Heritage and Stabilisation Fund

Quarterly Investment Report

April – June 2018

CENTRAL BANK OF
TRINIDAD & TOBAGO

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[1] This section includes economic developments to July 27, 2018.

EXECUTIVE SUMMARY

- In the second quarter of 2018, the Heritage and Stabilisation Fund (HSF) posted a return of 0.26 per cent compared with a gain of 0.21 per cent for its Strategic Asset Allocation benchmark. This performance was driven by the Fund's exposure to United States (US) equity markets.

- On a relative performance basis, the two Fixed Income portfolios outperformed their respective benchmarks while the US Core Domestic Equity mandate matched the Russell 3000 ex-Energy index and the Non-US Core International Equity mandate underperformed the MSCI EAFE ex-Energy index.

- During the quarter, global growth slowed and became less even across the major economies. Output from the US continued to lead those of other advanced economies as the expansion in Europe has started to falter while the Japanese economy experienced its first contraction in just over two years. In the July 2018 World Economic Outlook, the IMF indicated that its growth projections for the Euro Area, United Kingdom (UK) and Japan have been downwardly revised for 2018 following negative economic surprises which surfaced during the first half of the year.

- In the financial markets, developments surrounding trade protectionism, political uncertainty in Europe and monetary policy tightening by the US Federal Reserve dominated headlines but their impact was neutralised by robust corporate earnings and fairly positive economic data.

- As a result, market volatility was relatively subdued over the quarter, paving the way for equity markets to generate positive returns. Meanwhile, in the fixed income market, US Treasury yields rose over the period, with the shorter term yields increasing more than those on the longer end of the curves.

- The total net asset value of the HSF as at the end of June 2018 was US$5,863.1 million, compared with US$5,852.8 million at the end of the previous quarter. Of this total, the investment portfolio was valued at US$5,862.4 million, while the remaining portion

(US$0.63 million) was held in cash to meet the day-to-day expenses that arise from the management of the Fund.

Table 1
Absolute Quarterly Returns
For the period April – June 2018
/per cent/

	Absolute Return HSF	Absolute Return Benchmark
Composite Portfolio	**0.26**	**0.21**
US Short Duration Fixed Income	0.15	0.13
US Core Domestic Fixed Income	-0.01	-0.16
US Core Domestic Equity	3.29	3.29
Non-US Core International Equity	-2.13	-1.93

Table 2
Contributions to Quarterly Returns
For the period April - June 2018
/per cent/

	3 Months Weighted Return as at 30-Jun-2018		3 Months Weighted Return as at 31-Mar-2018	
	HSF	Benchmark	HSF	Benchmark
Composite Portfolio	**0.26**	**0.21**	**-0.55**	**-0.94**
US Short Duration Fixed Income	0.03	0.03	-0.07	-0.09
US Core Domestic Fixed Income	0.00	-0.06	-0.50	-0.58
US Core Domestic Equity	0.65	0.57	0.03	-0.02
Non-US Core International Equity	-0.42	-0.33	-0.01	-0.23

NB: Differences in totals are due to rounding.

SECTION 1 – INTERNATIONAL ECONOMIC ENVIRONMENT

Growth in several of the major economies lost some momentum during the second quarter of 2018 as the emergence of escalating trade tensions, political uncertainty in Europe and less synchronised monetary policy across the advanced countries adversely impacted economic sentiments. These factors presented significant downside risks to global growth which had already begun to exhibit signs of a slowdown. The latest GDP data showed decelerations for the United Kingdom (UK) and Euro Area in the first quarter of 2018, while the Japanese economy experienced its first quarterly contraction in just over two years, on account of a decline in household spending. However, in the United States (US), the expansion accelerated as preliminary second quarter GDP revealed that the economy expanded at an annualised rate of 4.1 per cent, its strongest growth rate in almost four years. Other data releases for the second quarter of 2018 showed that manufacturing activity in the US expanded at an accelerated rate unlike the other major economies where output from the sector grew at a slower pace. Meanwhile, consumer spending as measured by retail sales, showed mixed results during the quarter as the US and UK indices rose while those for the Euro Area and Japan decreased.

