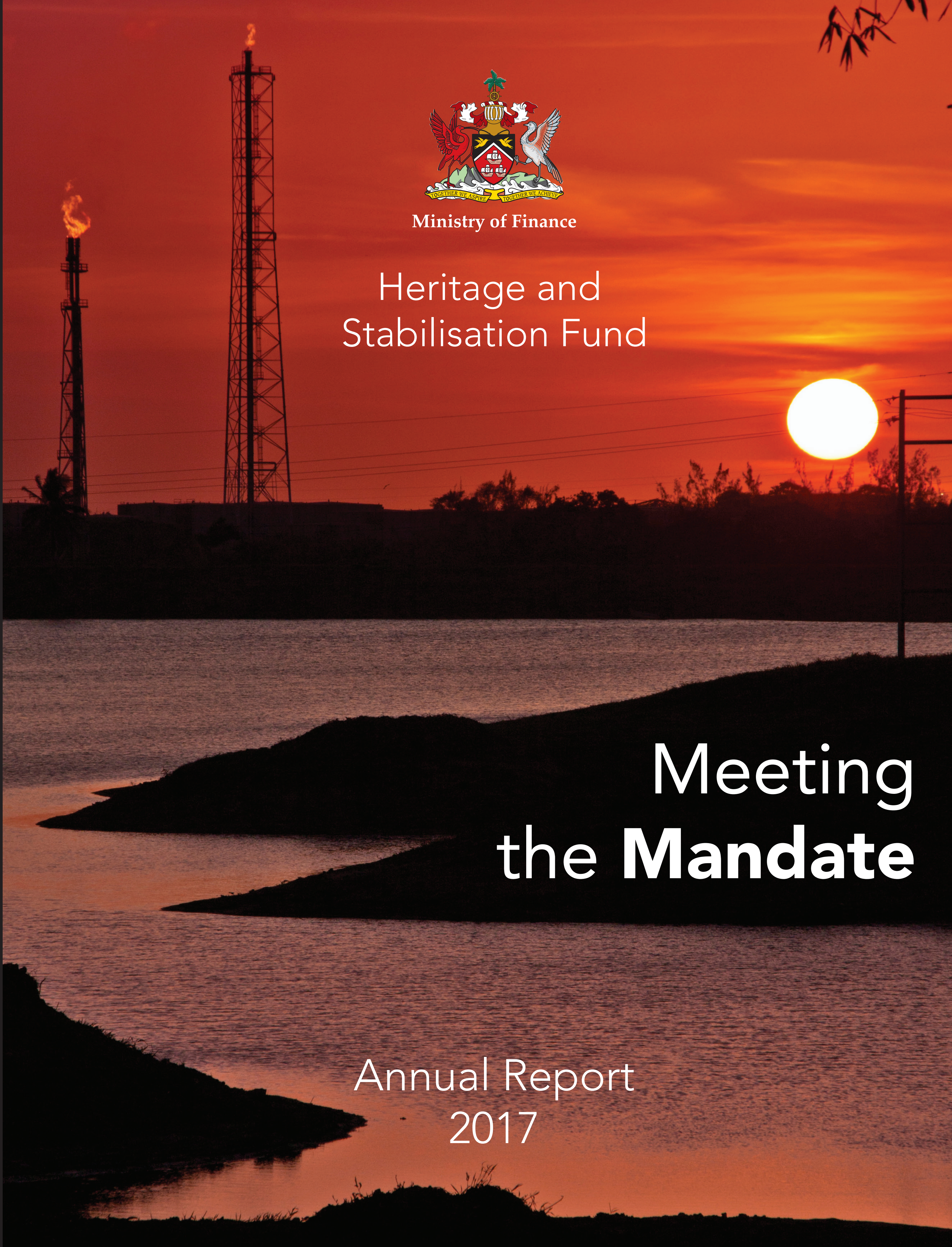


Ministry of Finance

Heritage and Stabilisation Fund

Meeting the **Mandate**

Annual Report 2017

TRINIDAD AND TOBAGO
HERITAGE AND STABILISATION FUND

Purpose

The Heritage and Stabilisation Act, No. 6 of 2007 (hereinafter called "the Act") established the Heritage and Stabilisation Fund (hereinafter called "the Fund") with effect from March 15, 2007, for the purpose of saving and investing surplus petroleum revenues derived from production business in order to:

(a) Cushion the impact on or sustain public expenditure capacity during periods of revenue downturn whether caused by a fall in prices of crude oil or natural gas;

(b) Generate an alternate stream of income so as to support public expenditure capacity as a result of revenue downturn caused by the depletion of non-renewal petroleum resources; and

(c) Provide a heritage for future generations of citizens of Trinidad and Tobago from savings and investment income derived from the excess petroleum revenues.

Content

Chairman's Foreword

The year ended September 2017 marked the ten-year anniversary of the Trinidad and Tobago Heritage and Stabilisation Fund, which was formally approved by an Act of Parliament on March 27, 2007. Over the decade the net asset value of the Fund increased by US$4.3 billion based on net contributions of US$1.9 billion and on portfolio returns of over US$2.4 billion. As at the end of September 2017, the Fund's net asset value was US$5.8 billion.

Measured from its inception, the Fund produced a cumulative return of 78.2 percent, the equivalent of an annualised return of 5.7 percent. This exceeded the benchmark return of 68 percent (cumulative) and 5.1 percent annualised. The strong performance was largely attributable to the equity portion of the Fund, which contributed approximately 75 percent of the total return.

The contributions to the Fund were all made during the period ended September 2013. In the initial six year span buoyant oil prices generated sufficient excess energy revenues to allow for gross transfers to the Fund, amounting to US$2,554.6 million. In contrast, the period 2015-2017 saw a dramatic collapse of oil prices to an average of US$47 per barrel from a comparable average of US$86 per barrel in 2007-2013.

The dramatic fall in oil prices, combined with the steady decline in oil production, which had begun since around 2006 contributed to a sharp decline in energy revenues to a low of around US$8.5 billion in 2016-17, from an average of US$25.0 billion per year in the period up to 2014.

The oil shock resulted in a significant fiscal imbalance which was funded by a sharp increase in public sector indebtedness and the first ever drawdowns from the Heritage and Stabilisation Fund. In the period 2015-2017, public debt rose from 49 percent to 62.6 percent of GDP. In addition, to contribute to the financing of the budget deficit, there were two consecutive withdrawals from the HSF amounting to US$628 million, or about 11 percent of the net asset value of the Fund.

The far-reaching changes in global energy markets and the resulting fiscal imbalances in Trinidad and Tobago have prompted the introduction of a comprehensive fiscal consolidation programme to restore fiscal balance and reestablish debt sustainability. The strategy being implemented involves a complex trade-off between fiscal adjustments (expenditure reduction and the mobilisation of additional non-energy revenues), deficit financing from domestic and external sources and withdrawals from the HSF.

During the implementation of this strategy the opportunities for savings from hydrocarbon revenues to support intergenerational equity will be highly constrained due to the already elevated public sector indebtedness (currently at around 62 percent of GDP) and projected deficits through 2020. The Government has, however, signaled its continued commitment to the savings objective to which it will return as soon as the consolidation effort begins to show tangible results.

Amendments to the legal framework of the HSF are currently being discussed so as to better integrate the operations of the Fund with the fiscal consolidation programme.

As Chairman of the Board, I would like to thank my colleagues on the Board for their support and dedicated service over the past year. I would also like to thank Dr. Ralph Henry, who demitted office as Chairman in April 2017, for the contribution he has made in strengthening the foundations of the HSF.

Board of Governors

Mr. Ewart Williams
– Chairman

Dr. Alvin Hilaire
– Member

Mrs. Judith Morrain-Webb
– Member

Mr. Bevan Narinesingh
– Member

Ms. Lisa Phillips
– Member

Ms. Sharon Mohammed
– Senior Business Analyst performing the functions of Corporate Secretary to the Board

Governance

The Board of Governors

- The Heritage and Stabilisation Fund Act provides that the Fund be governed by a Board of Governors who under Section 9, has the responsibility for the management of the Fund. Section 10, however, provides for the Board to delegate its management responsibility to the Central Bank of Trinidad and Tobago.
- The Board decides on the investment objectives, and approves the manner in which the funds are to be invested by the Central Bank.
- The Board submits to the Minister of Finance, quarterly and annual investment reports on the operation and performance of the Fund.

