Heritage and Stabilisation Fund

Quarterly Investment Report

January - March 2018

CENTRAL BANK OF
TRINIDAD & TOBAGO

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[1] This section includes economic developments to April 23, 2018.

EXECUTIVE SUMMARY

- Economic activity across the major economies strengthened during the first quarter of 2018, fuelled by increased business and household consumption and accelerated trade growth. This positive momentum coincided with improvements in labour market conditions.

- In the financial markets, geopolitical risks, trade tensions and heightened market volatility overshadowed the robust economic developments. Early in the quarter, tax stimulus in the US buoyed equity markets. However, towards the end of January 2018, investors became increasingly concerned about rising borrowing costs as the US Federal Reserves indicated its commitment to monetary policy tightening.

- As a result, "risk-off" sentiments prevailed and equity markets posted losses over the quarter. Meanwhile, the yield on fixed income securities fluctuated over the period but ended the quarter higher when compared with yields three months earlier.

- The Heritage and Stabilisation Fund (HSF), which has exposure to developed market equities and the US fixed income market, lost 0.55 per cent in the first quarter of 2018, compared with a loss of 0.94 per cent for its Strategic Asset Allocation benchmark.

- The relatively better performance of the HSF occurred on account of all the mandates outperforming their respective benchmarks over the quarter. At the end of January 2018, approximately US$175 million was transferred from the equity portion of the Fund to the fixed income mandates as the Fund was rebalanced in accordance with its Investment and Operational Policy.

- The total net asset value of the HSF as at the end of March 2018 was US$5,852.8 million, compared with US$5,888.6 million at the end of the previous quarter. Of this total, the investment portfolio was valued at US$5,851.7 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.

Table 1
Absolute Quarterly Returns
For the period January – March 2018
/per cent/

	Absolute Return HSF	Absolute Return Benchmark
Composite Portfolio	**-0.55**	**-0.94**
US Short Duration Fixed Income	-0.34	-0.38
US Core Domestic Fixed Income	-1.35	-1.46
US Core Domestic Equity	-0.37	-0.32
Non-US Core International Equity	-0.33	-1.51

Table 2
Contributions to Quarterly Returns
For the period January – March 2018
/per cent/

	3 Months Weighted Return as at 31-Mar-2018		3 Months Weighted Return as at 31-Dec-2017	
	HSF	Benchmark	HSF	Benchmark
Composite Portfolio	**-0.55**	**-0.94**	**2.24**	**1.83**
US Short Duration Fixed Income	-0.07	-0.09	-0.07	-0.10
US Core Domestic Fixed Income	-0.50	-0.58	0.17	0.16
US Core Domestic Equity	0.03	-0.02	1.29	1.09
Non-US Core International Equity	-0.01	-0.23	0.83	0.68

NB: Differences in totals are due to rounding.

SECTION 1 – INTERNATIONAL ECONOMIC ENVIRONMENT

During the first quarter of 2018, economic activity in the major economies continued to expand, mainly on account of robust business and household spending, and accelerated trade growth. However, downside risks to growth surfaced in March when trade tensions between the US and China intensified. On the manufacturing front, the Purchasing Managers' Indices (PMI) showed that manufacturing activity in the major economies remained on an expansionary path, led by increases in the output and new orders components. This positive trend augured well for the various labour markets since firms were encouraged to increase employment as they became even more optimistic about the outlook for their respective economies. In the Euro Area, the latest unemployment data revealed that the jobless rate fell to 8.5 per cent in February, the lowest level since December 2008. Meanwhile, in the United Kingdom (UK), the latest unemployment rate declined to 4.2 per cent, its lowest level in 42 years.

Over the three months to March 2018, the major economies experienced mixed movements in consumer prices. In the US and Japan, inflationary pressures intensified, partly as a result of higher energy costs, while prices rose at a slower pace in the UK and the Euro Area. However, excluding the impact of food and energy prices, core inflation across the economies remained relatively subdued.

