards the end of the quarter, the Bill received Royal assent and the Prime Minister officially triggered the two year process that will lead to Britain leaving the European Union. Nonetheless, signs emerged that the uncertainty began to weigh on economic sentiments over the quarter as the Zew Economic Sentiment Index declined to -45.7 points in March 2017 from -39.7 points three months earlier. Meanwhile, the UK Markit Composite PMI for March 2017 declined to 54.9 from 56.7 in December 2016. This movement reflected slowing activity in both the services and manufacturing sectors.

Over the first three months of 2017, there was an uptick in consumer prices as the inflation rate averaged 2.1 per cent compared with an average of 1.2 per cent in the previous quarter. This acceleration represented the largest increase in prices since the September 2013 quarter and reflected higher costs for fuel, food, alcohol and clothing. Despite rising inflationary pressures, the Bank of England maintained its benchmark interest rate at 0.25 per cent and kept its stock of asset purchases at £435 billion at its March 2017 meeting.
With respect to political developments, UK Prime Minister, Theresa May announced an early general election which is likely to be held on June 8, 2017. In her surprised announcement, it was noted that the decision is intended to increase the probability of having successful Brexit negotiations in light of current parliamentary disagreements.

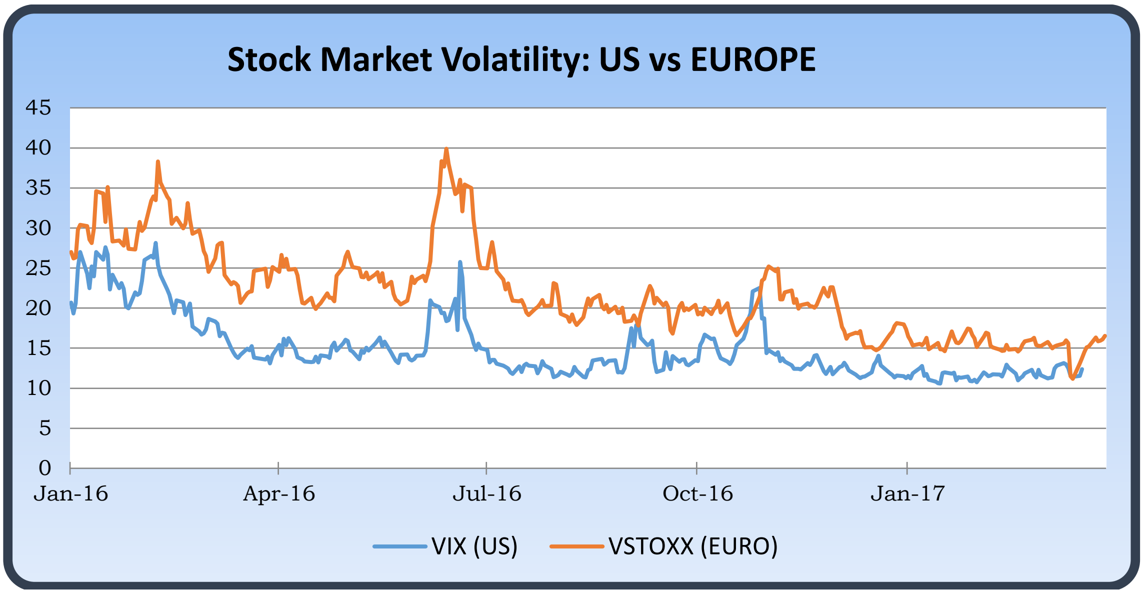
Japan
The latest GDP data showed that the Japanese economy expanded by 0.3 per cent during the fourth quarter of 2016 compared with preliminary estimates of 0.2 per cent. This economic performance reflected increases in exports, government spending and business investment. As an initial gauge of economic activity during the first quarter of 2017, the Nikkei Manufacturing PMI averaged 52.8, an increase from the reading of 51.7 in the prior quarter. This suggested continued improvement in the health of Japan's manufacturing sector which has experienced an increase in new export orders and employment over the quarter. This increase in export orders stemmed from the sharp depreciation of the Yen during the fourth quarter of 2016. In the labour market, the unemployment rate fell to 2.8 per cent in February, the lowest rate in more than 22 years, down from 3.1 per cent in December 2016. Meanwhile, headline inflation remained in positive territory for the fifth consecutive month in February, rising by 0.3 per cent year-on-year, but still significantly below

the Bank of Japan's (BOJ) 2 per cent target. Against this backdrop, the Bank of Japan left its monetary policy stance unchanged at its March 2017 meeting while maintaining a cautiously optimistic outlook on economic growth.

