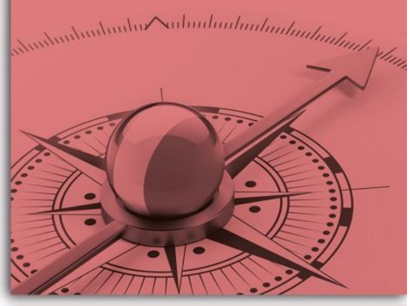


CENTRAL BANK OF
TRINIDAD & TOBAGO

Heritage and Stabilisation Fund

Quarterly Investment Report
July - September 2017

TABLE OF CONTENTS

[1] This section includes economic developments to October 26, 2017.

EXECUTIVE SUMMARY

- Despite the effects of hurricanes in the United States (US), political concerns in Europe and the United Kingdom (UK), the global economy continued its growth trajectory in the third quarter of 2017. As a result of this broad-based improvement, the major central banks are becoming less accommodative in their monetary policy stance.

- In the US, manufacturing activity has strengthened while inflation rose towards the end of the quarter as hurricane-related disruptions at oil refineries caused energy prices to increase. At the September 2017 meeting of the Federal Open Market Committee (FOMC), it was decided that the benchmark rate would remain unchanged while the Committee announced that it will commence the unwinding of its US$4.5 trillion balance sheet in October 2017.

- In the other major economies, output is set to expand as the data for the third quarter revealed increased manufacturing activity, modest increases in the pace of inflation in the Eurozone and Japan and improved labour market conditions in the UK. Meanwhile, the central banks of these economies have all hinted at reducing their respective asset purchases programmes.

- The financial market were characterised by low volatility over the quarter although monetary policy announcements and geo-political issues may have surprised investors. However, it appeared that concerns were tempered by the release of positive economic data throughout the period. In the US, equity markets continued its upward trend, returning around 4.5 per cent while the US broad fixed income market posted gains of less than 1 per cent.

- In the developed Non-US markets, equities earned almost 5.5 per cent during the third quarter to outperform its US counterpart. In the fixed income market, 10-year yields on German, French, Italian and Japanese Government bonds declined over the quarter while the yield on comparable UK gilts increased.

- The HSF composite portfolio returned 2.61 per cent in the three months to September 2017, outperforming its Strategic Asset Allocation benchmark, which gained 2.06 per cent. All four mandates generated positive absolute returns and outperformed their respective benchmarks.

- The total net asset value of the Fund as at the end of September 2017 was US$5,762.5 million, compared with US$5,619.3 million at the end of the previous quarter. Of this total, the investment portfolio was valued at US$5,762.3 million, while the remaining portion (approximately US$0.2 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 July 2017 – September 2017
/per cent/

	Absolute Return HSF	Absolute Return Benchmark
Composite Portfolio	**2.61**	**2.06**
US Short Duration Fixed Income	0.33	0.29
US Core Domestic Fixed Income	0.91	0.85
US Core Domestic Equity	4.69	4.44
Non-US Core International Equity	6.30	5.01

Table 2
Contributions to Quarterly Returns
For the Three Months to July 2017 – September 2017
/per cent/

	3 Months Weighted Return as at 30-Sep-2017		3 Months Weighted Return as at 30-Jun-2017	
	HSF	Benchmark	HSF	Benchmark
Composite Portfolio	**2.61**	**2.06**	**2.74**	**2.44**
US Short Duration Fixed Income	0.07	0.07	0.10	0.09
US Core Domestic Fixed Income	0.35	0.34	0.62	0.58
US Core Domestic Equity	0.95	0.77	0.69	0.64
Non-US Core International Equity	1.22	0.87	1.32	1.12

NB: Differences in totals are due to rounding.

SECTION 1 – INTERNATIONAL ECONOMIC ENVIRONMENT

UNITED STATES

The latest GDP for the United States revealed that the economy expanded at an annualised rate of 3.1 per cent in the second quarter of 2017 compared with growth of 1.2 per cent over the previous three months. This faster pace of growth mainly reflected a relatively sharper increase in consumer spending. Meanwhile, modest growth in business investment and exports also added to the favourable outturn.

Early data releases for the third quarter of 2017 seem to indicate that the economy continued along its expansionary path although the magnitude may have been tempered by the impact of hurricane Harvey and Irma. Consumer spending as measured by the retail sales index increased during the third quarter as the index rose by 4.4 per cent in the twelve months to September 2017, up from 3 per cent in June. The sharp increase in motor vehicle sales in the month of September was the main driver of this upward trend in retail sales which suggested that flood-damaged vehicles may have been replaced following Hurricane Harvey in August.

On the manufacturing front, the Institute of Supply Management's Manufacturing PMI for September 2017 showed that activity in the sector heightened over the quarter as the index rose to 60.8 in September, up from 57.8 in three months earlier. The New Orders, Prices and Supplier Deliveries sub-indices were the largest contributors to the increase in the overall index.

The labour market has generally remained supportive of an improving economy although non-farm payrolls slowed significantly over the third quarter 2017, even contracting in September. This marked the first decline since September 2010 and it may have been on account of the two Hurricanes. Nonetheless, the unemployment rate fell to 4.2 per cent in September from 4.4 per cent in June.

Meanwhile, headline inflation accelerated during the September quarter, mainly as a result of higher energy prices. Production disruptions at oil refineries in the Gulf Coast caused by Hurricane Harvey contributed to the upward movement in energy prices. However, the core inflation rate which strips out the impact of food and energy prices remained unchanged over the quarter at 1.7 per cent.