Given the improvement in the global economic environment, monetary policy actions across the major central banks, with the exception of the Bank of Japan, have been gradually less accommodative. In the US, the Federal Reserve increased the federal funds rate by 25 basis points to the range of 1.50 per cent to 1.75 per cent, marking the first rate increase under the new Chairman, Jerome Powell. Market analysts are anticipating three additional rate increases for the remainder of 2018. In the UK, the Bank of England (BOE) warned that monetary policy tightening may be warranted sooner than expected, to ensure that the inflation rate falls in line with the BOE's target of 2 per cent. Meanwhile, the European Central Bank left its benchmark interest rate unchanged at its March 2018 meeting but removed the easing bias from its monetary statement.

SECTION 2 – CAPITAL AND MONEY MARKET REVIEW

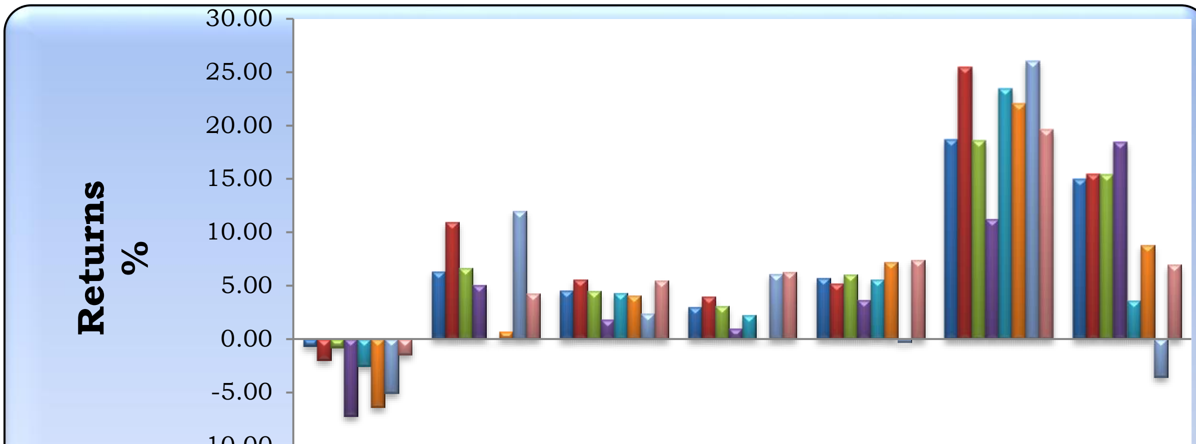
Following a year of unprecedented low volatility, global equity markets continued its strong performance at the start of 2018 as the US tax stimulus, favourable economic developments and solid corporate earnings boosted investor sentiments. However, a number of factors contributed to a return of volatility from the end of January 2018 through to the close of March. These factors included the Federal Reserve's commitment to monetary tightening, trade tensions between the US and China and regulatory concerns related to technology companies.

The Chicago Board Options Exchange Volatility Index (VIX) which is a measure of investor anxiety and market risk, averaged 17.79 points over the three months to March 2018 compared with an average of 10.83 points in the previous quarter. The European equivalent, the Euro Stoxx 50 Volatility Index (VSTOXX) averaged 16.87 points, 3.88 points higher than the level recorded three months earlier.

Contrary to market expectations for equity and bond returns to be uncorrelated, the first quarter of 2018 experienced a rare occurrence of both asset classes in the US producing negative returns. Higher inflationary expectation and investors' concern about the impact of rising interest rates on economic growth impacted both markets as bond yields moved upwards while equity prices declined.

The US equity market as measured by the Standard and Poor's (S&P) 500 index, lost 0.76 per cent during the quarter, with nine of the eleven sectors posting negative returns. Elsewhere, equity markets suffered greater losses as Germany's DAX 30 index declined 6.35 per cent and France's CAC 40 index relinquished 2.51 per cent over the quarter. Meanwhile, in the UK, the FTSE 100 index generated a loss of 7.20 per cent while Japan's Nikkei 225 index lost 5.06 per cent.