SECTION 2 – CAPITAL AND MONEY MARKET REVIEW

Financial market volatility across the globe declined over the first quarter of 2017 amidst favourable economic data and increased optimism about the prospects for growth and inflation. Investor confidence, particularly in the US, grew in anticipation of the potential impact of President Trump's pro-growth fiscal stimulus package despite concerns about the Administration's ability to implement the proposed tax reform and infrastructure spending. The Chicago Board Options Exchange Volatility Index (VIX), which is a widely referred to as the "investor fear gauge", averaged 11.70 points for the quarter, down from an average of 13.11 points in the the previous quarter where the US presidential election added to volatility during that period. In Europe, the implied volatility as measured by the VSTOXX[3] index also declined during the first quarter of 2017, averaging 15.48 points compared with 19.53 points over the prior three months.

Figure 1
Equity Market Volatility
/points/



Source: Bloomberg.

In the fixed income market, sovereign bonds exhibited mixed performances over the period. In the US, the FOMC's decision to increase its policy rate drove short-term US treasury yields higher while longer-term yields fell over the three months to March

[3] VSTOXX is the European volatility benchmark. It is the 30-day implied volatility of the Euro Stoxx 50 index.

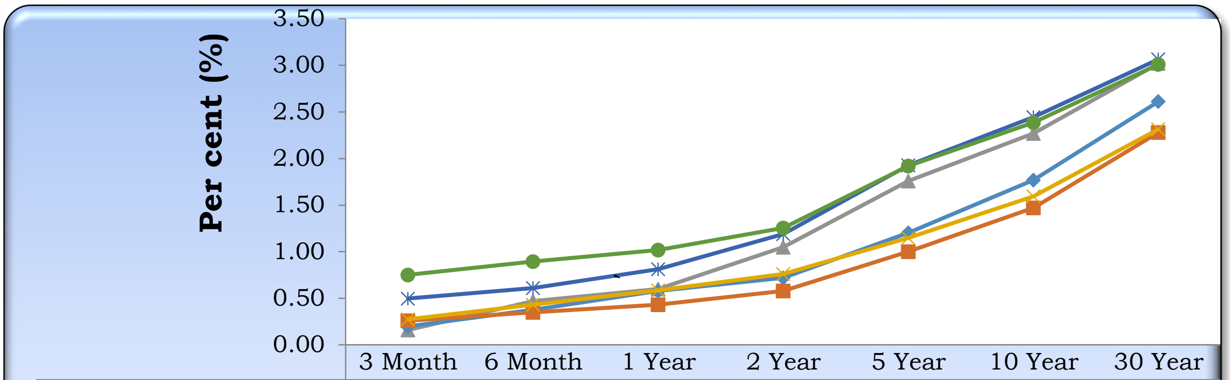
2017. Meanwhile, sovereign yields in the Euro Area, particularly at the 10-year node of the curve, rose over the quarter as the market continued to adjust to the prospect of monetary stimulus withdrawal. In addition, heightened political concerns in the region receded somewhat towards the end of the quarter following the conclusion of the general election in the Netherlands.

In the equity market, the major indices posted relatively solid gains in light of the positive outlook for the global economy and expectations for higher corporate earnings. The noticeably exception was the Japanese market which experienced losses, mainly due to the strengthening of the Yen vis-à-vis the US dollar.

Fixed Income

The US treasury yield curve flattened over the first quarter of 2017 as the Federal Reserve took a less accommodative monetary stance while emphasising gradual inflationary adjustments. In March, the FOMC raised its policy rate by 25 basis points as consumer prices rose at a faster pace over the quarter. Accordingly, yields on US treasuries at the 3-month to 2-year part of the curve increased between 6 and 29 basis points. However, the policy rate increase did not have the same impact on longer-term yields which declined over the quarter as investors appeared to have adopted a more pragmatic view about the timing and likelihood of the fiscal stimulus promised by the Trump administration. Consequently, the 10-year yield declined approximately 5 basis points to 2.39 per cent. Over the quarter, the spread between the 3-month and 10-year securities contracted 31 basis points to 226 basis points, down from 257 basis points three months earlier.