At its September 2017 meeting, the Federal Open Market Committee maintained the target range for the federal funds rate at 1.00 per cent to 1.25 per cent as concerns were expressed about the persistence of low underlying inflation. The Committee also announced that it will commence the unwinding of its US$4.5 trillion balance sheet in October 2017, initially allowing US$6 billion of Treasuries and US$4 billion of mortgage backed securities to mature each month.

EUROZONE

The latest available data on economic growth for the Eurozone indicated that economy grow by 0.6 per cent in the second quarter of 2017, slightly faster than the pace of 0.5 per cent in the previous quarter. This expansion reflected increased consumption on the part of households, higher investments and the upward movement in exports. On a country level, GDP accelerated in Spain, the Netherlands and Austria, remained flat in France and Italy and slowed in other member countries including Germany.

Despite the political issues confronting the region, related to the national elections in Germany and the independence referendum in the Spanish region of Catalonia, positive data releases during the third quarter of 2017 helped to boost investor sentiment and strengthened the economic outlook.

The latest reading of the Eurozone's Markit Manufacturing Purchasing Managers' Index (PMI) which was released in early October 2017, suggested that the sector continued to experienced robust growth as the index expanded at its fastest pace in six and a half year, reaching 58.6 points. This compares with a reading of 56.7 points three months earlier and was underpinned by accelerations in the new work and the new orders components of the index. In the labour market, the unemployment rate remained at its lowest level since February 2009, measuring 9.1 per cent in August 2017, the same as at the end of the previous quarter.

On the price front, inflation in the Eurozone rose to 1.5 per cent in the twelve months to September 2017 from 1.3 per cent in June. This acceleration was mainly driven by an increase in food and energy prices. Given that the economic improvements appears to have not been fully translated into higher consumer prices, the European Central Bank (ECB) decided to maintain its benchmark refinancing rate at zero per cent and maintain its asset purchases at the current level of €60 billion per month until the end of 2017. At the latest ECB meeting in October 2017, it was decided that the asset purchases would be reduced to €30 billion per month from January 2018 for a period of nine months or longer if warranted.

UNITED KINGDOM

Despite the Brexit uncertainties and the downgrade of the UK by Moody's rating agency, the preliminary estimate of GDP for the third quarter of 2017 indicated that the economy grew by 0.4 per cent, slightly faster than the growth of 0.3 per cent in the prior quarter. This increase in GDP was driven by growth in the services and manufacturing sectors which more than offset the contraction in the construction sector. The Manufacturing Purchasing Managers' Index (PMI) also supported an expansion in manufacturing activity as the index rose to 55.9 in September compared with 54.2 at the end of June.

Conditions in the labour market also appeared to have improved during the quarter as employment gains were the single largest contributor to increased activity in the services sector over the period. The latest unemployment rate stood at 4.3 per cent in August 2017, down from 4.4 per cent at the end of June, marking the lowest rate since 1975.

Meanwhile, consumer prices rose by 3 per cent on a year-on-year basis to September 2017, up from 2.6 per cent three months earlier. This increase represented the highest inflation rate since April 2012 and it occurred on account of higher prices for food, transport and leisure activities.

At its September meeting, the Bank of England (BoE) decided to maintain its Bank Rate at 0.25 per cent, leave its purchases of investment-grade corporate bonds at GBP10 billion and keep its UK government bond purchases at GBP435 billion. However, the BOE noted that the rising inflationary pressures may warrant some withdrawal of monetary stimulus in the coming months.

JAPAN

The latest GDP for the Japanese economy revealed an increase in economic activity in the second quarter of 2017 as it expanded by 0.6 per cent compared with growth of 0.3 per cent in the previous three months. Sharp increases in government expenditure and public investments were identified as the main drivers of this expansion. Economic indicators for the third quarter pointed towards continued growth as Japan's Tankan Index of Large Manufacturers Sentiment rose to 22 points in the third quarter of 2017, up from 17 points in June 2017. In addition, activity in the manufacturing sector, as measuring by the PMI index, increased over the quarter, reflecting the upturns in production and new export orders.

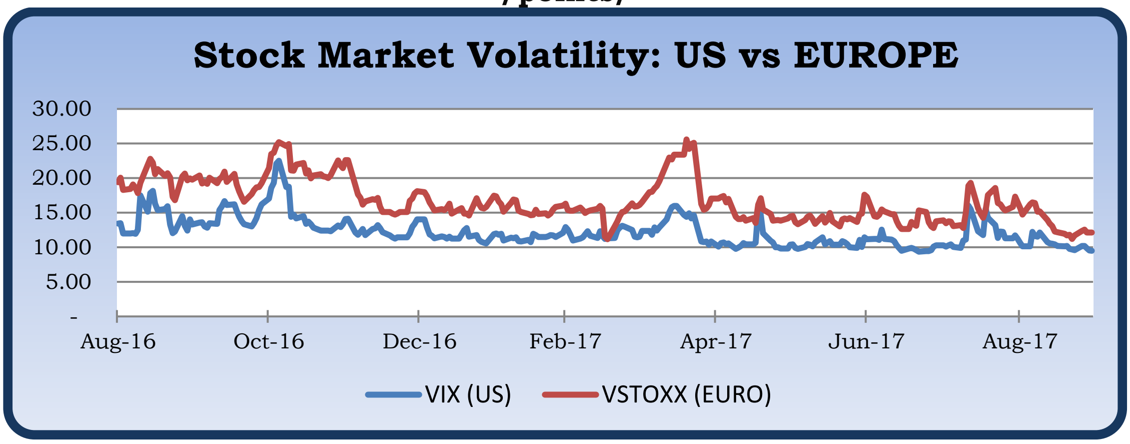
Despite the increased in output, low inflation remained a concern for the economy. On a year-on-year basis, headline inflation measured 0.7 per cent in August 2017 which is significantly below the target of 2 per cent. At its September meeting, the Bank of Japan maintained its short-term interest rate at -0.1 per cent and kept its ten-year government bond yield target at zero per cent. The Bank also announced its plan to reduce its balance sheet from October 2017. On the political front, Prime Minister Shinzo Abe called a snap election on October 22, 2017, and was re-elected by a resounding majority.