Figure 1
Total Returns on Equity Indices
/Per cent/

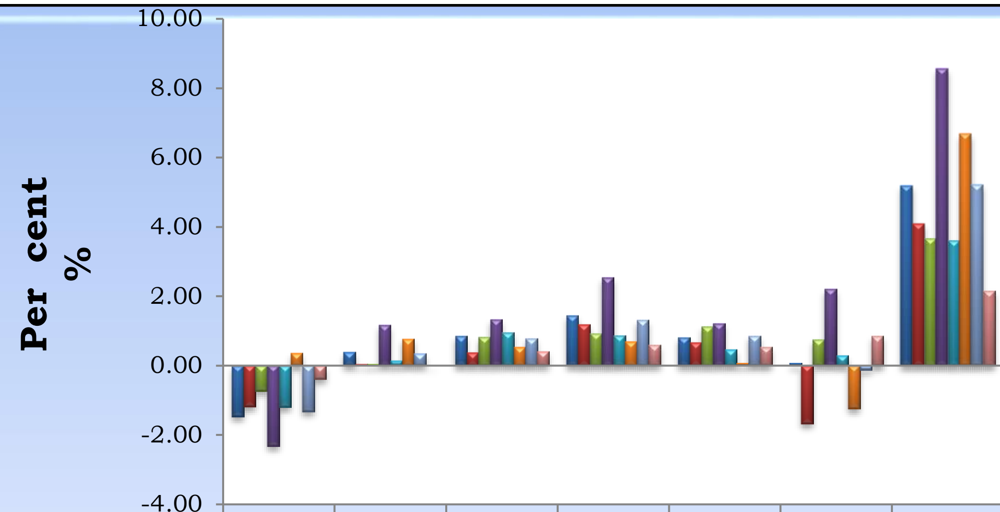


	QTR Ended Mar-18	QTR Ended Dec-17	QTR Ended Sep-17	QTR Ended Jun-17	QTR Ended Mar-17	FY 16/17	FY 15/16
Russell 3000	-0.64	6.33	4.57	3.02	5.74	18.70	14.95
Dow Jones	-1.96	10.96	5.58	3.95	5.19	25.45	15.46
S&P 500	-0.76	6.64	4.48	3.09	6.07	18.60	15.42
FTSE 100 - UK	-7.20	5.03	1.82	0.98	3.67	11.21	18.46
CAC 40 - France	-2.51	-0.01	4.28	2.23	5.58	23.49	3.60
DAX 30 - Germany	-6.35	0.69	4.09	0.10	7.25	22.05	8.80
Nikkei 225 - Japan	-5.06	12.00	2.38	6.09	-0.26	26.07	-3.56
MSCI EAFE	-1.44	4.27	5.47	6.28	7.40	19.61	6.96

Source: Bloomberg.

According to the Barclays US Aggregate Bond index, the broader US fixed income market lost 1.46 per cent over the quarter, led by the poor performance of investment grade corporate bonds which lost 2.32 per cent. Despite strong corporate earnings, technical factors such as an increase in new supply and funding pressures at the front-end of the curve contributed to the weakness in corporate credit. Among the other sectors, US Treasuries and Mortgage-Backed Securities (MBS) posted negative returns of 1.18 per cent and 1.19 per cent, respectively. The performance of the MBS sector continued to be adversely impacted by the Federal Reserve reducing its holdings of these bonds. Meanwhile, G-7 global bonds generated a hedged return of 0.36 per cent over the quarter.