The Minister of Finance

- The Minister of Finance advises the President on the appointment of the Board in accordance with the Act, and is responsible for approving deposits and withdrawals from the Fund in accordance with the provisions of the Act.

The Trinidad and Tobago Parliament

- Parliament passed the enabling legislation and continues to have ultimate oversight of the Fund, which is exercised through the review of annual reports and audited financial statements, no later than four months following the end of the financial year.
- This reporting requirement gives the people of Trinidad and Tobago an opportunity to assess the Fund's performance, thereby fostering transparency and accountability, and ensuring effective ownership of the Fund by the population.

The Management of the Fund

- The Central Bank is responsible for the day-to-day management of the Fund (to meet Investment Objectives of the Board) and reports quarterly and annually to the Board.
- The Schedule to the Act details the responsibilities of the Central Bank.

Deposits and Withdrawals

The Act outlines the deposit and withdrawal rules, which the Ministry of Finance must apply regarding the Fund.

Deposits

Sections 13 and 14 of the Act detail the conditions under which excess petroleum revenues must be deposited in the Fund.

Quantum:

- A minimum of sixty percent of the total excess (difference between estimated and actual) revenues must be deposited to the Fund during a financial year.
- Estimated petroleum revenues are calculated based on defined international sources.

Timing:

- Deposits to the Fund are to be made quarterly, no later than one month following the end of the quarter in which the deposit was calculated. Quarter under the Act refers to the three-month period ending December, March, June and September of each year.

Governance (continued)

Withdrawals

Section 15 of the Act outlines the conditions under which amounts may be withdrawn from the Fund.

Quantum:

- Where the petroleum revenues collected in any financial year fall below the estimated petroleum revenues for that financial year by at least ten percent, withdrawals may be made from the Fund.

Limitations on Withdrawals

- A withdrawal is limited to sixty percent of the amount of the shortfall of petroleum revenues for the relevant year; or
- Twenty-five percent of the balance of the Fund at the beginning of that year, whichever is the lesser amount.
- The Act precludes any withdrawal where the balance standing to the credit of the Fund would fall below one billion US dollars if such withdrawal were to be made.

Overview of Activities

Reports to the Parliament

The Annual Report 2016 and the Audited Financial Statements for the period ending September 30, 2016 were presented to the Parliament in March 2017.

Deposits/Withdrawals to the Fund

There were no deposits to the Fund during the 2017 financial year. However, the sum of US$252.5 million was withdrawn from the Fund in March 2017.

Governance

The Board of Governors of the Fund met all legal and statutory requirements in the discharge of its functions and maintained its governance oversight as required by law during the review period. As prescribed by legislation, the Board held seven ordinary meetings during the financial year 2016/17.

Investment Report

Executive Summary

The financial year 2016/2017 was a significant milestone for the Heritage and Stabilisation Fund (HSF) as it attained its tenth year of existence. Over the decade of its operation, the Fund has generated positive absolute returns in each financial year. In the twelve months ended September 2017, the HSF generated a return of 8.25 percent, up 41.5 percent from the return recorded in the previous financial year. This compares with gains of 6.55 percent for the Strategic Asset Allocation (SAA) benchmark. The strong performance was driven largely by the equity portion of the Fund which contributed 8.03 percent to the total return, while the fixed income holdings accounted for the remaining 0.22 percent. Among the four mandates, the Non-US International Equity portfolio posted the strongest performance, producing an absolute return of 21.94 percent. The US Core Domestic Equity portfolio also produced a solid gain of 21.75 percent.

The robust Fund performance was generated in an environment that was characterised by improved economic growth across the globe and a gradual normalisation of monetary policy by the major central banks. Despite heightened levels of political uncertainty and increased geo-political risk, the financial year 2016/2017 was also marked by relatively low levels of volatility. The main downside risk to global growth continued to be low underlying inflation while weak energy prices remained a challenge for oil-exporting countries as they adjust to lower energy revenues.

As at the end of September 2017, the Fund's Net Asset Value stood at US$5,762.5 million, up from US$5,584.2 million one year earlier. During the financial year, the Government made one withdrawal from the Fund in the amount of US$252.5 million.

Fund Highlights

8.25 percent
1 Year Return to September 2017

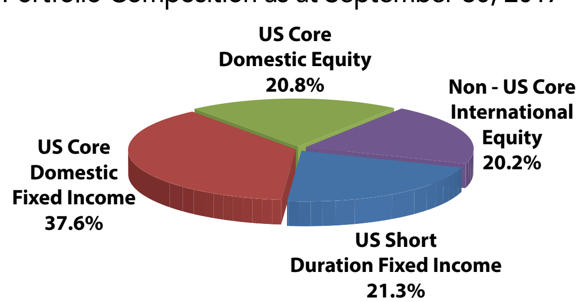
US$5,762.5 million
Net Asset Value (September 30, 2017)

5.64 percent
Since Inception Return to September 2017 (annualised)

US$2,554.6 million
Cumulative Contributions by the Government

US$627.6 million
Cumulative Withdrawals by the Government

Portfolio Composition as at September 30, 2017



Investment Report (continued)

Macroeconomic Environment

During the financial year ended September 2017, global economic activity strengthened as improving fundamentals across the major economies continued to bolster growth. According to the International Monetary Fund's October 2017 World Economic Outlook, global output is projected to expand by 3.6 percent in calendar 2017, up from 3.2 percent in 2016. The relatively brighter prospects for the United States (US) economy, the Eurozone and Japan were the main drivers of this faster pace of growth. As a result, the major Central Banks have adopted a less accommodative monetary policy stance despite some concerns about low underlying inflation. In the US, the Federal Reserve Bank (Fed) increased its benchmark interest rate by 0.25 percent on three occasions during the financial year 2016/2017. The Fed also announced that it would commence the unwinding of its balance sheet from October 2017. These policy actions were mainly premised on improved labour market conditions, higher consumer spending and increased consumer and business confidence.

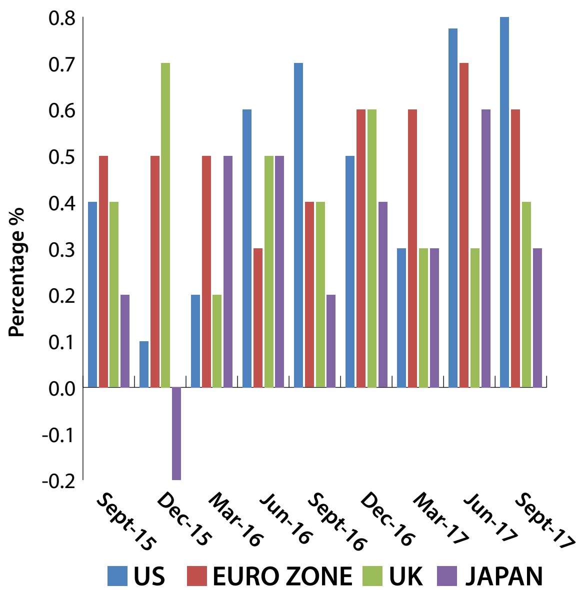
In the Eurozone, improved economic sentiments have overshadowed the political uncertainty which surfaced throughout the financial year. The positive developments have contributed to the European Central Bank's (ECB's) decision to reduce its quantitative easing programme from a monthly purchase of EUR 60 billion, to a monthly purchase of EUR 30 billion from January 2018. The ECB also indicated that some degree of monetary accommodation is still needed to boost inflation, which continued to be the main downside risk to growth in the region. The latest inflation rate revealed that consumer prices rose by 1.4 percent in the twelve months to October 2017, continuing to undershoot the ECB's medium-term target of around 2 percent.

Meanwhile, the Japanese economy continued to be robust over the financial year 2016/2017, supported mainly by an increase in domestic demand. This outturn coincided with significant improvement in labour market conditions as the unemployment rate closed the financial year at 2.8 percent, its lowest level in 23 years. However, the inflation rate remained very subdued and below the Bank of Japan's 2 percent target. As a result, the Bank of Japan (BOJ) has kept its benchmark interest rate unchanged at -0.1 percent over the financial year, while longer-term rates, specifically 10-year government bond yields, were maintained close to zero percent.