SECTION 2 – CAPITAL AND MONEY MARKET REVIEW

Improving fundamentals in the major developed economies coupled with strong corporate earnings, historically low volatility and expectations for less accommodative monetary policy in some developed countries supported riskier assets over the third quarter of 2017. The S&P 500 index advanced 4.57 per cent over the period with the information technology and financial sectors posting the highest returns. U.S. investment grade corporates and collateralised securities outperformed like-duration Treasuries over the quarter which earned 0.38 per cent, according to the Barclay's US Aggregate index.

Volatility in the financial market was on average lower than that in the previous quarter despite geopolitical tensions in North Korea and Europe. The Chicago Board Options Exchange Volatility Index (VIX), which is a proxy for investor anxiety and market risk, averaged 10.94 points, down from an average of 11.47 points in the previous quarter. The Euro Stoxx 50 Volatility Index (VSTOXX) fell by 2.18 points to 14.32 points as at September 30, 2017.

Figure 1
Equity Market Volatility
/points/

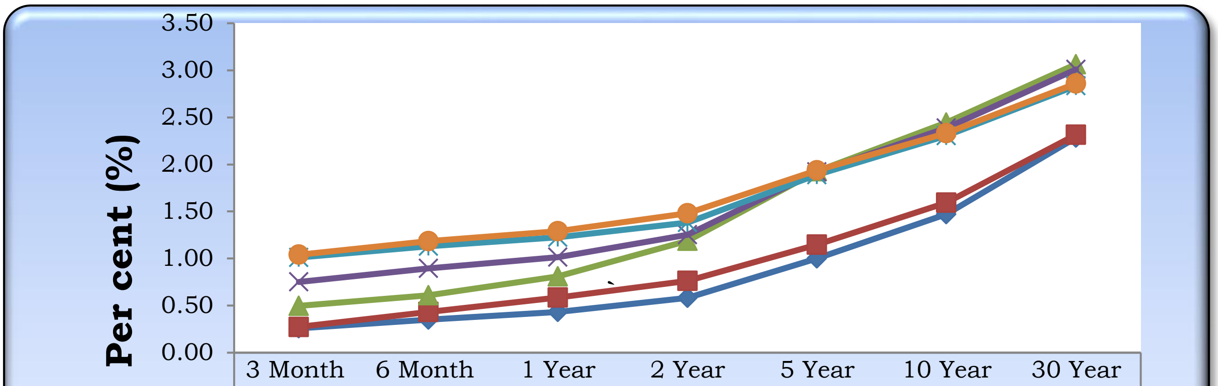


Source: Bloomberg.

Fixed Income

Yields on US government bonds rose over the third quarter of 2017, more so on the shorter end of the curve as the FOMC signalled its intention to increase its policy rate at least once more before the end of this year. The 2-year note closed the period 10 basis points higher at 1.48 per cent, its highest level since October 2008. Longer dated yields were lower for most of the quarter given geopolitical tensions and softer inflation data, but they rebounded in September as investors became less risk averse and the FOMC announced its plans to reduce its balance sheet. The benchmark 10-year bond reached a low of 2.04 per cent on September 7th but rose to 2.33 per cent by the end of the period.

Figure 2
US Treasury Yield Curve
/per cent/

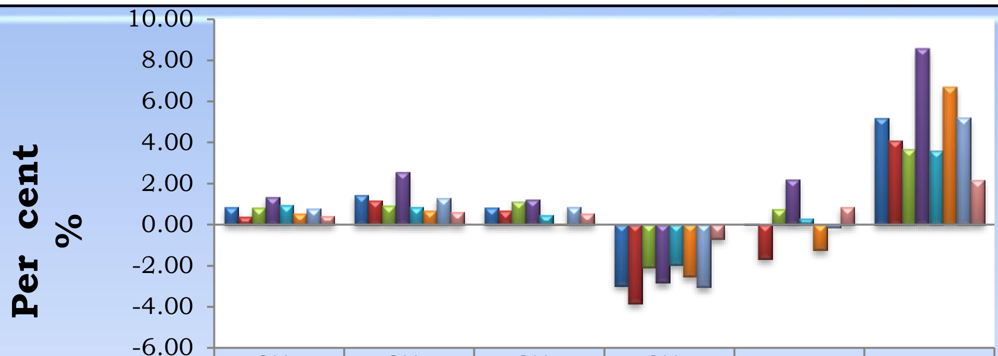


	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
Jun-16	0.26	0.35	0.43	0.58	1.00	1.47	2.28
Sep-16	0.27	0.43	0.59	0.76	1.15	1.59	2.32
Dec-16	0.50	0.61	0.81	1.19	1.93	2.44	3.07
Mar-17	0.75	0.90	1.02	1.25	1.92	2.39	3.01
Jun-17	1.01	1.13	1.23	1.38	1.89	2.30	2.83
Sep-17	1.04	1.19	1.29	1.48	1.94	2.33	2.86

Source: Bloomberg.