Figure 2
US Treasury Yield Curve
/per cent/

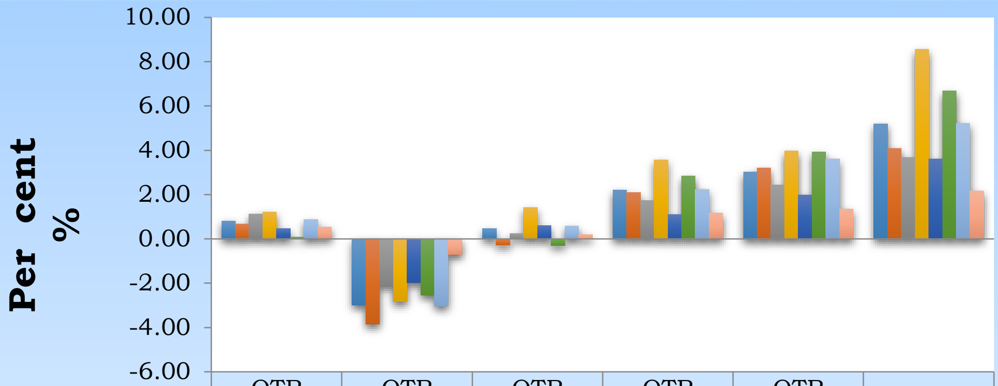


	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
December 31, 2015	0.16	0.47	0.6	1.05	1.76	2.27	3.02
March 31, 2016	0.20	0.38	0.58	0.72	1.20	1.77	2.61
June 30, 2016	0.26	0.35	0.43	0.58	1.00	1.47	2.28
September 30, 2016	0.27	0.43	0.59	0.76	1.15	1.59	2.32
December 30, 2016	0.50	0.61	0.81	1.19	1.93	2.44	3.07
March 31, 2017	0.75	0.90	1.02	1.25	1.92	2.39	3.01

Source: Bloomberg.

The broader US fixed income market, as represented by Barclays US Aggregate Index, gained 0.82 per cent in the first quarter of 2017 compared with a loss of 2.98 per cent in the previous quarter. All of the sectors generated positive returns, which is in stark contrast to the prior quarter when all the sectors made losses. Most of the spread products outperformed US Treasuries, with corporate bonds returning the best performance, gaining 1.22 per cent given a relatively upbeat business outlook. US Agencies and Commercial Mortgage Backed Securities (CMBS) followed with returns of 1.13 per cent and 0.86 per cent, respectively. On the other hand, the Mortgage Backed Securities (MBS) sector was one of the worst performing segments of the fixed income market, underperforming similar-duration Treasuries by 20 basis points over the quarter. The MBS sector was adversely impacted by concerns about the potential reduction in the Federal Reserve's MBS holdings as active consideration is being given to decreasing the size of its balance sheet.

Figure 3
Returns on Fixed Income Indices
/per cent/



	QTR ended Mar-17	QTR ended Dec-16	QTR ended Sep-16	QTR ended Jun-16	QTR ended Mar-16	FY 15/16
Barclays U.S. Aggregate	0.82	-2.98	0.46	2.21	3.03	5.19
U.S. Treasuries	0.67	-3.84	-0.28	2.10	3.20	4.09
U.S. Agencies	1.13	-2.10	0.25	1.73	2.43	3.68
U.S. Corporate	1.22	-2.83	1.41	3.57	3.97	8.56
U.S. MBS	0.47	-1.97	0.60	1.11	1.98	3.61
G-7 Global Bonds (Hedged)	0.09	-2.53	-0.30	2.84	3.93	6.69
CMBS Index	0.86	-3.03	0.59	2.24	3.61	5.22
ABS Index	0.54	-0.70	0.20	1.17	1.36	2.16

Source: Barclays Capital.

In the Eurozone, 10-year yields on sovereign bonds advanced between 12 and 50 basis points amidst higher inflation rates and stronger growth prospects. The Japanese 10-year bond yield continued in positive territory to end the quarter slightly higher at 0.07 per cent. Conversely, the US 10-year yield fell by 6 basis points to 2.39 per cent as the Federal Reserve dispelled concerns that its policies were falling behind inflationary expectations. In the UK, the yield on 10-year government bonds declined by 10 basis points to close the quarter at 1.14 per cent. This movement occurred on account of the BOE lowering its long-term inflation projections.

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

Country	Generic Government 10 Year Yields		Change (basis points)
	Mar-17	Dec-16	
US	2.39	2.44	-5.69
UK	1.14	1.24	-9.70
France	0.97	0.68	28.50
Germany	0.33	0.20	12.10
Italy	2.31	1.81	49.70
Canada	1.62	1.72	-9.60
Japan	0.07	0.04	2.40

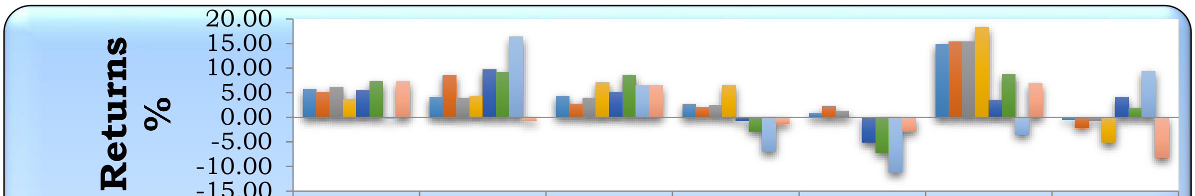
Source: Bloomberg.