With greater indications that growth paths for the major economies have started to diverge, central banks' actions have appeared to be less coordinated. In the US, the Federal Reserve continued to tighten its monetary policy stance, raising its benchmark interest rate by 25 basis points at its June 2018 meeting, to the range of 1.75 per cent and 2 per cent. The Federal Open Market Committee has also projected two additional increases in the federal funds rate for the remainder of 2018. In the Euro Area, the European Central Bank (ECB) announced plans to unwind its asset purchase programme by the end of December 2018 but indicated that its key interest rates would likely remain unchanged through to the summer of 2019. The Bank of England and the Bank of Japan also left their benchmark rates unchanged in June 2018, with the former more likely to increase interest rates in the near term as 3 of the 9 policymakers voted for a higher Bank Rate compared with 2 of 9 at the previous meeting.

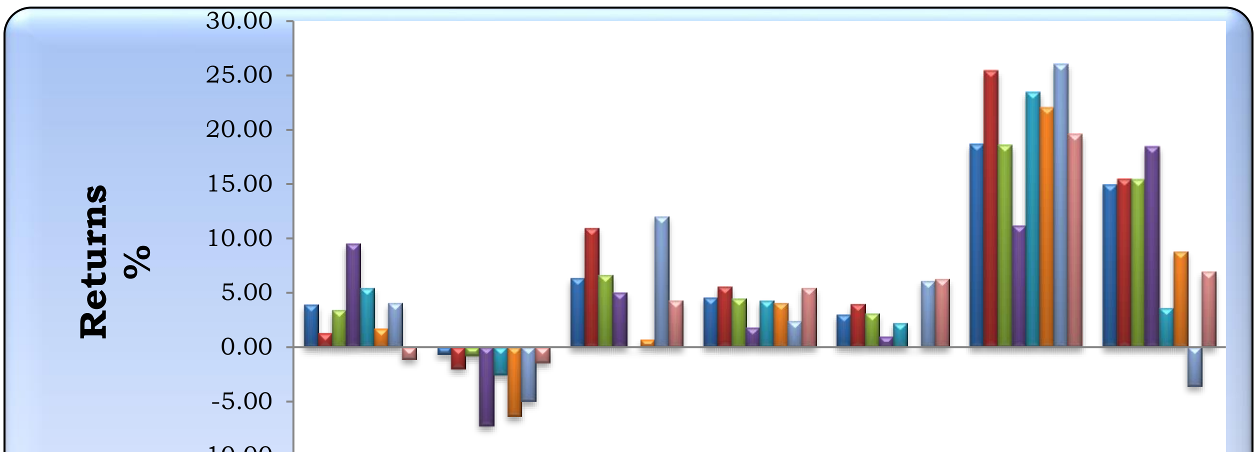
On the price front, the inflation rates for the US and the Euro Area accelerated during the quarter, mainly reflecting higher oil and gasoline prices. In the US, headline inflation measured 2.9 per cent in the twelve months to June 2018, marking the highest rate since February 2012. Elsewhere, consumer prices increased at a slower pace in the UK and Japan over the quarter. The BOJ has even lowered its 2018 projection for inflation from around 1 per cent to a range of 0.5 to 1 per cent.

SECTION 2 – CAPITAL AND MONEY MARKET REVIEW

During the second quarter of 2018, financial markets experienced elevated levels of uncertainty, which emanated from renewed tensions between the US and some of its major trading partners over the implementation of protectionist policies, concerns surrounding the North Korean military agenda and political issues in Italy and Spain. Although global economic conditions were below expectations, they were still supportive of continued growth and helped to temper investor anxiety. Moreover, investors were generally encouraged by better than expected corporate earnings data across the major economies. As such, market volatility in the US, as measured by the Chicago Board Options Exchange Volatility Index (VIX), declined over the quarter of 2018 as the VIX averaged 15.30 points, compared with 17.21 points in the previous quarter. Similarly, the European measure of investor anxiety, the Euro Stoxx 50 Volatility Index (VSTOXX), fell to an average of 14.92 points in the second quarter, from an average of 16.96 point over the first three months of 2018.