The broader US fixed income market, as represented by the Barclay's US Aggregate Index, posted positive returns over the quarter. Strong business sector activity supported the US Corporate Investment Grade sector which earned 1.34 per cent. The Mortgage Backed Securities sector also performed well, posting returns of 0.96 per cent. This is despite of the FOMC announcement of its intention to allow US$4 billion of Mortgage Backed Securities to mature each month, commencing in October 2017.

Figure 3
Returns on Fixed Income Indices
/per cent/



	QTR ended Sep-17	QTR ended June-17	QTR ended Mar-17	QTR ended Dec-16	FY 16/17	FY 15/16
Barclays U.S. Aggregate	0.85	1.45	0.82	-2.98	0.07	5.19
U.S. Treasuries	0.38	1.19	0.67	-3.84	-1.67	4.09
U.S. Agencies	0.82	0.93	1.13	-2.10	0.75	3.68
U.S. Corporate	1.34	2.54	1.22	-2.83	2.21	8.56
U.S. MBS	0.96	0.87	0.47	-1.97	0.30	3.61
G-7 Global Bonds (Hedged)	0.54	0.70	0.09	-2.53	-1.23	6.69
CMBS Index	0.79	1.31	0.86	-3.03	-0.13	5.22
ABS Index	0.42	0.60	0.54	-0.70	0.86	2.16

Source: Bloomberg

The performance of sovereign bonds in the non-US developed market was mixed over the quarter. In the UK, yields fell throughout much of the quarter, but rose sharply towards the end as the BoE signalled its intention to withdraw monetary stimulus sooner rather than later. The benchmark 10-year Gilt yield rose 10.50 per cent to close the quarter at 1.36 per cent. The Canadian 10-year yield also rose as the Bank of Canada surprised the market and increased its policy rate twice given stronger than expected economic data.

Yields on the German and French benchmark bonds, however, fell over the period amidst political uncertainty. The 10-year Japanese government bond yield remains slightly above the BoJ's zero per cent target at 0.06 per cent.

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

Country	Generic Government 10 Year Yields		Change (basis points)
	Sep-17	Jun-17	
US	2.33	2.30	2.99
UK	1.36	1.26	10.50
France	0.74	0.81	-7.10
Germany	0.46	0.47	-0.30
Italy	2.11	2.15	-4.40
Canada	2.10	1.76	33.70
Japan	0.06	0.08	-1.90

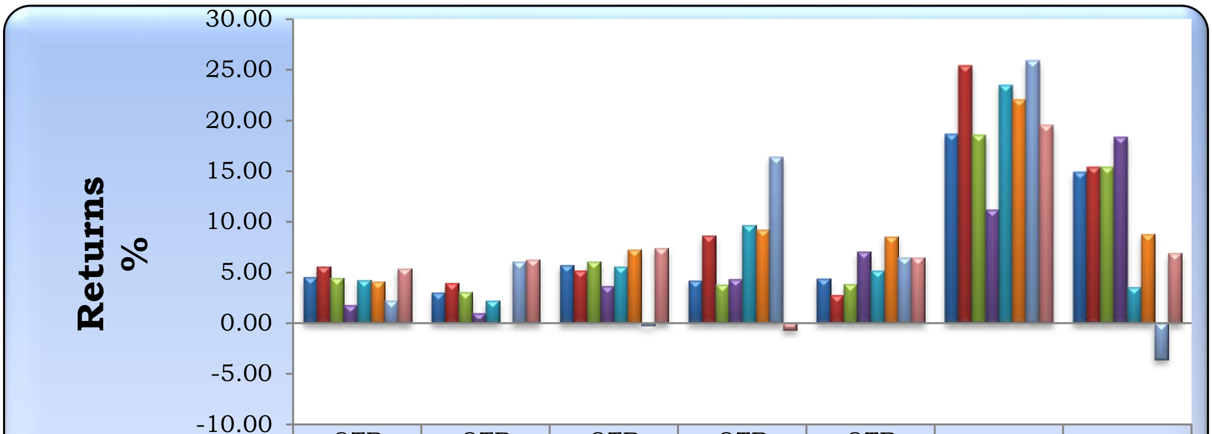
Source: Bloomberg.

Equity Markets

Developed equity markets advanced over the third quarter of 2017 amidst an improvement in economic fundamentals and strong corporate earnings. The Russell 3000 and S&P 500 returned 4.57 per cent and 4.48 per cent respectively. Among the best performing sectors was the information technology sector where the majority of the companies reported earnings beyond analysts' projections. Financial companies also performed well given the increase in interest rates.

In Europe, the FTSE 100 returned 1.81 per cent with the heavily weighted energy and mineral sector benefitting from higher commodity prices. The CAC 40 and DAX 30 returned 4.28 per cent and 4.09 per cent respectively supported by stable economic growth and positive business sentiments. Japanese equities also rallied over the period.

Figure 4
Total Returns on Equity Indices
/Per cent/



	QTR Ended Sep-17	QTR Ended Jun-17	QTR Ended Mar-17	QTR Ended Dec-16	QTR Ended Sep-16	FY 16/17	FY 15/16
Russell 3000	4.57	3.01	5.74	4.20	4.39	18.68	14.93
Dow Jones	5.58	3.95	5.18	8.65	2.78	25.42	15.44
S&P 500	4.48	3.09	6.06	3.81	3.85	18.58	15.39
FTSE 100 - UK	1.81	0.98	3.67	4.34	7.07	11.21	18.39
CAC 40 - France	4.28	2.25	5.58	9.71	5.20	23.50	3.56
DAX 30 - Germany	4.09	0.10	7.25	9.23	8.58	22.05	8.80
Nikkei 225 - Japan	2.24	6.09	-0.25	16.38	6.44	25.91	-3.55
MSCI EAFE	5.42	6.27	7.39	-0.65	6.48	19.53	6.93

Source: Bloomberg.