Equity Markets

Over the quarter ended March 2017, most developed equity markets posted solid gains. The US market rallied as President Trump provided investors with broader details on his fiscal plans while recent data suggested that the economy is on a firm footing. At the same time, the Brexit process muted index performance in the UK while other European indices generated healthy returns despite the existence of political uncertainty in the region. However, the strengthening of the Japanese currency caused the return of its export-dependent index to fall into negative territory.

According to the S&P 500 index, the US equity market returned 6.06 per cent compared with 3.81 per cent in the previous quarter. The market benefitted from the robust performance of technology sector and President Trump's plan to support the health care industry. The Information Technology and Health Care sectors were among the top performing sectors during the quarter, advancing around 12 per cent and 8 per cent, respectively. Among the eleven sectors of the index, only the Energy and Telecommunication Services sectors made losses. In the UK, investors increased defensive positions in noncyclical stocks which helped the FTSE 100 to gain 3.67 per cent. Germany's economic performance pushed the DAX 30 index up 7.25 per cent over the quarter. Meanwhile, nationalist parties lost footing in the French elections and the CAC 40 ended the quarter 5.35 per cent higher. In Japan, the Nikkei 225 lost 0.37 per cent following double-digit gains in the previous quarter, mainly due to the appreciation of the Yen which adversely affected companies' exports.

Figure 4
Total Returns on Equity Indices
/Per cent/



	QTR ended Mar-17	QTR ended Dec-16	QTR ended Sep-16	QTR ended Jun-16	QTR ended Mar-16	FY 15/16	FY 14/15
Russell 3000	5.74	4.20	4.39	2.62	0.95	14.93	-0.49
Dow Jones	5.18	8.65	2.78	2.06	2.18	15.44	-2.10
S&P 500	6.06	3.81	3.85	2.45	1.34	15.39	-0.62
FTSE 100 - UK	3.67	4.34	7.07	6.52	0.08	18.39	-5.09
CAC 40 - France	5.58	9.71	5.20	-0.69	-5.12	3.56	4.10
DAX 30 - Germany	7.25	9.23	8.58	-2.86	-7.24	8.80	1.96
Nikkei 225 - Japan	-0.37	16.38	6.44	-6.92	-11.19	-3.55	9.42
MSCI EAFE	7.25	-0.71	6.48	-1.28	-2.89	6.93	-8.26

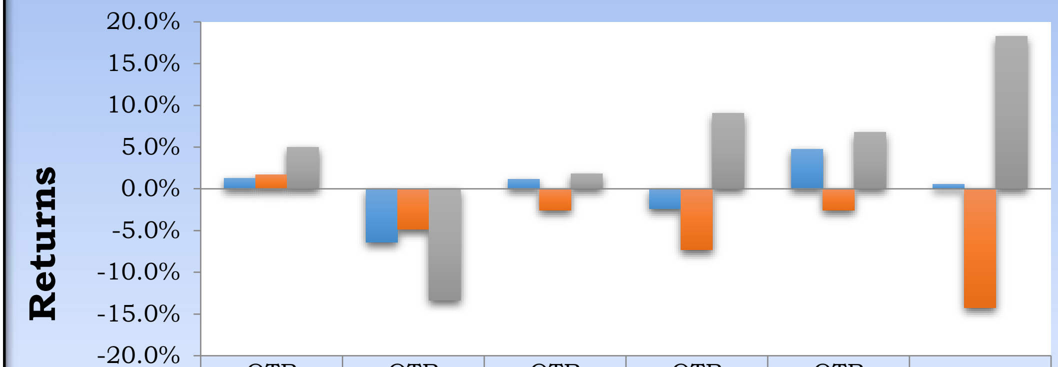
Source: Bloomberg.

Currency Markets

The currency market was volatile over the first quarter of 2017 as several developments across the major economies contributed to some levels of uncertainty in the market. Overall, the value of the US dollar relative to other major currencies, as measured by the DXY index, fell 1.82 per cent in the three months to March, partially reversing the sharp appreciation of 7.07 per cent during the previous quarter. Despite the political uncertainty, the Euro appreciated 1.28 per cent relative to the US dollar mainly due to positive economic data. Likewise, the Pound strengthened over the period, although prevailing tensions surrounding the Brexit situation intensified when UK parliamentary disagreements surfaced. Additionally, safe-haven flows contributed to a 5 per cent appreciation of the Yen vis-à-vis the US dollar over the quarter.