In equity markets, "risk-on" sentiments prevailed as strong corporate fundamentals outweighed concerns about a potential trade war. The US Standard and Poor's (S&P) 500 index gained 3.43 per cent in the second quarter of 2018, compared with a loss of 0.64 per cent over the prior three months. Among the eleven sectors, seven posted gains led by the energy sectors which returned 13.5 per cent. These stocks rallied on fears of global supply disruptions alongside an increased in energy demand. In the non-US Developed markets, most outperformed their US counterpart, posting robust local currency returns for the quarter. However, the strengthening of the US dollar vis-à-vis other major currencies adversely impacted non-US indices when their returns were translated into US dollars. Accordingly, the MSCI EAFE index, which gauges the performance of non-US Developed equity markets, generated a negative US dollar return of 1.09 per cent during the second quarter. The return for the MSCI EAFE ex-energy index was even lower (-1.93 per cent), given the strong performance of the energy sector. The main "headwinds" for equity markets appear to be the potential fallout from the ongoing trade disputes, rising interest rates and slowing global growth.

Figure 1
Total Returns on Equity Indices
/Per cent/

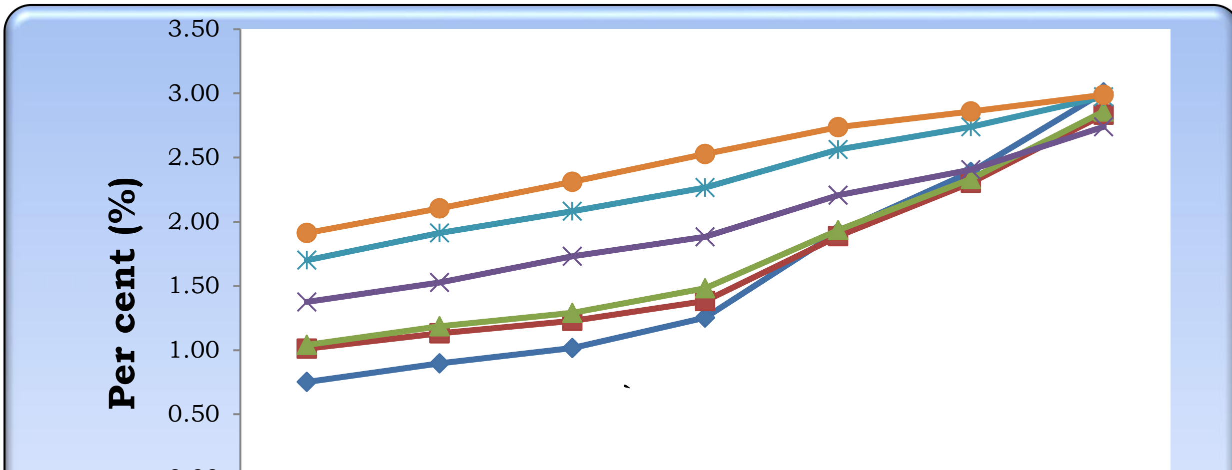


	QTR Ended Jun-18	QTR Ended Mar-18	QTR Ended Dec-17	QTR Ended Sep-17	QTR Ended Jun-17	FY 16/17	FY 15/16
Russell 3000	3.89	-0.64	6.33	4.57	3.02	18.70	14.95
Dow Jones	1.26	-1.96	10.96	5.58	3.95	25.45	15.46
S&P 500	3.43	-0.76	6.64	4.48	3.09	18.60	15.42
FTSE 100 - UK	9.51	-7.20	5.03	1.82	0.98	11.21	18.46
CAC 40 - France	5.47	-2.51	-0.01	4.28	2.23	23.49	3.60
DAX 30 - Germany	1.73	-6.35	0.69	4.09	0.10	22.05	8.80
Nikkei 225 - Japan	4.08	-4.93	12.00	2.38	6.09	26.07	-3.56
MSCI EAFE	-1.09	-1.39	4.27	5.47	6.28	19.61	6.96

Source: Bloomberg.

In the US fixed income market, the Treasury curve flattened over the quarter as yields at the shorter end rose more than those at the longer end. As such, the spread between the 2-year and 10-year yields declined to 33 basis points at the end of June 2018, down from 47 basis points three months earlier. The 2-year yield increased steadily over the period amid looming expectations for the Federal Reserve to raise its benchmark interest rate in June. Meanwhile, fairly strong economic data, higher inflation and concerns about increased borrowings by the Treasury reduced the demand for longer-dated Treasury securities, placing significant upward pressure on yields. However, geopolitical concerns caused investors to demand safe-haven securities, partially offsetting the sharp increase in longer-term yields.