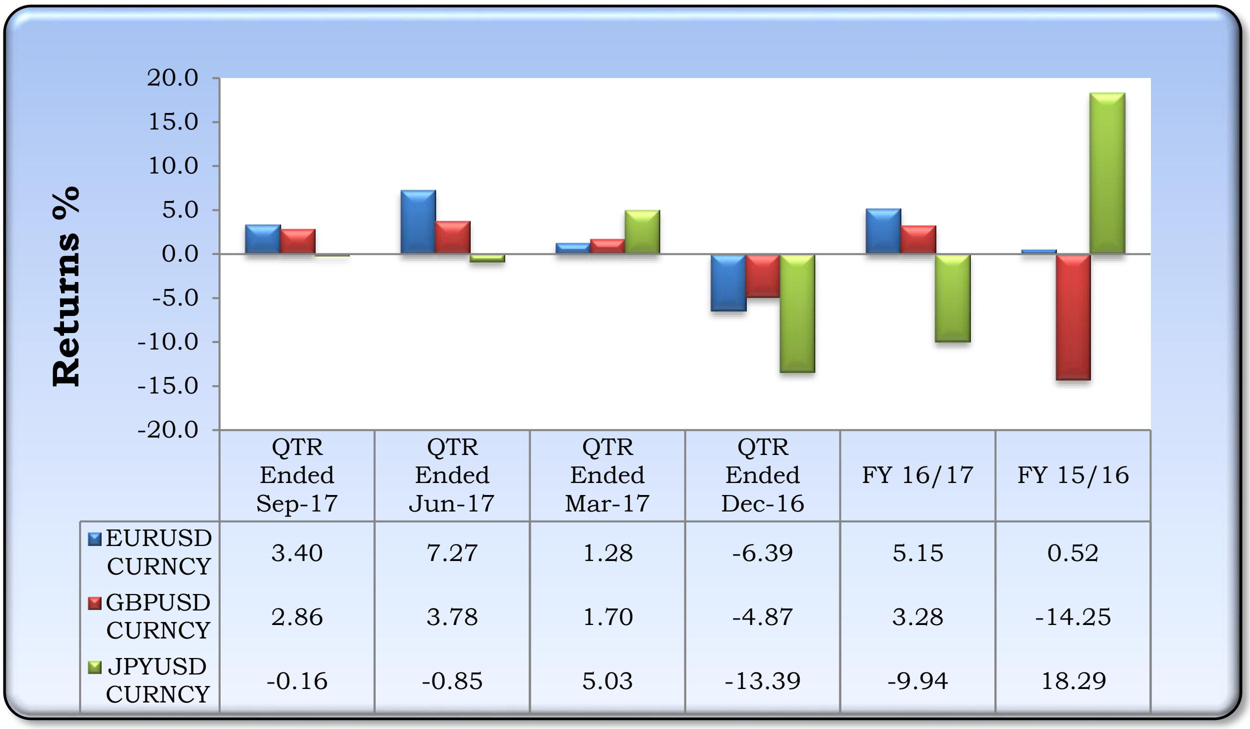
Currency Markets

The global currency market was mainly influenced by investor speculation on the course of monetary policy. The US Dollar, as represented by the Dollar Spot Index (DXY), depreciated 2.67 per cent against a basket of developed market currencies. The Euro was the best performing currency, appreciating 3.40 per cent relative to the US Dollar. President Mario Draghi's comments at the annual Jackson Hole conference were interpreted by market analysts as a signal that the monetary authority would soon consider tapering its accommodative policies.

The British Pound appreciated 2.86 per cent versus the dollar given expectations of a rate hike at the BoE's November meeting and progress on the Brexit negotiations. The Japanese Yen, however, depreciated 0.16 per cent as demand for safe haven assets receded towards the end of the quarter.

Figure 5

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



	QTR Ended Sep-17	QTR Ended Jun-17	QTR Ended Mar-17	QTR Ended Dec-16	FY 16/17	FY 15/16
EURUSD CURNCY	3.40	7.27	1.28	-6.39	5.15	0.52
GBPUSD CURNCY	2.86	3.78	1.70	-4.87	3.28	-14.25
JPYUSD CURNCY	-0.16	-0.85	5.03	-13.39	-9.94	18.29

Source: Bloomberg.

SECTION 3 – PORTFOLIO PERFORMANCE

Strategic Asset Allocation

During the period July 2017 to September 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.