Unlike the other major economies, output in the United Kingdom (UK) is projected to decelerate in calendar 2017 to 1.7 percent, down from 1.8 percent in the previous year. This deceleration is partly on account of Brexit-related concerns which continue to have a dampening effect on economic sentiments. Despite the projected slowdown in growth, consumer prices trended upwards over the financial year, reaching 3 percent in September 2017. In an effort to contain inflationary pressures and bring the inflation rate in line with the 2 percent target, the Bank of England (BoE) raised its Bank Rate by 0.25 percent to 0.50 percent at its November Meeting while leaving its purchases of investment-grade corporate bonds at GBP10 billion and its purchase of UK government bonds at GBP435 billion.

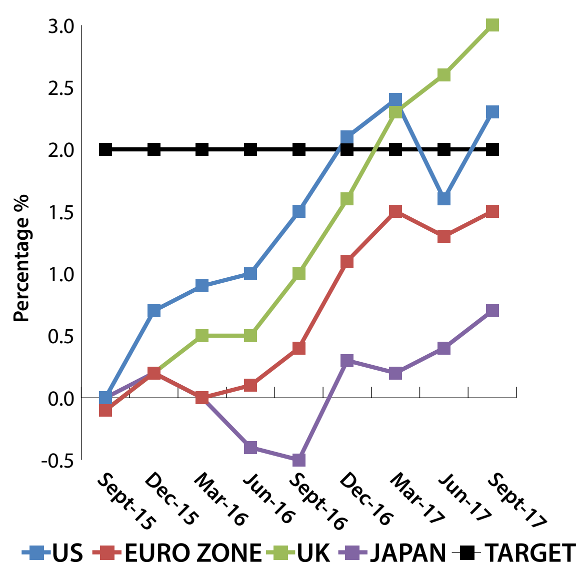
Investment Report (continued)

CHART 1: GDP Growth: Selected Developed Economies Quarter Over Quarter



Source: Bloomberg. Data for September 2017 are preliminary and may be subject to revisions.

CHART 2: Inflation Rates: Selected Developed Economies Year-On-Year

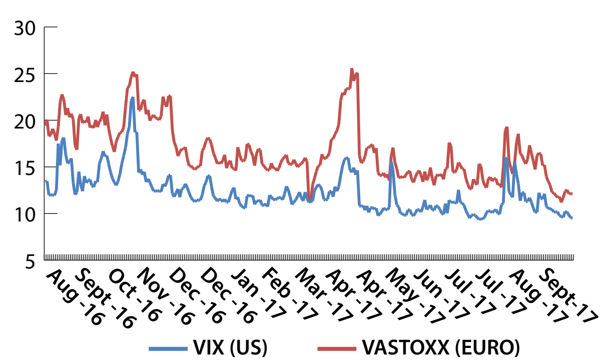


Source: Bloomberg.

Financial Market Review

Over the financial year ended September 2017, riskier assets delivered a strong performance amidst an improvement in global economic data, investor expectations for the materialisation of President Donald Trump's tax reform policies, and historically low market volatility. The Chicago Board Options Exchange Volatility Index (VIX), a proxy of investor anxiety in the U.S., averaged 12.04 points for the year, down from an average of 16.56 points in the previous financial year. According to Chart 3, the index peaked at 22.51 points on November 4, 2016, a few days before the U.S. Presidential election. However, the prospect of pro-growth fiscal policies soothed investors' concerns and the index receded thereafter for most of the financial year. The European equivalent to the VIX, the Euro Stoxx 50 Index (VSTOXX) averaged 16.38 points compared with 24.61 points in the previous financial year.

CHART 3: Implied financial market volatility/Points/ US vs EUROPE

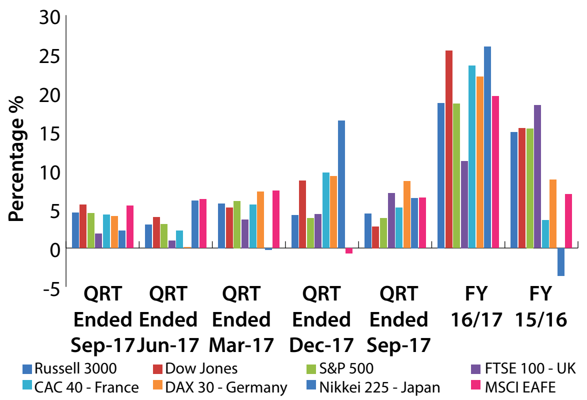


U.S. equities posted robust gains over the year as corporate earnings surpassed analysts' expectations. Most sectors recorded net positive earnings surprises and more so for technology companies. The S&P 500 and Russell 3000 index gained 18.68 percent and 18.58 percent, respectively (Refer to Chart 4).

Investment Report (continued)

Other equity markets also delivered strong returns with the Japanese Nikkei 225 index being the best performer. The index generated a return of 25.91 percent as export companies benefitted from a weaker currency as the Japanese Yen depreciated 9.92 percent relative to the US Dollar over the year.

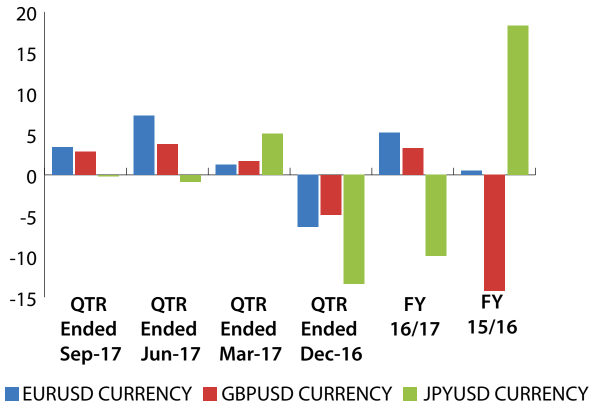
CHART 4: Total returns on equity indices



Source: Bloomberg

Other major currencies, however, appreciated relative to the Dollar. The Euro appreciated 5.15 percent vis-à-vis the Dollar (Refer to Chart 5). The currency was bolstered by receding political risk in the region and the ECB hinting at the possibility of reducing monetary stimulus measures. Likewise, the British Pound appreciated 3.28 percent relative to the US Dollar. The currency was supported by the modest progression on the Brexit negotiations and expectations for a rate hike in the final quarter of 2017.

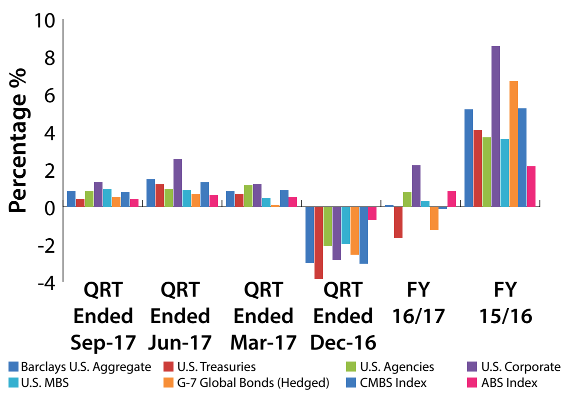
CHART 5: Foreign exchange returns for major currencies vis-à-vis the US Dollar



Source: Bloomberg.

In the US fixed income market, spread products outperformed similar duration US Treasuries. The US Investment Grade Corporate Bond sector was the best performing sector of the Barclays US Aggregate Index, returning 2.21 percent for the financial year ended September 2017. Mortgage-backed securities also performed well despite the Federal Reserve's announcement of its plan to reduce its balance sheet in October 2017.

CHART 6: Returns on fixed income indices

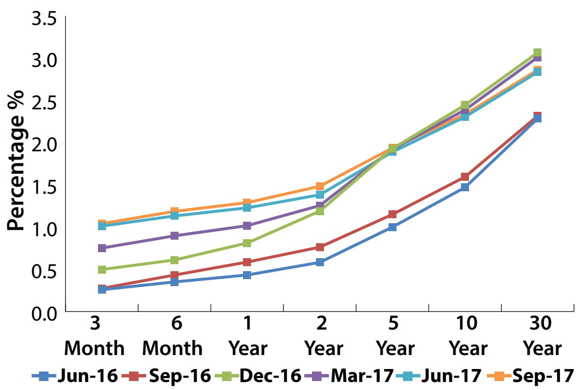


Source: Bloomberg

Investment Report (continued)

US Treasury yields rose in tandem with monetary policy rates and the curve steepened marginally over the year. The spread between the 2-year and 10-year rates increased by a mere 2 basis points to 86 basis points at the end of the financial year, although it peaked at 134 basis points in December 2016.