Figure 5

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



	QTR ended Mar-17	QTR ended Dec-16	QTR ended Sep-16	QTR ended Jun-16	QTR ended Mar-16	FY 15/16
EUR	1.28%	-6.39%	1.16%	-2.41%	4.77%	0.52%
GBP	1.70%	-4.87%	-2.55%	-7.31%	-2.55%	-14.25%
JPY	5.00%	-13.35%	1.83%	9.08%	6.80%	18.28%

Source: Bloomberg.

SECTION 3 – PORTFOLIO PERFORMANCE

Strategic Asset Allocation

During the period January 2017 to March 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%*

During the month of March 2017, pursuant to a directive from the Minister of Finance, a total of US$252.55 million was withdrawn from the HSF consistent with the HSF Act (2007). By the end of the quarter, the asset class with the largest overweight was the US Core Equity mandate while the US Short Duration Fixed Income mandate, had the largest underweight position.

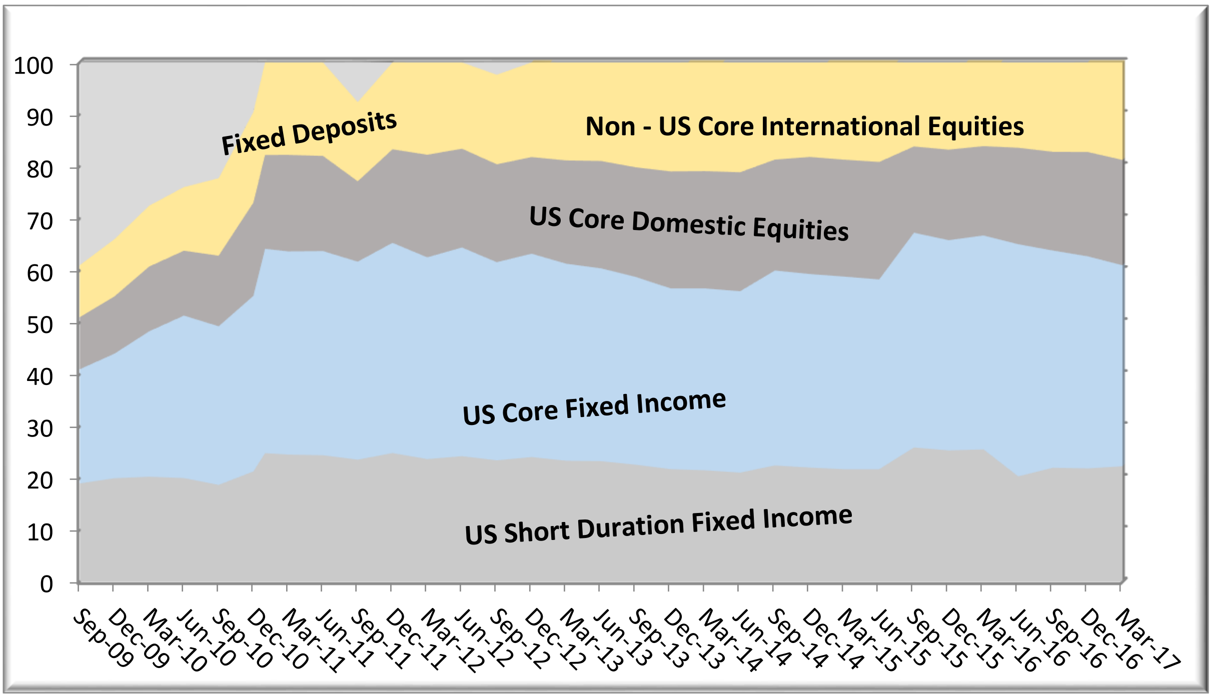
The total net asset value of the Fund as at the end of March 2017 was US$5,473.0 million, compared with US$5,555.0 million at the end of the previous quarter. Of this total, the investment portfolio was valued at US$5,471.9 million, while the remaining portion (US$1.1 million) was held in cash to meet 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 March 31, 2017 are shown in Table 4 below.

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

	Asset Class	Target Weight SAA	Jun-16 Actual % of Fund	Sep-16 Actual % of Fund	Dec-16 Actual % of Fund	Mar-17 Actual % of Fund
Portfolio Weights	US Short Duration Fixed Income	25.00	20.36	22.03	21.90	22.32
	US Core Domestic Fixed Income	40.00	44.69	41.80	40.82	38.69
	US Core Domestic Equity	17.50	18.54	18.98	20.05	20.25
	Non-US Core International Equity	17.50	16.40	17.19	17.23	18.75

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 3.17 per cent during the first quarter of 2017, outperforming its SAA benchmark[4] which gained 2.92 per cent. Approximately 84 per cent of the Composite Portfolio's return was attributed to the performance of the equity mandates which contributed approximately 2.66 per cent while the fixed income portfolios added the remaining 0.51 per cent. At the asset class level, all of the mandates generated positive absolute returns, whereas three out of the four asset classes outperformed their respective benchmarks. The Non-US Core International Equity mandate was the only asset class to underperform its benchmark, despite posting the highest absolute return over the quarter.