Figure 2
US Treasury Curve
/Per Cent/

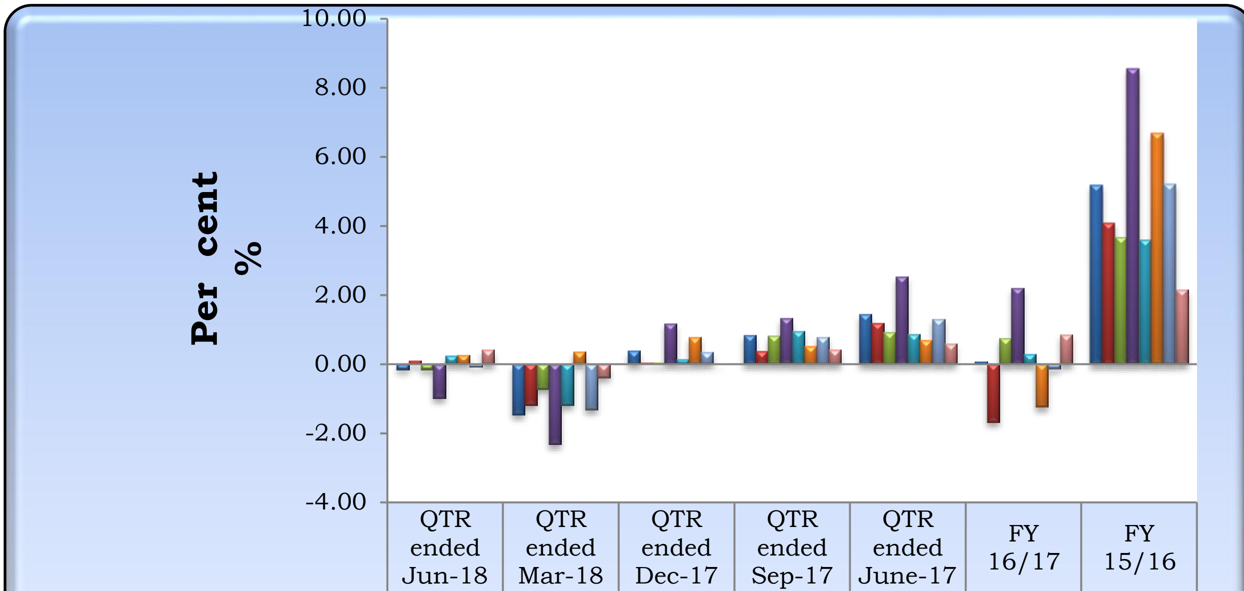


	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
Mar-17	0.75	0.90	1.02	1.25	1.92	2.39	3.01
Jun-17	1.01	1.13	1.23	1.38	1.89	2.30	2.83
Sep-17	1.04	1.19	1.29	1.48	1.94	2.33	2.86
Dec-17	1.38	1.53	1.73	1.88	2.21	2.41	2.74
Mar-18	1.70	1.91	2.08	2.27	2.56	2.74	2.97
Jun-18	1.91	2.10	2.31	2.53	2.74	2.86	2.99

Source: Bloomberg.

The broader US fixed income market, as measured by the Bloomberg Barclays US Aggregate Bond Index, lost 0.16 per cent in the second quarter of 2018 compared with a negative return of 1.46 per cent in the prior three months. The Investment Grade Corporate sector was the worst performing sub-component of the bond market, returning a loss of 0.98 per cent. Credit spreads between high quality corporate bonds and similar-duration treasuries widened as investors feared that the trade developments would negatively impact the ease of doing business globally. US Agencies and Commercial Mortgage Backed Securities (CMBS) also made losses over the quarter, losing 0.16 per cent and 0.06 per cent, respectively. On the other hand, Asset Backed Securities (ABS) and Mortgage Backed Securities (MBS) generated positive returns and were among the best performing sectors in the Aggregate Bond Index.