CHART 7: US treasury yield curve



Source: Bloomberg

Non-US developed sovereign bond yields also increased over the financial year (Refer to Table 1). In the U.K., inflation rates steadily climbed above the BoE target and an increasingly hawkish tone from the monetary authority aided the 10-year Gilt in rising 62 basis points to 1.36 percent by the end of the period. German and Japanese government 10-year bonds moved out of negative territory to end the year at 0.46 percent and 0.06 percent respectively. Canadian 10-year yields had the largest increase among the G-7 countries, climbing 110 basis points on positive economic data and unexpected monetary tightening.

TABLE 1: G-7 generic government 10-year yields / Percent/

Country	Generic Government 10-Year Yields Sep 2016	Generic Government 10-Year Yields Sep 2017	Change (basis points)
US	1.60	2.33	74
UK	0.75	1.36	62
France	0.18	0.74	56
Germany	-0.12	0.46	58
Italy	1.19	2.11	92
Canada	0.99	2.10	110
Japan	-0.09	0.06	15

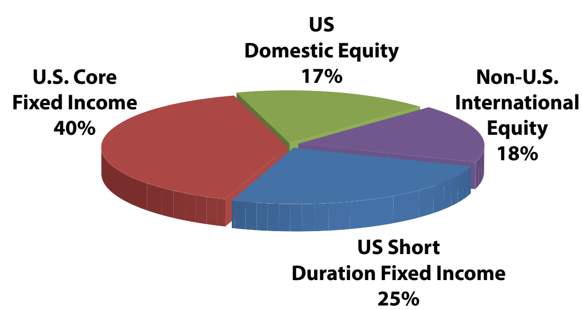
Source: Bloomberg.

Strategic Asset Allocation

a) Portfolio Desired Allocation

Since January 2011, the Fund's investment portfolio was fully invested in the four major asset classes shown in Chart 8 below.

CHART 8: The Fund's strategic asset allocation



Investment Report (continued)

b) Portfolio Composition

During the financial year ended September 2017, the asset classes of the Fund deviated from their Strategic Asset Allocation (SAA), primarily as a result of asset valuation changes. The Government's withdrawal of US$252.5 million from the Fund in March 2017 provided an opportunity to position the Fund in such a manner that allowed all the mandates to remain within the allowable deviation range of +/- 5 percent. As at September 30, 2017, the US Core Domestic Equity and Non-US Core International Equity mandates carried overweight allocations of 3.30 percent and 2.71 percent, respectively, whilst the US Short Duration Fixed Income and US Core Domestic Fixed Income mandates carried allocations below their target weights of 3.66 percent and 2.36 percent, respectively. The Fund's SAA and the portfolio composition over the 2016/2017 financial year are shown below (Table 2, refers).

CHART 9: Asset composition of the HSF portfolio

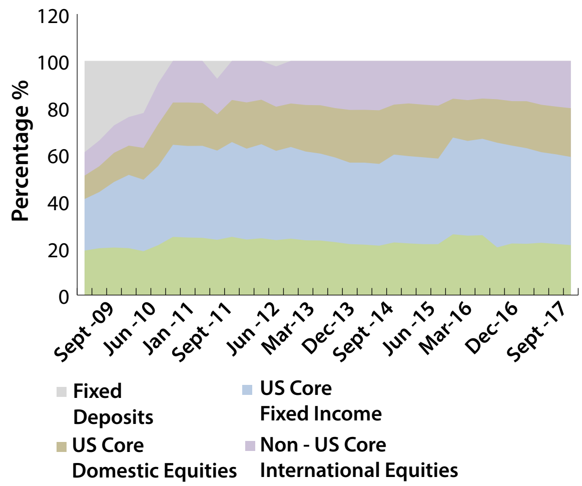


TABLE 2: Portfolio composition relative to the approved SAA /Percent/

			Dec-16	Mar-17	Jun-17	Sep-17
Portfolio Weights	Asset Class	Target Weight SAA	Actual % of Fund	Actual % of Fund	Actual % of Fund	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.

Investment Report (continued)

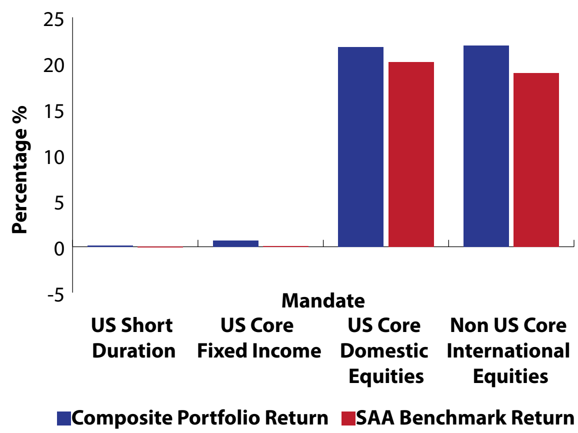
c) Fund Value

The total net asset value of the Fund as at the end of September 2017 was US$5,762.5 million, compared with US$5,584.2 million at the end of September 2016. 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.

Portfolio Performance

The Fund's investment portfolio earned 8.25 percent for the financial year ended September 2017, compared with a return of 6.55 percent for the SAA benchmark. The return on the Fund's investment portfolio was primarily driven by the strong performance of the global equity market. The fixed income portion contributed 0.22 percent to the overall portfolio return.

CHART 10: Absolute Returns By Mandate FY 2016/2017



On an absolute return basis, the Equity portion of the Fund posted a positive return and outperformed the benchmark over the financial year ended September 2017. Despite the withdrawal of US$81.2 million from the equity portfolios in March 2017, the net asset value of the equity holdings increased to US$2,363.3 million, from US$2,019.5 million one year earlier.

TABLE 3: Contribution to annual return Fy 2016/2017/Percent/

	Beginning Portfolio Weights 30-Sep-16	Portfolio Weighted Return	Benchmark Weighted Return
Composite Portfolio	100.00	8.25	6.55
US Short Duration Fixed Income	22.03	0.03	-0.01
US Core Fixed Income	41.80	0.19	0.04
US Core Domestic Equity	18.98	4.07	3.31
Non US Core International Equity	17.19	3.82	3.14

**Portfolio and Benchmark returns may not sum to the Composite Return as they are geometrically-linked.

Investment Report (continued)

The US Core Domestic Equity portfolio gained 21.75 percent, compared with a total return of 20.13 percent for its benchmark, the Russell 3000 ex Energy Index. This outperformance was primarily due to stock selection decisions, particularly within the information technology and financial sectors.

The Non-US International Equity portfolio gained 21.94 percent, outperforming the MSCI EAFE ex Energy Index which returned 18.95 percent. The outperformance of the portfolio was attributable to the managers' stock selection decisions in France, Switzerland, Japan and the UK.

The Fixed Income portion of the Fund modestly contributed to the overall performance of the Fund. The US Short Duration Fixed Income and the US Core Fixed Income mandates outperformed their SAA benchmarks during the financial year. As at the end of September 2017, the net asset value of the two mandates totaled US$3,399.0 million, down from US$3,563.5 million one year earlier. The decrease in value reflected a withdrawal of US$172.3 million in March 2017.

The US Short Duration Fixed Income mandate returned 0.13 percent, compared with a loss of 0.06 percent on its benchmark, the Bank of America Merrill Lynch 1- 5 year US Treasury Index. The outperformance of the portfolio relative to its benchmark was attributed to the portfolio's slightly shorter duration position and its exposure to spread products such as agency securities, securitised products, and non-US government debt.

The US Core Domestic Fixed Income mandate gained 0.66 percent over the financial year ended September 2017. This mandate outperformed its benchmark, the Barclays Capital US Aggregate Bond index, by 59 basis points. The portfolio benefitted from its duration strategy during the year and its exposure to investment grade corporate bonds, agency mortgage-backed securities and asset-backed securities.

Portfolio Risks

The main risks for the Fund are credit, concentration, interest rate, and currency risks. The paragraphs below indicate how these risks are mitigated.

(a) Credit Risk

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. Over the financial year, the average credit quality was "AA+" and "AA" for the US Short Duration and US Core Fixed Income Portfolios, respectively.

(b) 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 under a range of

Investment Report (continued)

market conditions and to lower the total risk of the portfolio. In addition, Concentration Risk is minimised within asset groups. For the equity portfolios, this Risk is managed by imposing a maximum percentage holding of 3.0 percent of any security's outstanding shares, as well as a maximum sector deviation relative to the benchmark of 5.0 percent.