The **Non-US International Equities** mandate returned 7.36 per cent over the period January to March 2017, compared with a gain of 7.77 per cent for its benchmark, the MSCI EAFE ex Energy index. The underperformance of the portfolio relative to the benchmark was due to unfavourable stock and country selection which resulted in a combination of securities that generated a lower gain than those stocks in the benchmark. Country allocation to Japan, UK, Norway and Canada detracted from relative performance. The net asset value of the Non-US Core International Equity mandate as at March 31, 2017 increased to **US$1,025.7 million**, from US$956.8 million at the end of December 2016.

The **US Core Domestic Equities** mandate gained 6.91 per cent, compared with a benchmark return of 6.68 per cent. During the quarter, stock selection was the main driver of relative performance. To a lesser extent, slight overweight allocations to the information technology and health care sectors contributed to the mandate's better-than-benchmark performance. These sectors were among those that made the highest returns during the quarter. The net asset value of this mandate as at March 31, 2017, was **US$1,107.9 million** compared with US$1,113.9 million at the end of December 2016. This decline in net asset value was attributed to the withdrawal of US$81.2 million from the mandate in March 2017.

Despite the increase in the Federal Fund Rate during the quarter, the fixed income portion of the Fund generated positive returns as this action did not significantly

[4] 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%).

impact yields between the 2-year and 30-year portion of the curve. Yields at the 3-year and 5-year nodes remained relatively unchanged over the quarter while 7-year and 10-year yields declined. The average duration of the US Short Duration Fixed Income and the US Core Domestic Fixed Income portfolios was 2.6 years and 5.7 years, respectively.

The **US Short Duration Fixed Income** mandate returned 0.44 per cent during the first quarter of 2017, outperforming its benchmark, the Bank of America Merrill Lynch US Treasury 1-5 year index, by 6 basis points. This outperformance was attributed to the portfolio's allocation to spread products, namely non-US Government and Supranational securities. The spread on these securities relative to US Treasuries tightened over the quarter as the Federal Reserve raised its policy rate which caused US yields at the shorter end of the curve to rise. The net asset value of this mandate as at March 31, 2017 was **US$1,221.2 million,** compared with US$1,216.2 million at the end of the previous quarter.

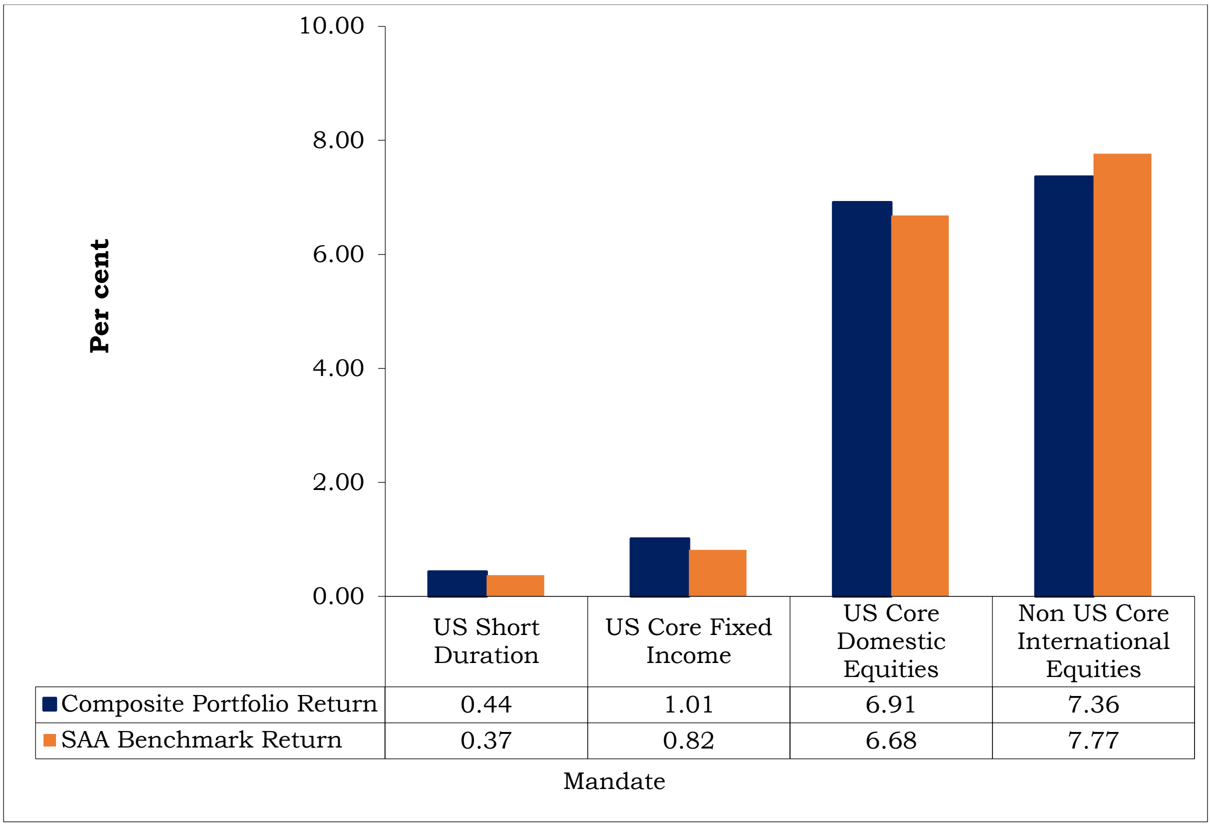
The longer duration fixed income mandate which consists of **US Core Domestic Fixed Income** securities, gained 1.01 per cent during the first quarter of 2017, outperforming its benchmark, the Barclays Capital US Aggregate Bond index, by 20 basis points. This relatively better performance was due to underweight allocations to the ABS and MBS sectors which were among the worst performing sectors in the fixed income market. Additionally, security selection in the corporate sector and more specifically the Industrials sub-sector made a positive contribution to performance. The net asset value of this mandate as at March 31, 2017 stood at **US$2,117.0 million** compared with US$2,267.3 million as at December 31, 2016. This decline in value reflects the withdrawal of US$172.2 million from the mandate in March 2017.