Figure 3
Returns on Fixed Income Indices
/Per Cent/



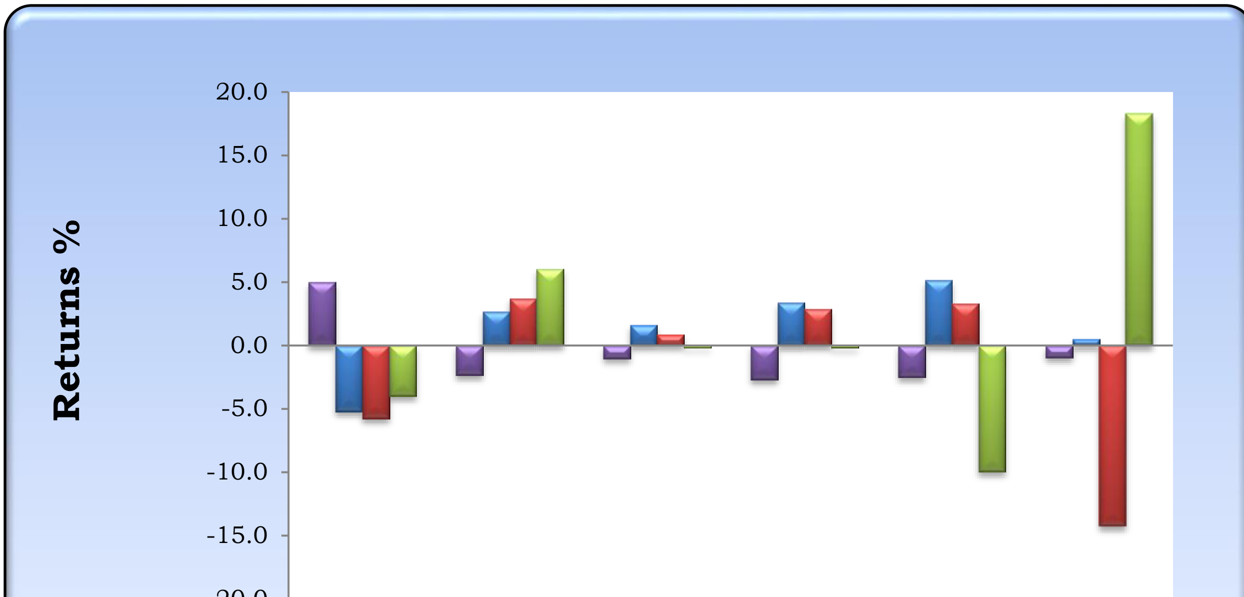
	QTR ended Jun-18	QTR ended Mar-18	QTR ended Dec-17	QTR ended Sep-17	QTR ended June-17	FY 16/17	FY 15/16
Barclays U.S. Aggregate	-0.16	-1.46	0.39	0.85	1.45	0.07	5.19
U.S. Treasuries	0.10	-1.18	0.05	0.38	1.19	-1.67	4.09
U.S. Agencies	-0.16	-0.72	0.06	0.82	0.93	0.75	3.68
U.S. Corporate	-0.98	-2.32	1.17	1.34	2.54	2.21	8.56
U.S. MBS	0.24	-1.19	0.15	0.96	0.87	0.30	3.61
G-7 Global Bonds (Hedged)	0.27	0.36	0.78	0.54	0.70	-1.23	6.69
CMBS Index	-0.06	-1.32	0.35	0.79	1.31	-0.13	5.22
ABS Index	0.42	-0.39	-0.01	0.42	0.60	0.86	2.16

Source: Barclays

In the currency market, the US Dollar appreciated against other major currencies during the second quarter, prompted by several factors including relatively stronger US economic data, rising US inflation and interest rates, and increased safe-haven flows amid escalating trade concerns. The Dollar Spot Index (DXY), which measures the strength of the US dollar against a basket of other major currencies, showed that the value of the US dollar increased by 5 per cent over the quarter. Increased political uncertainty in the Euro Area and the UK also contributed to a weakening of the Euro and Pound. These currencies depreciated by 5.19 per cent and 5.77 per cent, respectively against the US dollar over the three months ended June 2018. Meanwhile, the Japanese Yen experienced a smaller loss in value of 3.99 per cent.

Figure 4

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



	QTR Ended Jun-18	QTR Ended Mar-18	QTR Ended Dec-17	QTR Ended Sep-17	FY 16/17	FY 15/16
DXY CURNCY	5.00	-2.33	-1.02	-2.67	-2.50	-0.92
EURUSD CURNCY	-5.19	2.66	1.62	3.40	5.15	0.52
GBPUSD CURNCY	-5.77	3.71	0.86	2.86	3.28	-14.25
JPYUSD CURNCY	-3.99	6.03	-0.15	-0.16	-9.94	18.29

Source: Bloomberg.