(c) 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 benchmarks. Table 4 shows the weighted average duration for the US Short Duration and US Core Domestic Fixed Income portfolios as at September 30, 2017.

TABLE 4: Weighted Average Duration/Years/

Mandate	Portfolio	Benchmark
US Short Duration	2.59	2.61
US Core Domestic Fixed Income	5.63	5.89

(d) Currency Risk

Currency risk is managed by containing and managing the exposure to non-US dollar instruments. The Fund is invested in thirteen currencies in addition to the US dollar. These currencies include the Euro, Japanese Yen, Pound Sterling, Australian dollar, Swiss Franc dollar and Swedish Krona. For the Fixed Income and US Core Domestic Equity mandates, no more than 10 percent 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 percent of the market value of the portfolio using the US dollar as the base currency.

TABLE 5: Portfolio Currency Exposure

Currency	Exposure (%)
US Dollar	80.26
EURO Currency	7.16
Japanese Yen	4.66
Pound Sterling	3.30
Swiss Franc	1.16
Swedish Krona	1.05
Singapore Dollar	0.75
Australian Dollar	0.52
Hong Kong Dollar	0.39
Norwegian Krone	0.38
Danish Krone	0.20
New Israeli Sheqel	0.15
New Zealand Dollar	0.03
Canadian Dollar	-0.02
Composite	100.00

* Figures may not sum to 100 due to rounding.

Appendices

APPENDIX I
Heritage and Stabilisation Fund - Financial Year Portfolio Valuation
/USD/

Valuation Date	Net Asset Value	Financial Year Total Comprehensive Income	Accumulated Surplus & Unrealised Capital Gains/ Losses	Contributions/ (Withdrawals)
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	42,519,782
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)

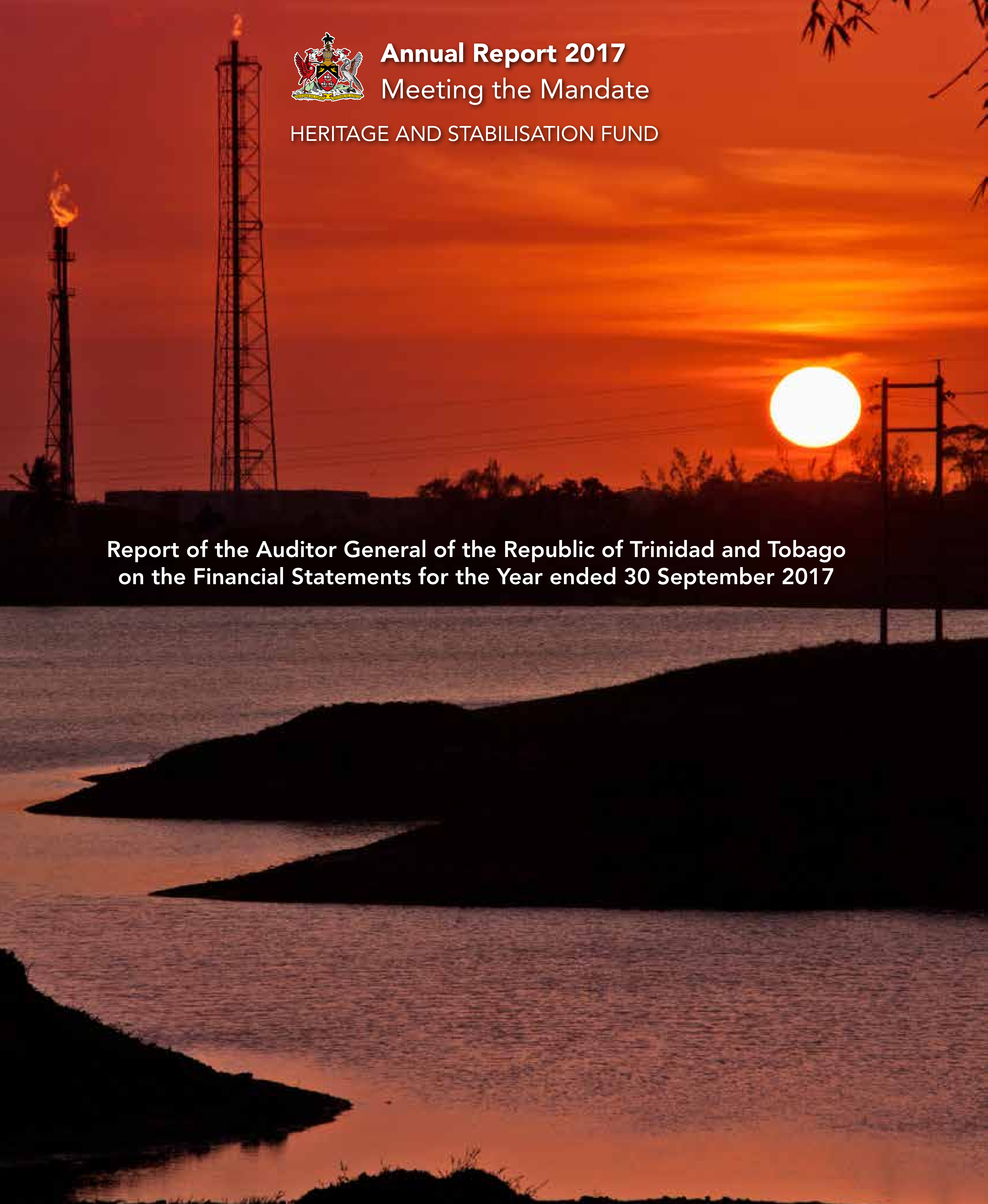
Appendices (continued)

APPENDIX II
HSF Portfolio - Historical Performance Since Inception

Financial Year End	Financial Year Return			Annualised Return Since Inception		
	Portfolio %	Benchmark %	Excess bps	Portfolio %	Benchmark %	Excess bps
September 2007*	2.97	2.95	1.89	5.48	5.44	3.50
September 2008	3.62	3.50	12.12	4.34	4.25	9.37
September 2009	2.80	3.18	-37.81	3.81	3.91	-10.01
September 2010	6.07	5.75	31.93	4.61	4.59	2.29
September 2011	0.79	1.14	-34.89	3.80	3.87	-7.13
September 2012	10.73	10.18	55.01	5.38	5.33	5.20
September 2013	8.63	7.26	137.06	5.40	5.16	24.01
September 2014	7.65	5.60	204.51	5.69	5.22	47.69
September 2015	2.47	1.13	134.06	5.31	4.73	58.12
September 2016	5.83	6.29	-45.72	5.34	4.87	47.12
September 2017	8.25	6.55	170.48	5.64	5.05	58.79

Note * These returns are for the period March 2007 to September 2007.

1. In May 2008, US Treasury instruments were added to the HSF portfolio. As a result, the performance benchmark for the HSF portfolio became a blended benchmark which comprised of 2.5% Merrill Lynch US Treasury 1-5 Years Index and 97.5% US One-month LIBID Index.
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%).



Annual Report 2017
Meeting the Mandate

HERITAGE AND STABILISATION FUND

Report of the Auditor General of the Republic of Trinidad and Tobago on the Financial Statements for the Year ended 30 September 2017

REPORT OF THE AUDITOR GENERAL OF THE REPUBLIC OF TRINIDAD AND TOBAGO ON THE FINANCIAL STATEMENTS OF THE HERITAGE AND STABILISATION FUND OF THE REPUBLIC OF TRINIDAD AND TOBAGO FOR THE YEAR ENDED 30 SEPTEMBER 2017

OPINION

The financial statements of the Heritage and Stabilisation Fund (the Fund) for the year ended 30 September 2017 have been audited. The statements as set out on pages 1 to 36 comprise a Statement of Financial Position as at 30 September 2017, and the Statement of Comprehensive Income, a Statement of Changes in Equity and a Statement of Cash Flows for the year ended 30 September 2017 and Notes to the financial statements numbered 1 to 15, including a summary of significant accounting policies.

2. In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 30 September 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BASIS FOR OPINION

3. The audit was conducted in accordance with accepted auditing standards. The Auditor General's responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this report. The Auditor General is independent of the Fund in accordance with the ethical requirements that are relevant to the audit of the financial statements and other ethical responsibilities have been fulfilled in accordance with these requirements. It is my view that the audit evidence obtained is sufficient and appropriate to provide a basis for the above audit opinion.