Figure 2
Returns on Fixed Income Indices
/Per Cent/

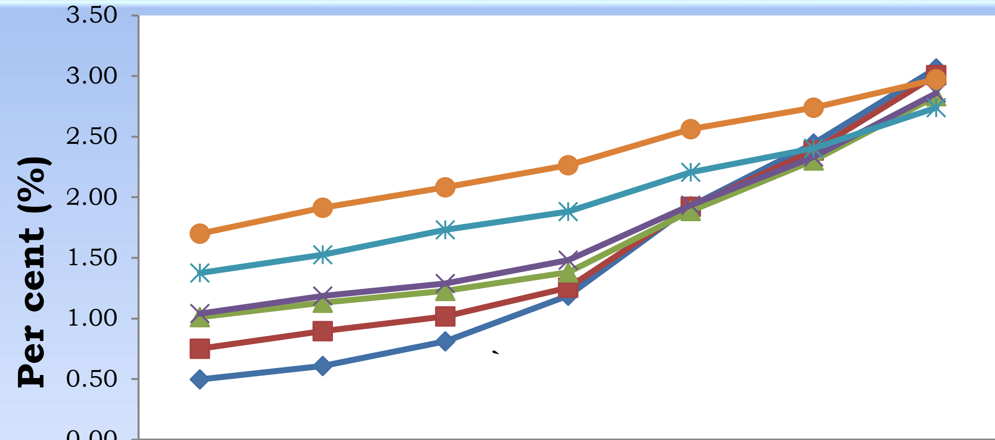


	QTR ended Mar-18	QTR ended Dec-17	QTR ended Sep-17	QTR ended June-17	QTR ended Mar-17	FY 16/17	FY 15/16
Barclays U.S. Aggregate	-1.46	0.39	0.85	1.45	0.82	0.07	5.19
U.S. Treasuries	-1.18	0.05	0.38	1.19	0.67	-1.67	4.09
U.S. Agencies	-0.72	0.06	0.82	0.93	1.13	0.75	3.68
U.S. Corporate	-2.32	1.17	1.34	2.54	1.22	2.21	8.56
U.S. MBS	-1.19	0.15	0.96	0.87	0.47	0.30	3.61
G-7 Global Bonds (Hedged)	0.36	0.78	0.54	0.70	0.09	-1.23	6.69
CMBS Index	-1.32	0.35	0.79	1.31	0.86	-0.13	5.22
ABS Index	-0.39	-0.01	0.42	0.60	0.54	0.86	2.16

Source: Barclays

The US yield curve between the 1-year and 30-year nodes flattened over the three months to March 2018 as the spread decreased to 89 basis points from 101 basis points at the end of December 2017. Yields at the short-end of the curve rose in line with the increase in the federal funds rate in March. This upward movement saw the 1-year yield surpassed 2 per cent for the first time since the onset of the global financial crisis in 2008. At the longer-end of the curve, the 30-year bond yield fluctuated over the quarter, rising as high as 3.22 per cent towards the middle of the period, but the trade conflict with China caused some concerns about the outlook for economic growth and inflation. As a result, the 30-year yield trended downwards for the remainder of the quarter, closing March 2018 at 2.97 per cent.