Table 5
Contribution to Quarterly Return
For the period January 2017 – March 2017
/per cent/

	SAA Weights	Portfolio Weights as at 31-Mar-2017	Weighted Return HSF	Weighted Return Benchmark
Composite Portfolio	100.00	100.00	3.17	2.92
US Short Duration Fixed Income	25.00	22.32	0.09	0.09
US Core Domestic Fixed Income	40.00	38.69	0.41	0.33
US Core Domestic Equity	17.50	20.25	1.38	1.15
Non US Core International Equity	17.50	18.75	1.26	1.33

NB: Differences in totals are due to rounding.

Figure 7
Absolute Returns by Asset Class
For the period January 2017 – March 2017
/per cent/



SECTION 4 – COMPLIANCE AND PORTFOLIO RISKS

Compliance

An investment manager's return fell below its benchmark in excess of the threshold outlined in the investment guidelines, notwithstanding a positive return of over 5 per cent for the twelve months to March 2017. 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 March 31, 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 March 31, 2017.

Table 7
Weighted Average Duration
/Years/

Mandate	Portfolio	Benchmark
US Short Duration	**2.56**	**2.63**
US Core Domestic Fixed Income	**5.66**	**6.00**

Currency Risk

Currency Risk is managed by containing and managing the exposure to non-US dollar instruments. For the Fixed Income and US Core Domestic Equity mandates, no more than 10 per cent of the market value of the portfolio can be invested in securities, which are denominated in currencies other than the US Dollar. The Non-US Core International Equity Portfolio is comprised primarily of non-US dollar denominated securities, and the Fund accepts the currency risk inherent in the relevant benchmark. For this mandate, currency hedging is permitted up to 15 per cent of the market value of the portfolio using the US dollar as the base currency. At the end of March 2017, the currency exposure for this portfolio was 99 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

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				
September 30, 2012	4,712,376,278	152,000,791	794,770,772	181,308,882
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)

Appendix III
Summary Characteristics of Composite Benchmarks
Fixed Income Benchmarks

Key Characteristics	Barclays US Aggregate Index	Merrill Lynch 1-5 Index
Total Holdings	9,304	157
Coupon (%)	3.06	1.91
Duration (Years)	6.00	2.63
Average Life (Years)	8.22	2.73
Yield to Maturity (%)	2.61	1.46
Option Adjusted Spread (bps)	44	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	2,791	893
Earnings Per Share (EPS Growth 3-5y fwd)	11.1	8.17
Price Earnings (P/E fwd)	17.88	15.38
Price / Book (P/B)	3.99	1.72
Weighted Average Market Capitalization* (Bn)	$127.2	$51.57

*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.