OTHER MATTER

4.1 Without qualifying the above opinion, attention is drawn to the following matter which was raised in the Auditor General's Report on the financial statements of the Fund for the year ended 30 September 2008. At paragraph 6 of that Report it was stated as follows:

'(i) Section 13 (1) of the Act states:

"Where petroleum revenues collected in each quarter of any financial year -

(a) exceed the estimated petroleum revenues for that quarter of the financial year by more than ten per cent, the currency of the United States of America

equivalent of the excess revenue shall be withdrawn from the Consolidated Fund and deposited to the Fund in accordance with section 14(1); or

(b) exceed the estimated petroleum revenues for that quarter of a financial year but do not exceed such estimated revenues by at least ten per cent, the Minister may direct that the currency of the United States of America equivalent of all or part of the excess revenue shall be withdrawn from the Consolidated Fund and deposited to the Fund in accordance with section 14(1)."

(ii) Section 14 (1) of the Act states:

"A minimum of sixty per cent of the aggregate of the excess revenues shall be deposited to the Fund during a financial year. "

(iii) The above quoted sections of the Act are open to interpretation. It is recommended that suitable amendments be made to the Act to provide for greater clarity with regard to deposits to the Fund.'

4.2 It was seen that action is being taken with respect to this matter.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

5. Management of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

6. In preparing the financial statements, management is responsible for assessing the ability of the Fund to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

7. Those charged with governance are responsible for overseeing the financial reporting process of the Fund.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

8. The Auditor General's responsibility is to express an opinion on these financial statements based on the audit and to report thereon in accordance with section 116 of the Constitution of the Republic of Trinidad and Tobago and Section 16 (1) of the Heritage and Stabilisation Fund Act, Section Chapter 70:09

9. The Auditor General's objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes his opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted

in accordance with auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions or users taken on the basis of these financial statements.

10. As part of an audit in accordance with accepted auditing standards, the Auditor General exercises professional judgment and maintains professional skepticism throughout the audit. The Auditor General also:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for an opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Fund.

- Concludes on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Fund to continue as a going concern. If the Auditor General concludes that a material uncertainty exists, the Auditor General is required to draw attention in his audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify his opinion. The Auditor General's conclusions are based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluates the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

11. The Auditor General communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that were identified during the audit.

28th NOVEMBER, 2017
PORT OF SPAIN

MAJEED ALI
AUDITOR GENERAL

SS
20171128

Statement of Financial Position

As at 30 September, 2017 (expressed in United States Dollars)

	Notes	Sep-17 $	Sep-16 $
ASSETS			
Current assets			
Cash and cash equivalents	4	117,831,166	177,033,394
Financial assets	5,6	5,666,934,664	5,505,352,562
Receivables and prepayments	7	222,208,186	192,397,836
TOTAL ASSETS		6,006,974,016	5,874,783,792
LIABILITIES			
Current liabilities			
Other payables	8	247,653,686	293,002,904
Financial liabilities	9	1,532,278	920,234
TOTAL LIABILITIES		249,185,964	293,923,138
NET ASSETS		5,757,788,052	5,580,860,654
PUBLIC EQUITY			
Contributed capital		3,329,275,159	3,581,823,207
Available-for-sale financial assets revaluation reserve		481,338,298	321,023,500
Accumulated surplus		1,947,174,595	1,678,013,947
TOTAL EQUITY		5,757,788,052	5,580,860,654

MR. EWART WILLIAMS
(Chairman)

DR. ALVIN HILAIRE

MS. LISA PHILLIPS

MR. BEVAN NARINESINGH

MRS. JUDITH MORRAIN-WEBB

REPUBLIC OF TRINIDAD AND TOBAGO
SS
20171128
AUDITOR GENERAL

The accompanying notes form an integral part of these financial statements.

Statement of Comprehensive Income

For the Year ended 30 September, 2017 (expressed in United States Dollars)

	Notes	Sep-17 $	Sep-16 $
Income			
Investment income	10	143,745,702	146,879,761
Investment expenses	11	(20,737,431)	(23,851,432)
Gain on sale of financial assets		347,388,839	285,125,430
Loss on sale of financial assets		(197,037,476)	(289,812,582)
Income from investments		**273,359,634**	**118,341,177**
Other income		877,282	322,549
Total income		**274,236,916**	**118,663,726**
Operating expenses			
Management fees	12	1,682,623	1,696,163
Subscription fees		14,445	14,353
Audit fees		14,617	15,810
Licence fees		4,356	4,000
Total operating expenses		**1,716,041**	**1,730,326**
Net profit for the year before tax		**272,520,875**	**116,933,400**
Withholding tax expense		3,360,227	3,531,794
Net profit for the year after tax		**269,160,648**	**113,401,606**
Other comprehensive income:			
Available-for-sale financial assets			
- Unrealised gain from fair value changes		160,314,798	192,050,490
Other comprehensive income for the year		**160,314,798**	**192,050,490**
Total comprehensive income for the year		**429,475,446**	**305,452,096**

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Equity

For the Year ended 30 September, 2017 (expressed in United States Dollars)

	Contributed Capital	Available-for-Sale Financial Assets Revaluation Reserve	Accumulated Surplus	Total
	$	$	$	$
Balance as at 1 October 2015	**3,956,874,067**	**128,973,010**	**1,564,612,341**	**5,650,459,418**
Withdrawals by Government for the year	(375,050,860)	-	-	**(375,050,860)**
Total comprehensive income for the year	-	192,050,490	113,401,606	**305,452,096**
Balance as at 30 September 2016	**3,581,823,207**	**321,023,500**	**1,678,013,947**	**5,580,860,654**
Balance as at 1 October 2016	**3,581,823,207**	**321,023,500**	**1,678,013,947**	**5,580,860,654**
Withdrawals by Government for the year	(252,548,048)	-	-	**(252,548,048)**
Total comprehensive income for the year	-	160,314,798	269,160,648	**429,475,446**
Balance as at 30 September 2017	**3,329,275,159**	**481,338,298**	**1,947,174,595**	**5,757,788,052**

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows

For the Year ended 30 September, 2017 (expressed in United States Dollars)

	Note	Sep-17 $	Sep-16 $
Cash flow from operating activities			
Net profit for the year before withholding tax		272,520,875	116,933,400
Adjustments			
Interest income		(89,075,156)	(95,299,840)
Dividend income		(54,646,128)	(51,392,636)
Fair value adjustment on financial assets and liabilities at fair value through profit or loss		(24,418)	(187,285)
Net realised (gain)/loss from the sale of financial assets		(150,351,363)	4,687,152
Cash outflows before changes in operating assets and liabilities		**(21,576,190)**	**(25,259,209)**
Changes in operating assets and liabilities			
(Increase)/decrease in receivables and prepayments		(27,954,606)	256,125,690
Decrease in other payables		(45,349,218)	(170,937,211)
Withholding tax paid		(3,360,227)	(3,531,794)
Net cash (used in)/from operating activities		**(98,240,241)**	**56,397,476**
Cash flows from investing activities			
Interest received		87,832,565	98,001,587
Dividend received		54,032,974	50,679,602
Net sale of financial assets		149,717,640	267,392,345
Net cash flows from investing activities		**291,583,179**	**416,073,534**
Cash flows from financing activities			
Withdrawal from contributed capital by government		(252,548,048)	(375,050,860)
Net cash flows used in financing activities		**(252,548,048)**	**(375,050,860)**
Effects of exchange rate changes on cash and cash equivalents		**2,882**	**4,249**
Net (decrease)/increase in cash and cash equivalents		(59,202,228)	97,424,399
Cash and cash equivalents at beginning of year		177,033,394	79,608,995
Cash and cash equivalents at end of year	4	**117,831,166**	**177,033,394**

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

For the Year ended 30 September, 2017 (expressed in United States Dollars)

1. Corporate information

The Heritage and Stabilisation Fund Act, 2007 of the Republic of Trinidad and Tobago, (the Act), provides for the establishment and management of the Heritage and Stabilisation Fund (the Fund). This Fund was established on 15 March 2007. It is denominated in the currency of the United States of America.

The President, upon the advice of the Minister of Finance, appoints the Board of Governors of the Fund. This Board comprises five members, who are appointed for a term of three years and are eligible for reappointment. Members are selected from among persons of proven competence in matters of finance, investment, economics, business management or law, including an officer of:-

a) the Central Bank; and

b) the Ministry of Finance.

The Board delegates the responsibility for the management of the Fund to the Central Bank of Trinidad and Tobago (the Bank).