Figure 3
US Treasury Curve
/Per Cent/

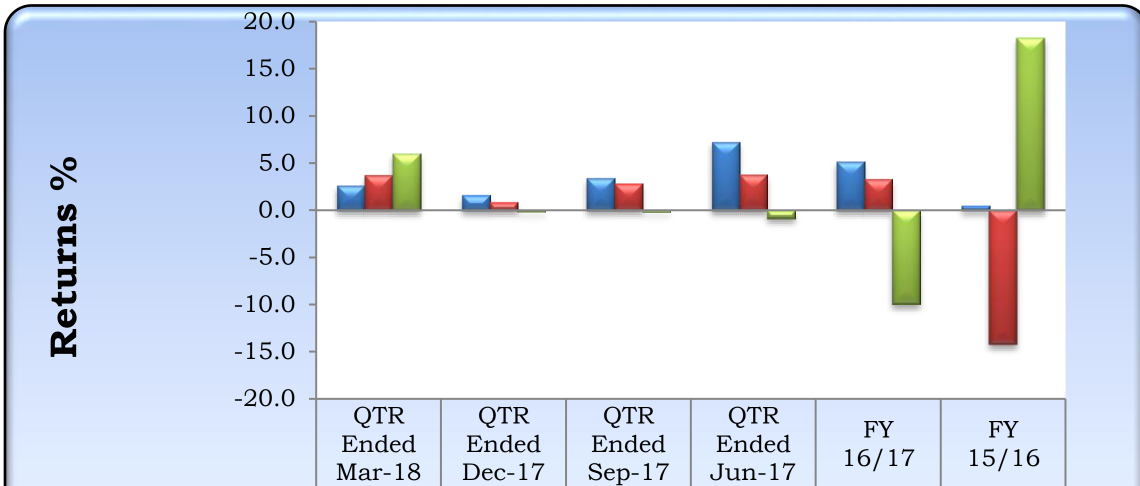


	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
Dec-16	0.50	0.61	0.81	1.19	1.93	2.44	3.07
Mar-17	0.75	0.90	1.02	1.25	1.92	2.39	3.01
Jun-17	1.01	1.13	1.23	1.38	1.89	2.30	2.83
Sep-17	1.04	1.19	1.29	1.48	1.94	2.33	2.86
Dec-17	1.38	1.53	1.73	1.88	2.21	2.41	2.74
Mar-18	1.70	1.91	2.08	2.27	2.56	2.74	2.97

Source: Bloomberg.

During the first quarter of 2018, activity in currency markets was also dominated by geopolitical factors. The US Dollar, as represented by the Dollar Spot Index (DXY), depreciated 2.33 per cent against a basket of developed market currencies. More specifically, the Japanese Yen strengthened in value by 6.03 per cent relative to the US dollar while the British Pound and the Euro appreciated 3.71 per cent and 2.66 per cent, respectively over the period.

Figure 4
Foreign Exchange Returns for Major Currencies
vis-à-vis the US Dollar
/Per Cent/



	QTR Ended Mar-18	QTR Ended Dec-17	QTR Ended Sep-17	QTR Ended Jun-17	FY 16/17	FY 15/16
EURUSD CURNCY	2.66	1.62	3.40	7.27	5.15	0.52
GBPUSD CURNCY	3.71	0.86	2.86	3.78	3.28	-14.25
JPYUSD CURNCY	6.03	-0.15	-0.16	-0.85	-9.94	18.29

Source: Bloomberg.

SECTION 3 – PORTFOLIO PERFORMANCE

Strategic Asset Allocation

During the period January to March 2018, the asset classes of the Fund deviated from their Strategic Asset Allocation (SAA) but their weights all remained within the permitted (+/- 5 per cent) range as the HSF was rebalanced at the end of January. The sharp increases in equity prices in January 2018 along with a corresponding decline in the price of fixed income securities resulted in the mandates' weights deviating close to the +/- 5 per cent threshold. As such, a rebalancing of the portfolio was necessary to reduce the mandates' weights closer to their respective SAA.

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%*

At the end of first quarter of 2018, 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 March 2018 was US$5,852.8 million, compared with US$5,888.6 million at the end of the previous quarter. Of this total, the investment portfolio was valued at US$5,851.7 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, 2018 are shown in Table 3 below.

Table 3

Portfolio Composition relative to the Approved SAA
/per cent/

	Asset Class		Jun-17	Sep-17	Dec-17	Mar-18
		Target Weight SAA	Actual % of Fund	Actual % of Fund	Actual % of Fund	Actual % of Fund
Portfolio Weights	US Short Duration Fixed Income	25.00	21.82	21.34	20.82	22.65
	US Core Domestic Fixed Income	40.00	38.27	37.64	36.99	37.89
	US Core Domestic Equity	17.50	20.38	20.80	21.62	19.84
	Non-US Core International Equity	17.50	19.52	20.21	20.57	19.62

Totals may not sum to 100 due to rounding.