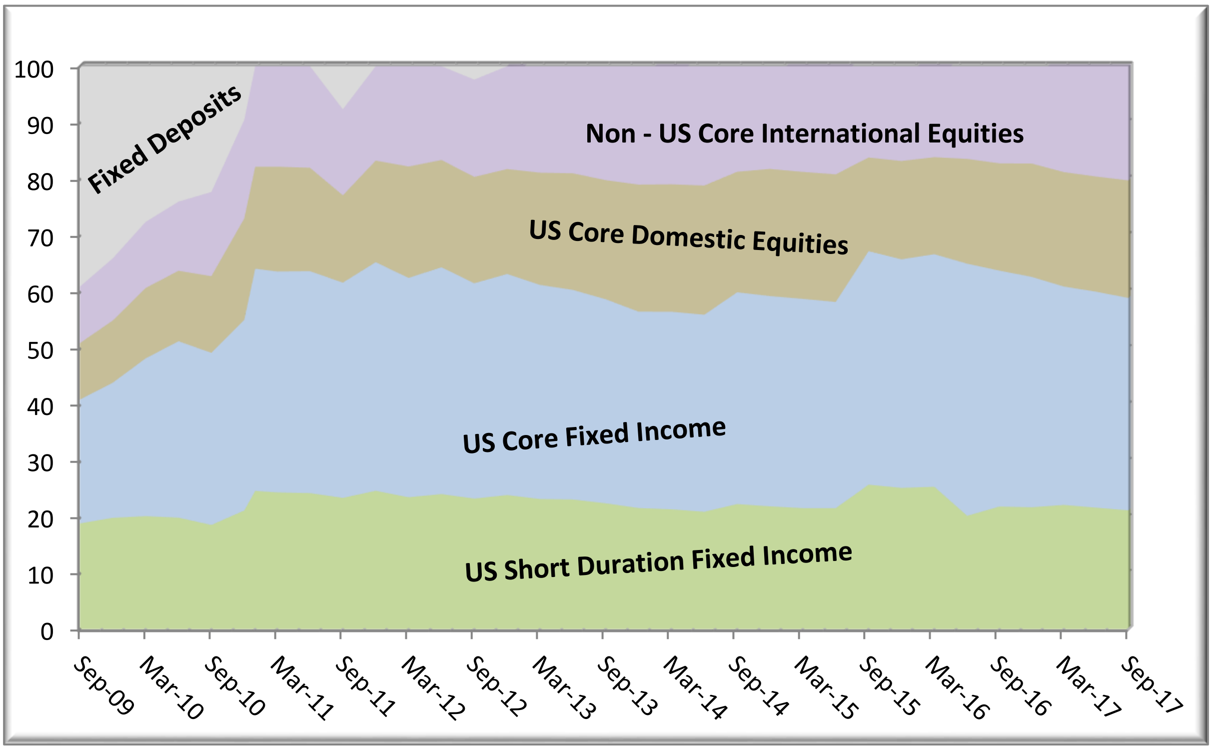
The total net asset value of the Fund as at the end of September 2017 was US$5,762.5 million, compared with US$5,619.3 million at the end of the previous quarter. Of this total, the investment portfolio was valued at US$5,762.3 million, while the remaining portion (US$0.2 million) was held in cash to 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 September 30, 2017 are shown in Table 4 below.

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

Portfolio Weights	Asset Class	Target Weight SAA	Dec-16 Actual % of Fund	Mar-17 Actual % of Fund	Jun-17 Actual % of Fund	Sep-17 Actual % of Fund
	US Short Duration Fixed Income	25.00	21.90	22.32	21.82	21.34
	US Core Domestic Fixed Income	40.00	40.82	38.69	38.27	37.64
	US Core Domestic Equity	17.50	20.05	20.25	20.38	20.80
	Non-US Core International Equity	17.50	17.23	18.75	19.52	20.21

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 2.61 per cent during the third quarter of 2017, outperforming its SAA benchmark[2] which gained 2.06 per cent. Approximately 84 per cent of the Composite Portfolio's return was attributed to the performance of the equity mandates which contributed approximately 2.18 per cent of the total return while the fixed income portfolios added the remaining 0.43 per cent. All four mandates generated positive absolute returns and outperformed their respective benchmarks.

The **US Core Domestic Equity** mandate gained an absolute return of 4.69 per cent during the second quarter of 2017 compared with a benchmark return of 4.44 per cent. This outperformance was due to the managers' stock selection decisions as the combination of stocks they held produced higher returns than those in the benchmark. On a sectoral level, the overweight exposure to stocks in the information technology sector contributed the most to the mandate's outperformance. The net asset value of this mandate as at September 30, 2017 was **US$1,198.7 million**, compared with US$1,145.2 million on June 30, 2017.

The **Non-US International Equities** mandate returned 6.30 per cent over the period July to September 2017, compared with a gain of 5.01 per cent for its benchmark, the MSCI EAFE ex Energy index. The outperformance of the portfolio relative to the benchmark was primarily due to favourable stock selection, specifically in Europe and Japan. The net asset value of the Non-US Core International Equity mandate as at September 30, 2017 increased to **US$1,164.6 million**, from US$1,097.0 million at the end of June 2017.

The **US Short Duration Fixed Income** mandate returned 0.33 per cent during the third quarter of 2017, outperforming its benchmark, the Bank of America Merrill Lynch US Treasury 1-5 year index, by 4 basis points. This outperformance was attributed to the portfolio's allocation to spread products, specifically agency, sovereign and supranational positions. The net asset value of this mandate as at

[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%).

September 30, 2017 stood at **US$1,229.9 million,** compared with US$1,226.2 million at the end of the previous quarter.