The purpose of the Fund is to save and invest surplus petroleum revenues derived from production business in order to:-

a) cushion the impact on or sustain public expenditure capacity during periods of revenue downturn whether caused by a fall in prices of crude oil or natural gas;

b) generate an alternate stream of income so as to support public expenditure capacity as a result of revenue downturn caused by the depletion of non-renewable petroleum resources; and

c) provide a heritage for future generations of citizens of Trinidad and Tobago, from savings and investment income derived from the excess petroleum revenues.

Upon the commencement of this Act, the monies held in the Interim Revenue Stabilisation Fund established under the Exchequer and Audit Act were transferred to the Fund, whereupon the Interim Revenue Stabilisation Fund ceased to exist.

The resources of the Fund consist of:-

a) moneys transferred from the Interim Revenue Stabilisation Fund;

b) petroleum revenues deposited into the Fund in accordance with Section 13; and

c) assets acquired and earned from investments.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

2. Accounting policies

The principal accounting policies applied in the preparation of the Financial Statements are set out below. These policies have been applied to all of the years presented.

a) Basis of preparation

The Financial Statements of the Fund have been prepared in accordance with International Financial Reporting Standards as adopted by the Institute of Chartered Accountants of Trinidad and Tobago. The Financial Statements have been prepared under the Historical Cost Convention as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss.

b) Changes in accounting policies and disclosures

i. New accounting standards and interpretations that are not yet effective and have not been early adopted by the Fund

There are new standards and amendments to standards and interpretations that are not yet effective for accounting periods beginning on or after January 1 2018 and have not been early adopted by the Fund. The Fund intends to adopt these standards and interpretations, if applicable, when they become effective.

The Fund is currently assessing the impact of adopting these new standards and interpretations. Some of these by nature are not expected to have a significant effect on the Fund's financial statement. However, the impact of adoption depends on the assets held by the Fund at the date of adoption; therefore it is not practical to quantify the effect at this time. These standards and amendments include:

o *IFRS 9 - Financial Instruments: Classification and Measurement (effective January 1, 2018)*

IFRS 9 which introduces new requirements for classifying and measuring financial assets will eventually replace IAS 39 - Financial Instruments: Recognition and Measurements. The classification of financial assets will depend on the Fund's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The Fund is currently assessing IFRS 9's full impact.

o *IFRS 15 -Revenue and Contracts with Customers (effective January 1, 2018)*

The new standard applies to revenue from contracts with customers and will replace all of the revenue standards and interpretations in IFRS, including IAS 18 - Revenue. This standard provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

2. Accounting policies (continued)

b) Changes in accounting policies and disclosures (continued)

i. *New accounting standards and interpretations that are not yet effective and have not been early adopted by the Fund (continued)*

This Fund is currently assessing the impact of this Standard.

o *IAS 7 - Statement of Cash flows (amendment effective January 1, 2017)*

This amendment intends to improve information provided to the users of the financial statements regarding the entity's financing activities. To achieve this objective, the entity will be required to disclose changes in liabilities arising from the following financing activities

- Changes from financing cash flows
- The effect of changes in foreign exchange rates
- Changes in fair values
- Other changes

To fulfil the new disclosure requirement, the entity must provide reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Furthermore, changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

IAS 7 amendments become mandatory for annual periods beginning on or after 1 January 2017. The Fund will assess the impact of this amendment.

o *IAS 16 - Leases (effective January 1, 2019)*

This new standard was issued in January 2016 and applies to annual reporting periods beginning on or after 1 January 2019. This standard establishes principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying assets has a low value. IFRS 16's approach to lessor accounting will not change substantially, lessors will continue to classify leases as either operating or finance.

This standard will replace the following standards and interpretations:

- IAS 17 - Leases
- IFRIC 4 - Determining whether an Arrangement contains a Lease
- SIC -15 - Operating Leases - Incentives
- SIC -27-Evaluating the Substance of Transactions Involving the Legal Form of a Lease

Early adoption of this standard is permitted only if IFRS 15 - Revenue from Contracts with Customers has also been adopted.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

2. Accounting policies (continued)

b) Changes in accounting policies and disclosures (continued)

ii. New accounting standards and interpretations that are not yet effective and are not applicable to the Fund

o *IAS 40 -Investment Property (amendment effective January 1, 2018)*

This amendment serves to clarify the application of paragraph 57 of IAS 40. Paragraph 57 has been amended to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The list of evidence in paragraph 57 (a) -(d) was designated as non-exhaustive list of examples instead of the previous exhaustive list.

o *IAS 12 -Income Taxes (amendment effective January 1, 2017)*

This amendment was issued on 19 January 2016 and it serves to clarify the following aspects with regards to Recognition of Deferred Tax Assets for Unrealised Losses:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary difference
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

c) Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand and at bank, bank overdraft, short term investment in money market funds and deposits maturing within three months from the date of the financial statements.

Cash balances held are swept daily for investment purposes based on a projected cash flow. Consequently, there may be instances where the amounts retained on accounts following the sweep, may not be in line with actual cash flows required to execute business transactions for settlement on these accounts resulting in temporary overdrawn cash balances.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

2. Accounting policies (continued)

d) Foreign currency translation

i. Functional and presentation currency

The financial statements are presented in United States Dollars which is the Fund's functional and presentation currency.

ii. Transactions and balances

The Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the Statement of Financial Position date. Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income.

e) Financial assets

i. Initial recognition

The Fund's financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss or as available-for-sale financial assets, as appropriate.

Regular purchases and sales are recognised on the trade date. Thus, any agreements made before the reporting date, with expectations of settlement thereafter, will give rise to both a financial asset and financial liability, which are recognised in the Statement of Financial Position.

ii. Subsequent Measurement

Available-for-sale

Available-for-sale financial assets are those which are intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or to meet the goals of the strategic asset allocation approved by the Board. These financial assets are initially measured at fair value and subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in Other Comprehensive Income (revaluation reserve). When the financial asset is derecognised or is determined to be impaired, the cumulative gain or loss previously reported in the revaluation reserve is included in the income statement as 'Gain or Loss from financial assets'.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

2. Accounting policies (continued)

e) Financial assets (continued)

ii. Subsequent Measurement

Fair value through profit or loss

Financial assets at fair value through profit or loss may only be made if the financial asset either contains an embedded derivative or will be managed on a fair value basis in accordance with a documented risk management strategy, or if designating it (and any financial liability) at fair value will reduce an accounting mismatch.

A derivative is a financial instrument or other contract within the scope of IAS 39 with all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes inmarket factors; and
- it is settled at a future date.

Derivatives are initially recognised in the Statement of Financial Position at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Net changes in fair value are presented in the Statement of Comprehensive Income.

The Fund holds the following derivative instruments (see Notes 5 and 9):

a) Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price. Options held by the Fund are exchange traded. The Fund is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

2. Accounting policies (continued)

e) Financial assets (continued)

ii. Subsequent Measurement

Fair value through profit or loss (continued)

b) Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts. Interest rate swaps relate to contracts taken out by the Fund with major brokers in which the Fund either receives or pays a floating rate of interest in return for paying or receiving a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other. In a currency swap, the Fund pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are gross-settled.

iii. Fair value measurement/estimation

Fair value is the price at which an asset can be exchanged in an orderly arm's length transaction between knowledgeable and willing market participants. The fair value for financial instruments traded in active markets at the reporting date is based on their quoted current bid prices. For unlisted financial assets and those where the market is not active, the Fund establishes fair value by using valuation techniques. These include the use of recent arm's length market transactions adjusted as necessary and/or reference to the current market value of another transaction that is substantially the same.

Financial assets for which fair value is measured and disclosed in the financial statements are categorised within the three-level fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. The levels are:

Level I - unadjusted quoted prices m active markets for identical assets

Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

iv. Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Fund has transferred substantially all of the risks and rewards of ownership or where the Fund has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

2. Accounting policies (continued)

f) Impairment of financial assets

At the end of each reporting period, the Fund assesses whether there is any objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are recognised if, and only if there is objective evidence that one or more events occurred after initial recognition of the asset ("loss event') and the loss event's impact on the estimated future cash flows of the financial asset can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

In the case of debt instruments classified as available-for-sale, the Fund assesses individually whether there is objective evidence of impairment. The amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and other income'.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

In the case of equity investments classified as available-for-sale , objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised the Statement of Comprehensive Income.

g) Collateral

The Margin used for futures contracts can be in the form of either cash or securities held at a Broker. For all balances held at a Broker where collateralised securities and/or swap cash collateral are used, these are reported as either a receivable or payable.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

2. Accounting policies (continued)

h) Premium/Discount

A premium arises when a bond or treasury bill price is higher than its par value. This occurs when the interest rate on the security is higher than the prevailing rates in the market, thus making the bond or treasury bill worth more than a security paying the prevailing lower rate.