SECTION 3 – PORTFOLIO PERFORMANCE

Strategic Asset Allocation

During the period April to June 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. 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 June 2018, the equity portion of the Fund continued to carry an overweight position while the exposure to fixed income securities had a corresponding underweight allocation. At the asset class level, the US Core Domestic Equity mandate had the largest overweight of 2.93 per cent while the US Short Duration Fixed Income mandate had the largest underweight position amounting to 2.39 per cent.

The total net asset value of the Fund as at the end of June 2018 was US$5,863.1 million, compared with US$5,852.8 million at the end of the previous quarter. Of this total, the investment portfolio was valued at US$5,862.4 million, while the remaining portion was held in cash to meet the day-to-day expenses that arise from the management of the Fund. The Fund's target asset allocation and the portfolio weightings as at June 30, 2018 are shown in Table 3 below.

Table 3
Portfolio Composition relative to the Approved SAA
/per cent/

	Asset Class	Target Weight SAA	Sep-17 Actual % of Fund	Dec-17 Actual % of Fund	Mar-18 Actual % of Fund	Jun-18 Actual % of Fund
Portfolio Weights	US Short Duration Fixed Income	25.00	21.34	20.82	22.65	22.64
	US Core Domestic Fixed Income	40.00	37.64	36.99	37.89	37.81
	US Core Domestic Equity	17.50	20.80	21.62	19.84	20.43
	Non-US Core International Equity	17.50	20.21	20.57	19.62	19.12

Totals may not sum to 100 due to rounding.

Performance of the Investment Portfolio

During the second quarter of 2018, the HSF gained 0.26 per cent compared with a return of 0.21 for its SAA benchmark[2]. This outperformance of 5 basis points was attributed to the Fixed Income portfolios which generated returns above their benchmarks unlike the equity portfolios. However, in terms of absolute performance, only two of the four mandates generated positive returns, namely, the US Core Domestic Equity mandate which gained 3.29 per cent and the US Short Duration Fixed Income mandate which posted a small return of 0.15 per cent over the quarter.

The **US Core Domestic Equity** mandate returned the highest absolute performance for the HSF during the second quarter of 2018, earning 3.29 per cent, matching the return of its benchmark, the Russell 3000 ex Energy index. The gains made by stocks within the information technology, producer durables and financial services sectors were offset

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

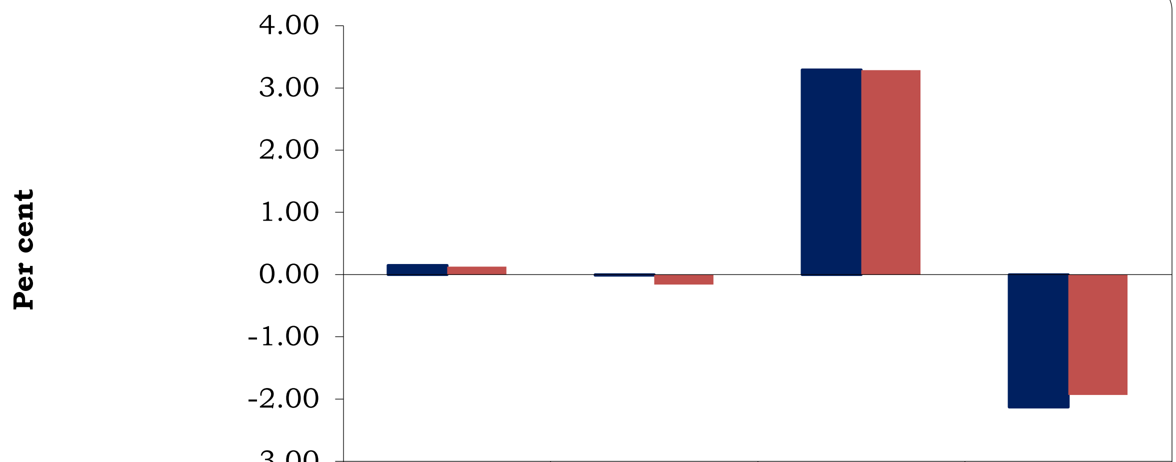
by poor selections within the consumer staples, consumer discretionary and materials and processing sectors. The net asset value of this mandate as at June 30, 2018 was **US$1,197.9 million**, compared with US$1,120.7 million three months earlier.