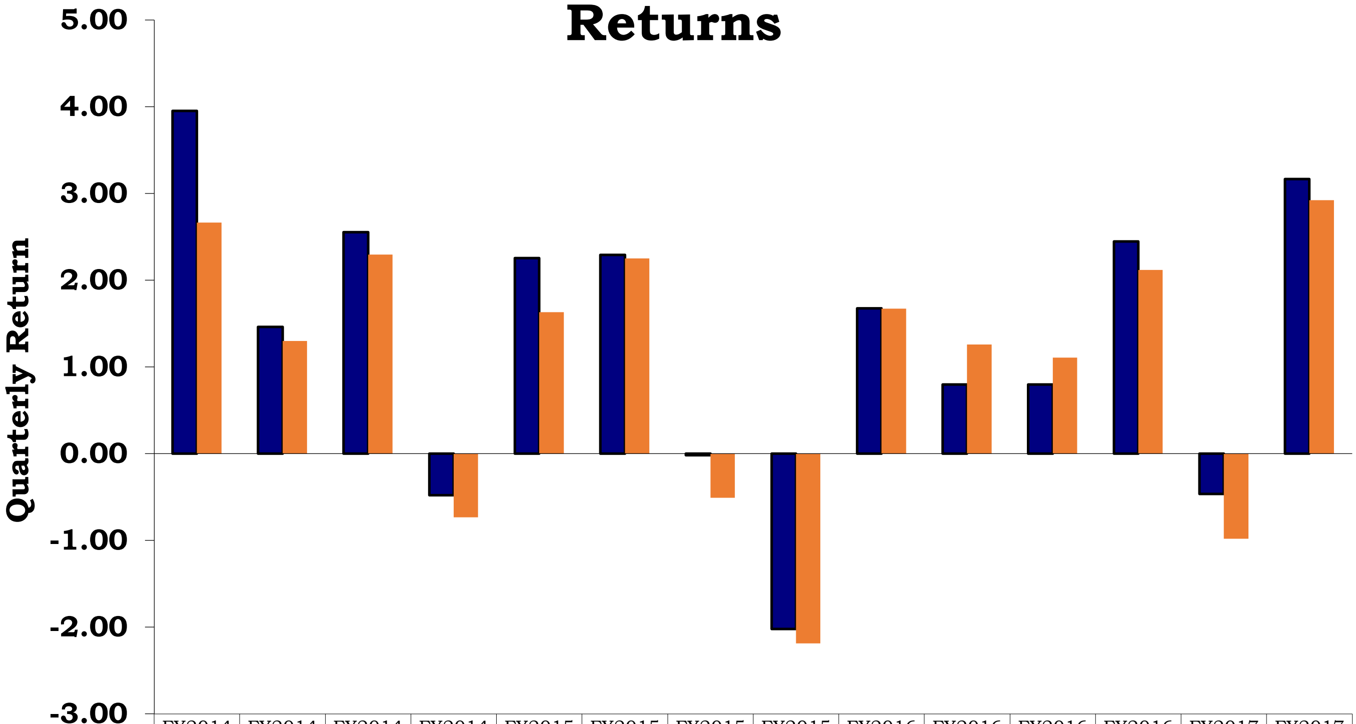
Appendix IV
Summary of the Fund's Net Asset Value by Mandate
/US$ Million/

	Mar-16	**Jun-16**	**Sep-16**	**Dec-16**	**Mar-17**
Total Fund Value	**5,787**	**5,454**	**5,584**	**5,555**	**5,473**
Total Value of Equity	**1,925**	**1,905**	**2,019**	**2,071**	**2,134**
US Core Domestic Equity	994	1,011	1,060	1,114	1,108
Non-US Core International Equity	931	894	959	957	1,026
Total Value of Fixed Income	**3,862**	**3,547**	**3,563**	**3,484**	**3,338**
US Short Duration Fixed Income	1,480	1,110	1,230	1,216	1,221
US Core Domestic Fixed Income	2,382	2,437	2,333	2,267	2,117
Total Value of Cash or Cash Equivalents	**0**	**2**	**1**	**1**	**1**

NB: Differences in totals are due to rounding.

Appendix V
HSF Portfolio Quarterly Returns
/per cent/

Quarterly HSF & SAA Benchmark Returns



	FY2014 Q1	FY2014 Q2	FY2014 Q3	FY2014 Q4	FY2015 Q1	FY2015 Q2	FY2015 Q3	FY2015 Q4	FY2016 Q1	FY2016 Q2	FY2016 Q3	FY2016 Q4	FY2017 Q1	FY2017 Q2
HSF Portfolio	3.95	1.46	2.56	-0.48	2.25	2.29	-0.02	-2.02	1.68	0.80	0.80	2.45	-0.46	3.17
Benchmark	2.66	1.30	2.30	-0.73	1.63	2.25	-0.51	-2.19	1.67	1.26	1.11	2.12	-0.98	2.92

HSF Portfolio **Benchmark**