Performance of the Investment Portfolio

The HSF lost 0.55 per cent during the first quarter of 2018 compared with a loss of 0.94 per cent for its SAA benchmark[2]. The poor performance of the US fixed income securities was the main driver of the HSF investment portfolio's negative return. Although the equity portfolios generated losses over the quarter, some of the gains made in January were realised when the HSF was rebalanced at the end of that month. This augured well for the HSF as the losses in February and March were made on a relatively smaller equity portfolio. As a result, the equity portion of the Fund contributed a miniscule 0.02 per cent to total return. In absolute terms, all the mandates made losses but the US Core Domestic equity portfolio was the only mandate that underperformed its benchmark over the quarter.

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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%).

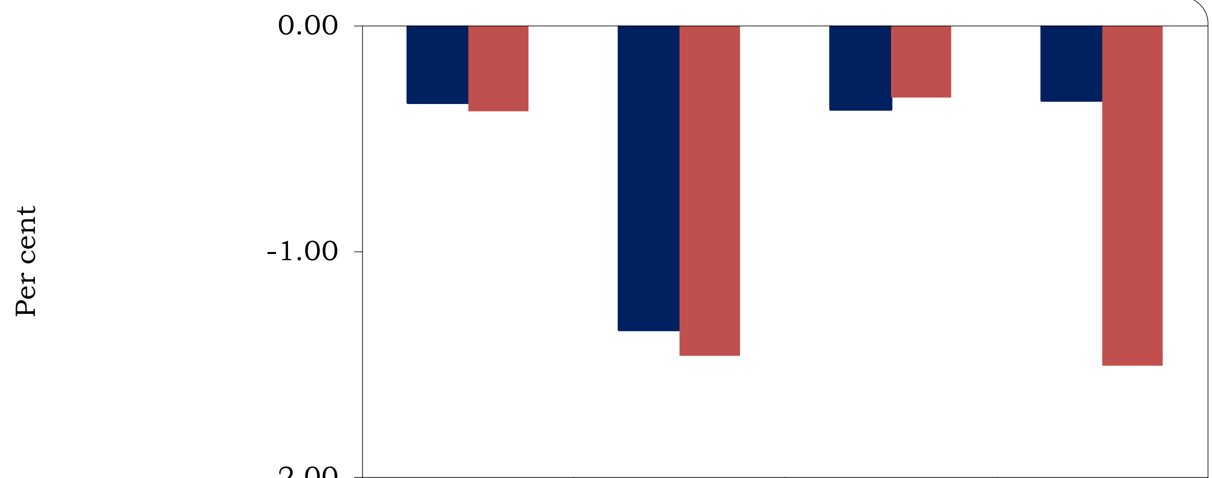
The **US Short Duration Fixed Income** mandate returned -0.32 per cent in the first quarter of 2018 as US short-term Treasury yields rose in expectation for an increase in the federal funds rate. As a result, bond prices declined and the portfolio was adversely impacted. However, in relative terms, the mandate outperformed its benchmark, the Bank of America Merrill Lynch US Treasury 1-5 year index which lost 94 basis points. The shorter duration of the mandate versus that of the benchmark was the main contributor to the relatively better performance of the portfolio. The net asset value of the mandate as at the end of March 2018 was **US$1,325.4 million,** compared with US$1,225.7 million at the end of December 2017. This increase in value reflected the transfer of approximately US$104 million to this mandate during the quarter.

The longer duration **US Core Domestic Fixed Income** mandate lost 1.35 per cent, outperforming its benchmark, the Barclays Capital US Aggregate Bond index, which shed 1.46 per cent over the quarter. The relatively smaller loss generated by the mandate was on account of its shorter duration position compared with that of the benchmark, as well as, its overweight exposure to higher coupon mortgage-backed securities which added to performance despite the broader sector underperforming duration-neutral US Treasuries. Moreover, the portfolio's overweight exposure to corporate bonds, which was the worst performing sector in the fixed income market also detracted from returns. The net asset value of this mandate at March 31, 2018 was **US$2,217.5 million**, compared with US$2,177.7 million three months earlier. This increase in value reflected the transfer of US$70.1 million to this mandate during the quarter.