The **Non-US Core International Equity** mandate generated a negative return of 2.13 per cent during the second quarter of 2018, underperforming its benchmark, the MSCI EAFE ex Energy index, which lost 1.93 per cent. While the various non-US equity markets posted positive returns over the quarter, the 5 per cent appreciation of the US dollar against major currencies more than eliminated those gains. Nonetheless, the portfolio's outturn mainly reflected the managers' country selection decisions which detracted from relative returns. The overweight allocations to countries where equity markets performed poorly, such as Austria, Italy and Singapore more than outweighed the underweight allocation to better performing markets. The mandate's net asset value at the end of June 2018 was **US$1,120.9 million**, compared with US$1,148.1 million at the end of March 2018.

The **US Short Duration Fixed Income** mandate posted a gain of 0.15 per cent during the second quarter, compared with a return of 0.13 per cent for its benchmark, the Bank of America Merrill Lynch US Treasury 1-5 year index. Although US short-term Treasury yields rose over the quarter in line with expectations for an increase in the federal funds rate, they fluctuated over the period, and presented opportunities for the managers to make gains. In navigating the challenging interest rate environment, the managers capitalised on opportunities in other sectors such as Mortgage Backed Securities. The net asset value of this mandate as at the end of June 2018 was **US$1,327.3 million,** compared with US$1,325.2 million at the end of March 2018.

The longer duration **US Core Domestic Fixed Income** mandate lost 0.01 per cent, outperforming its benchmark, the Barclays Capital US Aggregate Bond index, which relinquished 0.16 per cent over the quarter. The relatively better performance of the portfolio occurred on account of its underweight exposure to corporate bonds, particularly the financial sector, and US Agency securities which added to performance since these bonds were among the worst performing sectors in the Aggregate Index. The net asset value of this mandate at the end of June 2018 was **US$2,216.4 million**, compared with US$2,217.5 million three months earlier.

Figure 5
Absolute Returns by Mandate
For the period April - June 2018
/per cent/



	US Short Duration	US Core Fixed Income	US Core Domestic Equities	Non US Core International Equities
Composite Portfolio Return	0.15	-0.01	3.29	-2.13
SAA Benchmark Return	0.13	-0.16	3.29	-1.93

Mandate

SECTION 4 – COMPLIANCE AND PORTFOLIO RISKS

Compliance

During the second quarter of 2018, there was one breach of the investment guidelines which arose from a spin-off as the new company was classified in the energy sector. This holding was subsequently sold during the quarter and the portfolio was 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 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 June 30, 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 June 30, 2018.

Table 5
Weighted Average Duration
/Years/

Mandate	**Portfolio**	**Benchmark**
US Short Duration	**2.56**	**2.65**
US Core Domestic Fixed Income	**5.66**	**5.85**

Currency Risk

Currency Risk is managed by containing and managing the exposure to non-US dollar instruments. For the Fixed Income and US Core Domestic Equity mandates, no more than 10 per cent of the market value of the portfolio can be invested in securities, which are denominated in currencies other than the US Dollar. The Non-US Core International Equity Portfolio is comprised primarily of non-US dollar denominated securities, and the Fund accepts the currency risk inherent in the relevant benchmark. For this mandate, currency hedging is permitted up to 15 per cent of the market value of the portfolio using the US dollar as the base currency. At the end of June 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
June	0.26	0.21	5.36	1.94	1.09	84.52	5.43	4.81	62.52

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				
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	-
June 30, 2018	5,863,070,206	12,336,541	2,529,281,479	-

Appendix III

Summary Characteristics of Composite Benchmarks

Fixed Income Benchmarks

Key Characteristics	Bloomberg Barclays US Aggregate Index	Merrill Lynch 1-5 Index
Total Holdings	10,010	156
Coupon (%)	3.17	2.05
Duration (Years)	5.85	2.65
Average Life (Years)	8.13	2.77
Yield to Maturity (%)	3.28	2.59
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	2,831	891
Earnings Per Share (EPS Growth 3-5y fwd)	13.1	7.95
Price Earnings (P/E fwd)	17.3	14.22
Price / Book (P/B)	3.1	1.69
Weighted Average Market Capitalization* (Bn)	182.97	52.40