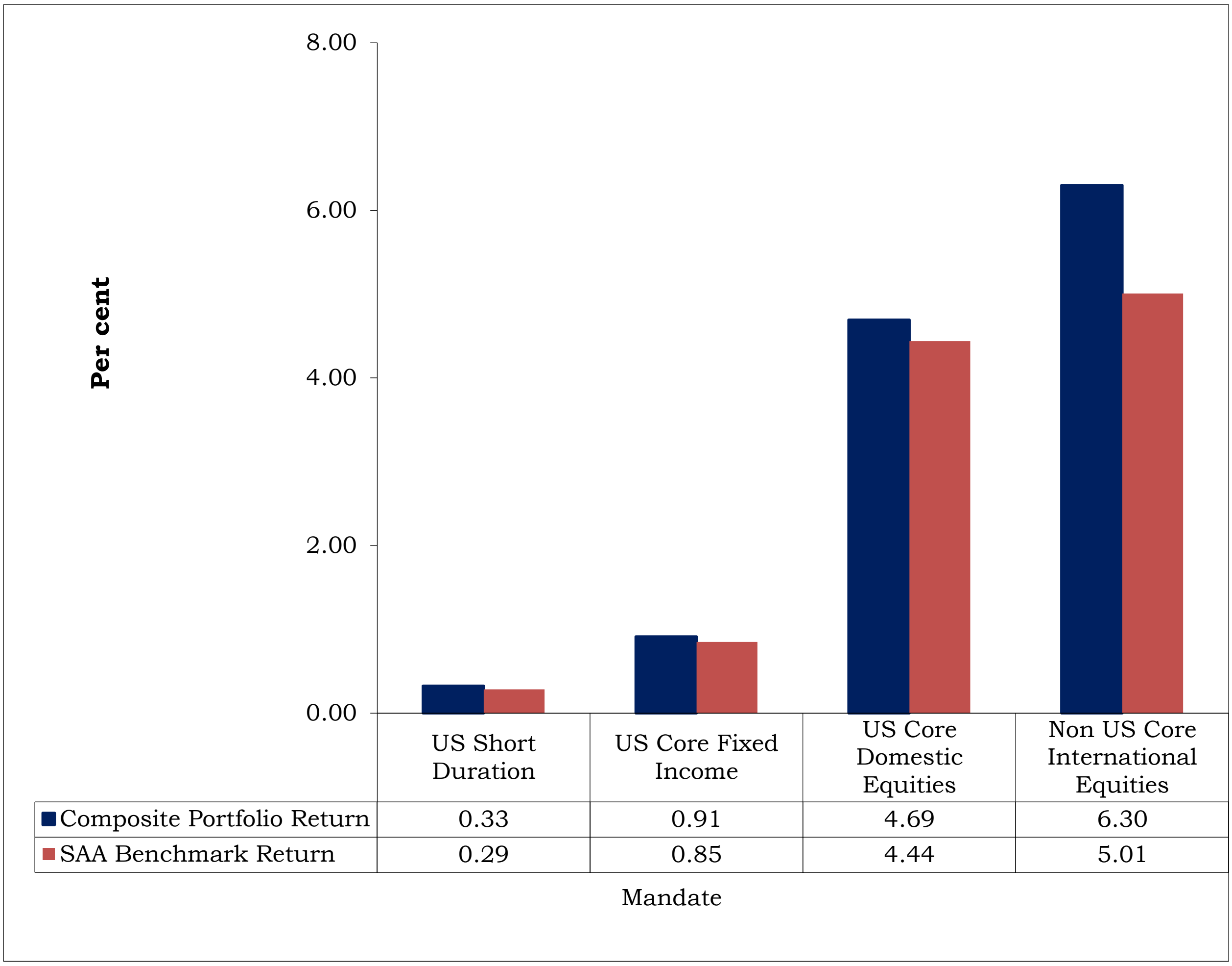
The longer duration **US Core Domestic Fixed Income** mandate, gained 0.91 per cent, outperforming its benchmark, the Barclays Capital US Aggregate Bond index, which returned 0.85 per cent. This outperformance was due to the portfolio's overweight exposure to corporate bonds and mortgage-backed securities. These were the top performing sectors in the broad fixed income market. The net asset value of this mandate as at September 30, 2017 stood at **US$2,169.1 million** compared with US$2,150.2 million at the end of June 2017.

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

	SAA Weights	Portfolio Weights as at 30-Sep-2017	Weighted Return HSF	Weighted Return Benchmark
Composite Portfolio	100.00	100.00	2.61	2.06
US Short Duration Fixed Income	25.00	21.34	0.07	0.07
US Core Domestic Fixed Income	40.00	37.64	0.35	0.34
US Core Domestic Equity	17.50	20.80	0.95	0.77
Non US Core International Equity	17.50	20.21	1.22	0.87

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 June 2017 – September 2017
/per cent/



	US Short Duration	US Core Fixed Income	US Core Domestic Equities	Non US Core International Equities
Composite Portfolio Return	0.33	0.91	4.69	6.30
SAA Benchmark Return	0.29	0.85	4.44	5.01

SECTION 4 – COMPLIANCE AND PORTFOLIO RISKS

Compliance

During the third quarter of 2017, there was one breach of a credit risk limit. The asset manager subsequently sold the position at a gain and brought the portfolio back in compliance with the investment guidelines.

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 September 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 September 30, 2017.

Table 7
Weighted Average Duration
/Years/

Mandate	Portfolio	Benchmark
US Short Duration	**2.59**	**2.68**
US Core Domestic Fixed Income	**5.63**	**5.96**

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 September 2017, the currency exposure for this portfolio excluding hedging activities 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
June	2.74	2.44	30.00	5.50	4.40	110.45	5.51	4.97	54.69
September	2.61	2.06	54.78	8.25	6.55	170.48	5.64	5.05	58.79

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)
September 30, 2017	5,762,544,777	429,475,446	2,428,512,893	(252,548,048)
Quarterly Portfolio Valuation				
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	(252,548,048)
June 30, 2017	5,619,311,033	146,006,897	2,286,048,973	-
September 30, 2017	5,762,544,777	142,463,920	2,428,512,893	-

Appendix III
Summary Characteristics of Composite Benchmarks
Fixed Income Benchmarks