The **US Core Domestic Equity** mandate posted a negative return of 0.37 per cent in the first quarter of 2018 compared with a return of -0.32 per cent for the Russell 3000 ex Energy index. Stock selection, particularly in the health care, information technology and consumer staples sector detracted from performance, more than offsetting the gains made by holdings within the producer durables and utilities sectors. The net asset value of this mandate as at March 31, 2018 was **US$1,160.7 million**, down from US$1,273 million at the end of December 2017. This decrease in value resulted from the transfer of US$113.7 million out of this mandate in January 2018 as part of the rebalancing of the HSF.

The **Non-US International Equity** mandate made a loss of 0.33 per cent during the first quarter of 2018, compared with a loss of 1.51 per cent for its benchmark, the MSCI EAFE ex Energy index. The outperformance of the mandate relative to the benchmark was mainly attributed to the managers' country selection decisions. In general, overweight allocations were made to markets that performed better than the benchmark while underweight allocations were made to countries that underperformed the benchmark. The favourable selections in Australia and Europe added the most to performance. The mandate's net asset value at the end of March 2018 was **US$1,148.1 million**, compared with US$1,211.3 million three months earlier. This decline in value reflected the transfer of US$61.8 million from this mandate in January 2018 as part of the rebalancing of the HSF.

Figure 5
Absolute Returns by Mandate
For the period January – March 2018
/per cent/



	US Short Duration	US Core Fixed Income	US Core Domestic Equities	Non US Core International Equities
Composite Portfolio Return	-0.34	-1.35	-0.37	-0.33
SAA Benchmark Return	-0.38	-1.46	-0.32	-1.51

SECTION 4 – COMPLIANCE AND PORTFOLIO RISKS

Compliance

During the first quarter of 2018, there was no breach of 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 4 below shows the Average Credit Quality of the US Short Duration and US Core Fixed Income Portfolios as at March 31, 2018.

Table 4
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 5 shows the weighted average duration for the US Short Duration and US Core Domestic Fixed Income portfolios as at March 31, 2018.

Table 5
Weighted Average Duration
/Years/

Mandate	Portfolio	Benchmark
US Short Duration	**2.56**	**2.59**
US Core Domestic Fixed Income	**5.71**	**5.87**

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 2018, the currency exposure for this portfolio was 100 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
FY 2018									
December	2.24	1.83	40.22	2.24	1.83	40.22	5.72	5.11	61.32
March	-0.55	-0.94	38.21	1.67	0.88	78.91	5.53	4.90	63.49

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				
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	-
December 31, 2017	5,888,599,170	124,900,387	2,553,413,280	-
March 31, 2018	5,852,789,288	(36,468,342)	2,516,944,938	-

Appendix III

Summary Characteristics of Composite Benchmarks

Fixed Income Benchmarks

Key Characteristics	Barclays US Aggregate Index	Merrill Lynch 1-5 Index
Total Holdings	9,868	156
Coupon (%)	3.06	2.01
Duration (Years)	5.99	2.59
Average Life (Years)	8.42	2.70
Yield to Maturity (%)	3.12	2.36
Option Adjusted Spread (bps)	41	1
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	2,784	887
Earnings Per Share (EPS Growth 3-5y fwd)	12.6	8.5
Price Earnings (P/E fwd)	17.1	14.1
Price / Book (P/B)	3.1	1.7
Weighted Average Market Capitalization* (Bn)	165.8	54.6