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

Appendix IV

Summary of the Fund's Net Asset Value by Mandate

/US$ Million/

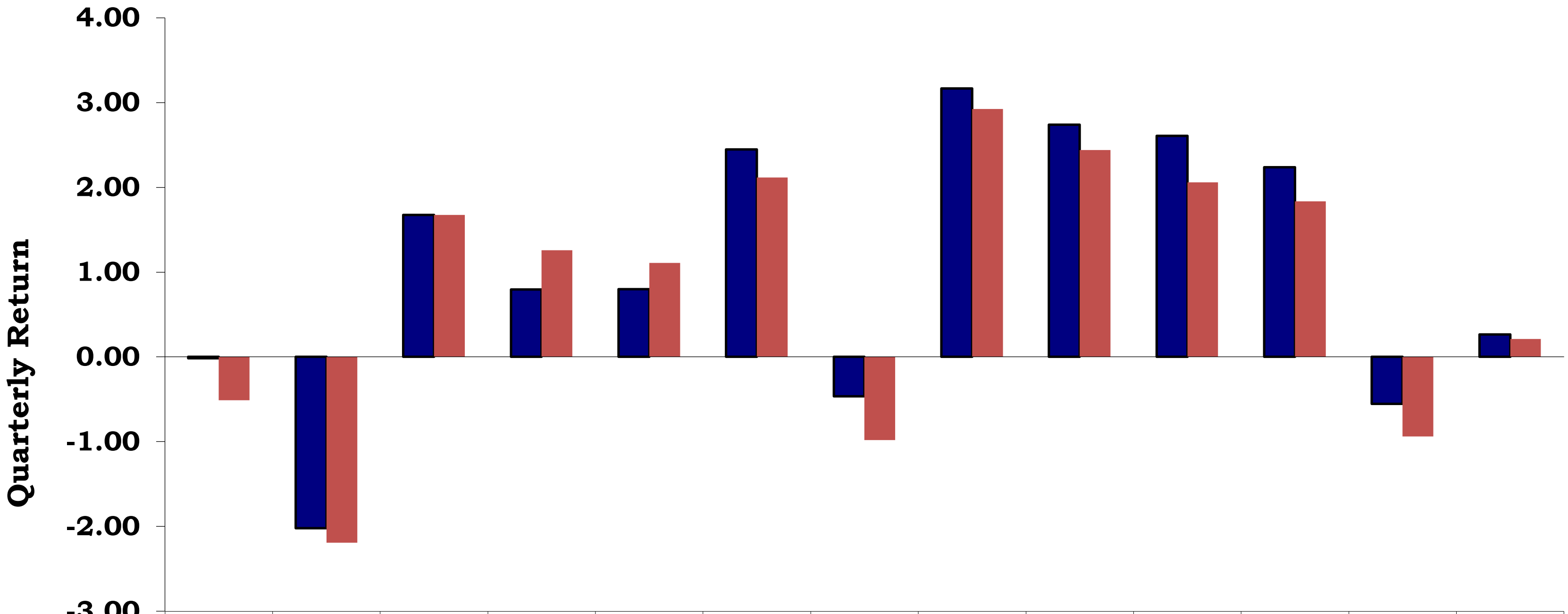
	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Total Fund Value	**5,619**	**5,762**	**5,889**	**5,853**	**5,863**
Total Value of Equity	**2,242**	**2,363**	**2,484**	**2,309**	**2,319**
US Core Domestic Equity	1,145	1,199	1,273	1,161	1,198
Non-US Core International Equity	1,097	1,165	1,211	1,148	1,121
Total Value of Fixed Income	**3,376**	**3,399**	**3,403**	**3,543**	**3,543**
US Short Duration Fixed Income	1,226	1,230	1,226	1,325	1,327
US Core Domestic Fixed Income	2,150	2,169	2,178	2,218	2,216
Total Value of Cash or Cash Equivalents	**1**	**0**	**1**	**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	FY2018 Q3
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	0.26
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	0.21

HSF Portfolio **Benchmark**