Key Characteristics	Barclays US Aggregate Index	Merrill Lynch 1-5 Index
Total Holdings	9,547	157
Coupon (%)	3.06	1.92
Duration (Years)	5.96	2.61
Average Life (Years)	8.25	2.72
Yield to Maturity (%)	2.55	1.6
Option Adjusted Spread (bps)	38	0
Average Rating (S&P)	AA+	AA+
Minimum Rating (S&P)	BBB-	AA

Equity Benchmarks

Key Characteristics	Russell 3000 (ex-Energy)	MSCI EAFE (ex-Energy)
Total Holdings	2,808	889
Earnings Per Share (EPS Growth 3-5y fwd)	11.7	10.8
Price Earnings (P/E fwd)	19.0	14.4
Price / Book (P/B)	3.0	1.8
Weighted Average Market Capitalization* (Bn)	$149.0	$60.0

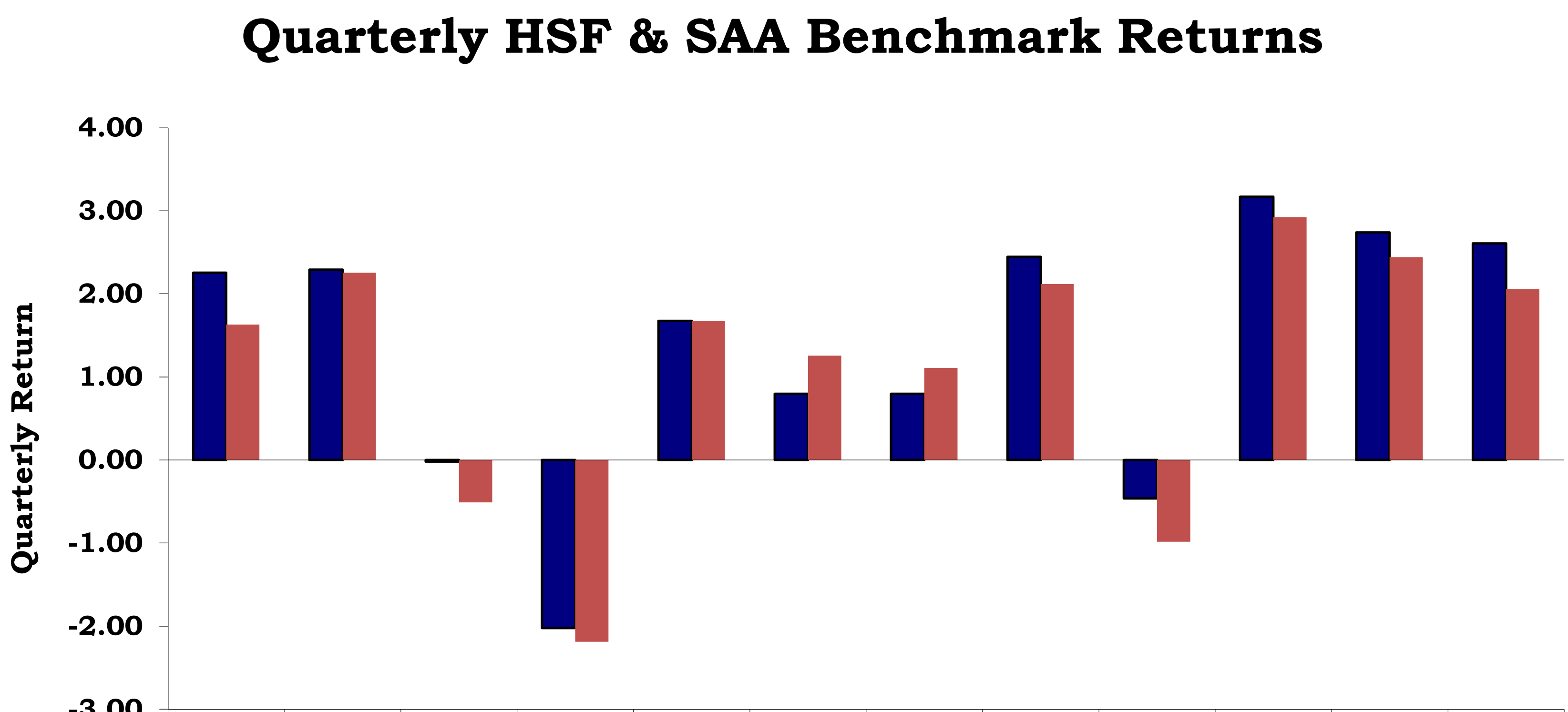
*Market capitalization is a measurement of the size of a company (share price x the number of outstanding shares). The weighted average market capitalization of a stock market index represents the average size of the firms comprising the index where each is weighted according to its market capitalization.

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

	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
Total Fund Value	**5,584**	**5,555**	**5,473**	**5,619**	**5,762**
Total Value of Equity	**2,019**	**2,071**	**2,134**	**2,242**	**2,363**
US Core Domestic Equity	1,060	1,114	1,108	1,145	1,199
Non-US Core International Equity	959	957	1,026	1,097	1,165
Total Value of Fixed Income	**3,563**	**3,484**	**3,338**	**3,376**	**3,399**
US Short Duration Fixed Income	1,230	1,216	1,221	1,226	1,230
US Core Domestic Fixed Income	2,333	2,267	2,117	2,150	2,169
Total Value of Cash or Cash Equivalents	**1**	**1**	**1**	**1**	**0**

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	FY2017 Q4
HSF Portfolio	2.25	2.29	-0.02	-2.02	1.68	0.80	0.80	2.45	-0.46	3.17	2.74	2.61
Benchmark	1.63	2.25	-0.51	-2.19	1.67	1.26	1.11	2.12	-0.98	2.92	2.44	2.06

HSF Portfolio **Benchmark**