*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/

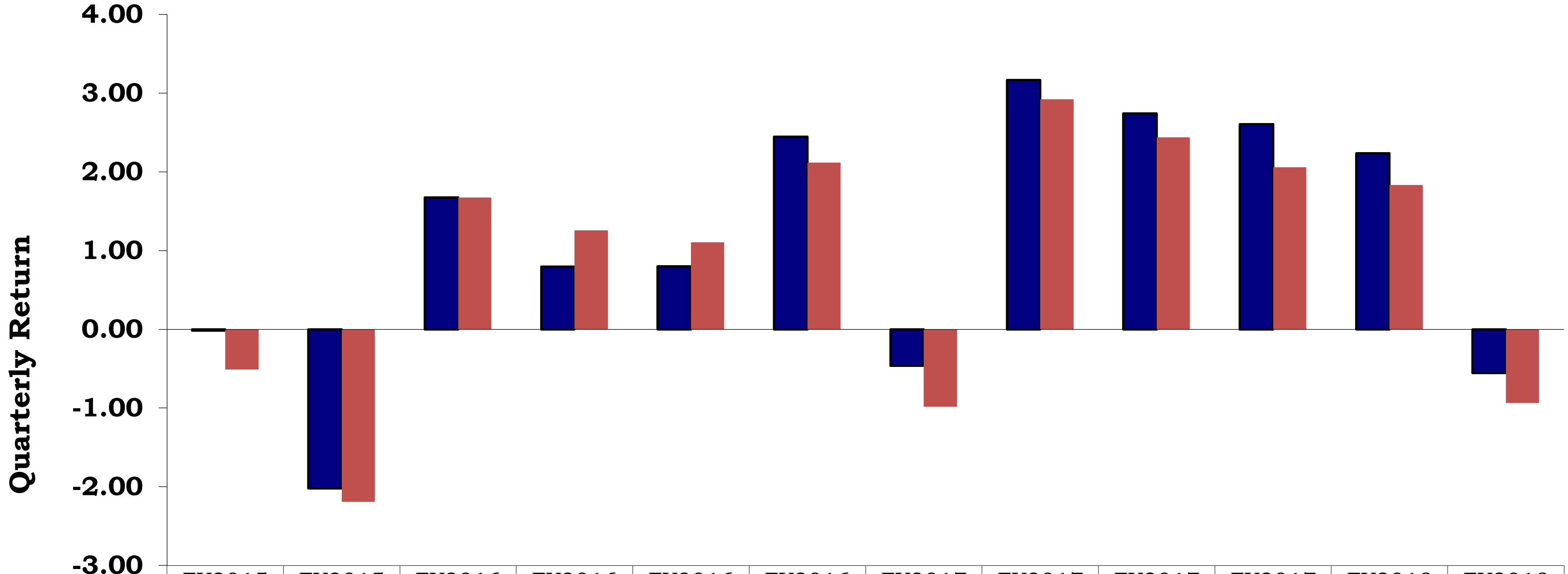
	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Total Fund Value	**5,473**	**5,619**	**5,762**	**5,889**	**5,853**
Total Value of Equity	**2,134**	**2,242**	**2,363**	**2,484**	**2,309**
US Core Domestic Equity	1,108	1,145	1,199	1,273	1,161
Non-US Core International Equity	1,026	1,097	1,165	1,211	1,148
Total Value of Fixed Income	**3,338**	**3,376**	**3,399**	**3,403**	**3,543**
US Short Duration Fixed Income	1,221	1,226	1,230	1,226	1,325
US Core Domestic Fixed Income	2,117	2,150	2,169	2,178	2,218
Total Value of Cash or Cash Equivalents	**1**	**1**	**0**	**1**	**1**

NB: Differences in totals are due to rounding.

Appendix V

HSF Portfolio Quarterly Returns

/per cent/



	FY2015 Q3	FY2015 Q4	FY2016 Q1	FY2016 Q2	FY2016 Q3	FY2016 Q4	FY2017 Q1	FY2017 Q2	FY2017 Q3	FY2017 Q4	FY2018 Q1	FY2018 Q2
HSF Portfolio	-0.02	-2.02	1.68	0.80	0.80	2.45	-0.46	3.17	2.74	2.61	2.24	-0.55
Benchmark	-0.51	-2.19	1.67	1.26	1.11	2.12	-0.98	2.92	2.44	2.06	1.83	-0.94

HSF Portfolio **Benchmark**