A discount arises when a bond or treasury bill price is lower than its par value. This occurs when the interest rate rises; newly issued securities have higher coupon rates than existing securities issued when market rates were lower. Thus, coupon rates of securities trading at a discount are generally lower than similar quality, newly issued securities.

The premium/discount is netted off against Investments on the Statement of Financial Position.

i) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Interest income is accounted for on the accrual basis.

Dividend income is recognised on the accrual basis when the shareholder's right to receive payment is established.

j) Expenses

Expenses are recognised on the accrual basis, i.e. in the period in which they were incurred.

k) Taxation

The Fund is a public account and by Section 17 of the Act the income is exempt from any tax. The Fund currently incurs withholding taxes attributable to investment income from foreign sources. Such income is recognised on a gross basis stated at the expected realisable value, in the Statement of Comprehensive Income. Withholding taxes are shown as a separate item in the Statement of Comprehensive Income.

l) Receivables

Receivables are stated at their expected realisable value.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

2. Accounting policies (continued)

m) Other payables

Other payables are stated at their expected amounts.

n) Comparative information

When necessary, comparative data has been adjusted to conform with changes in presentation in the current year.

o) Statement of cash flows

- **Operating activities** include all activities other than. investing and financing activities. The cash inflows include all receipts from the sources of revenue that support the Fund's operating activities. Cash outflows include payments made to suppliers.
- **Investing activities** are those activities relating to the acquisition and disposal of current and non-current securities and any other non-current assets. Investments include securities not falling within the definition of cash.
- **Financing activities** are those activities relating to changes in equity of the Fund and those activities relating to the cost of servicing the Fund's equity capital.
- **Cash** means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Fund invests as part of its day-to-day cash management.

p) Capital contributions

In accordance with Section 14 of the Act:

i. a minimum of sixty percent of the aggregate of the excess revenues shall be deposited to the Fund during a financial year;

ii. all revenues to be deposited into the Fund shall be a charge on the Consolidated Fund.

The deposits are to be made no later than the end of the month following the quarter in respect of which the deposit was calculated.

Capital contributions received under the requirements of the Act are treated as additions to Equity.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

2. Accounting policies (continued)

q) Withdrawals

In accordance with Section 15 of the Act, subsection l, subject to subsections (2) and (3), where the petroleum revenues collected in any financial year fall below the estimated petroleum revenues for that financial year by at least ten percent, withdrawals may be made from the Fund as follows, whichever is the lesser amount:

i. Either sixty percent of the amount of the shortfall of petroleum revenues for that year; or

ii. Twenty-five percent of the balance outstanding to the credit of the Fund at the beginning of that year

Subsection 2 states that the amount withdrawn from the Fund in accordance with subsection 1 shall be deposited into the Consolidated Fund within forty-eight hours of such withdrawal.

Subsection 3 states that notwithstanding subsection 1, no withdrawal may be made from the Fund in any financial year, where the balance standing to the credit of the Fund would fall below one billion dollars in the currency of the United States of America, if such withdrawal were to be made.

r) Critical accounting estimates and judgements

The Fund makes estimates and assumptions that affect the reported amounts of the assets and liabilities within the financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events.

The resulting accounting estimates will seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are illustrated below:

- *Fair value of financial instruments*

Where the fair value of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

3. Financial risk management

The Fund is exposed to a variety of financial risks including credit risk: concentration risk, market risk and liquidity risk. The Fund is also exposed to operational risk, the risk of loss arising from inadequate or failed processes: systems or external events. The management of these risks is undertaken by the Bank along with highly qualified and experienced international asset managers; guided by the operational and investment policies that are approved and reviewed by the Board of Governors.

The Fund's risk management policy seeks to preserve the long-term real value of the Fund whilst constraining the risk of not meeting its performance objectives over rolling 5-year periods. The Fund's policy allows for the use of derivative securities so as to mitigate certain risk exposures such as interest rate and currency risks as well as to enhance the value of the Fund. The use of derivative securities or contracts to create economic leverage is strictly prohibited. Purchasing securities on margin, except for futures or swaps, against which are held a risk equivalent amount of cash or liquid securities is also prohibited.

The Fund's policy allows for the management of risk relative to its Strategic Benchmark as well as from a sector or country or issuer level. These measures are explained below.

a) The Strategic Benchmark

The Fund's Investment Portfolio is invested in a manner to achieve the objective of preserving its real value measured over 5-year rolling periods. It is invested in accordance with the Strategic Asset Allocation (SAA) approved by the Board of Governors. The SAA for the Fund is as follows:

Asset Class	Allocation
U.S. Equities	17.5%
Non-U.S. Equities	17.5%
U.S. Core Domestic Fixed Income Securities	40.0%
U.S. Government Treasury 1-5 Years Securities	25.0%

This SAA limits the allowable underperformance of the overall portfolio relative to the composite benchmark, to an annual budget of risk of 2.0% measured over rolling one-year periods. In other words, the expected net variation of return of the portfolio and the composite benchmark is 2.0%.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

3. Financial risk management (continued)

The benchmarks and the risk budget for each of the asset classes are as follows:

Asset class	Performance Index	Risk Budget
U.S. Equities	Russell 3000 ex-energy Index comprised of the 3,000 largest market capitalisation stocks in the United States and accounts for roughly 97% of the total market capitalisation of that country.	4.00%
Non U.S. Equities	MSCI EAFE ex-energy Index, which comprises the following countries: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands , New Zealand, Norway , Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.	4.50%
U.S. Government Treasuries 1-5 Years	Merrill Lynch U.S. Treasuries 1-5 Years Index	0.50%
U.S. Core Domestic Fixed Income	Barclays Capital U.S. Aggregate Index	1.00%

The risk budget for each asset class is defined as the target annualised tracking error, measured ex-post, on a monthly rolling three-year basis, versus the Benchmark. The tracking error is defined as the annualised standard deviation of monthly excess returns relative to the Benchmark.

The overall performance of the SAA is evaluated against the composite benchmark return computed as the weighted returns of the benchmarks of the various asset classes with weights equal to the SAA weights.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

3. Financial risk management (continued)

b) Portfolio performance

The portfolio performance for the year ended 30 September, 2017 was as follows:

12 Month Performance			
Portfolio	Fund	Benchmark Return	Benchmark Composition
Composite	8.25%	6.55%	Merrill Lynch US Government Treasury 1-5 Years Index, US 1-month LIBID, Barclays Capital US Aggregate Bond Index, Russell 3000 (ex Energy), MSCI EAFE (Ex Energy)
US Short Duration Fixed Income	0.03%	-0.01%	Merrill Lynch US Government Treasury 1-5 Years Index
US Core Fixed Income	0.19%	0.04%	Barclays Capital US Aggregate Bond Index
US Core Domestic Equity	4.07%	3.31%	Russell 3000 (Ex Energy)
Non-US Core International Equity	3.82%	3.14%	MSCI EAFE (Ex Energy)

c) Portfolio risk

The Fund's activities expose it to a variety of financial risks : credit risk, concentration risk, market risk (currency risk, interest rate risk and price risk), and liquidity risk. The Fund is also exposed to operational risk.

Credit risk

This is the risk that a third party will default on its obligation to the Fund, causing the Fund to incur a loss. The main concentration of credit risk arises from the Fund's investments in debt securities. The Fund is also exposed to counterparty credit risk on cash and cash equivalents.

Credit risk is mitigated by the establishment of ratings standards. These standards require U.S. Treasury, Government-Related and Securitised debt securities to have a minimum credit quality of AA-/ Aa3 from at least one of the Nationally Recognised Statistical Rating Organisations, Standard & Poor' s or Moody's. Corporate debt should have a minimum credit quality of investment grade, at least Baa3 by Moody's or BBB- by Standard & Poor's. An investment grade corporate bond is considered to have a relatively low risk of default.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Credit risk (continued)

The table below summarises the credit quality of the Fund's debt securities as at September 30, 2017.

Debt securities by rating category

Credit Rating	2017	2016
AAA	14.3%	13.5%
AA	62.6%	60.9%
A	5.7%	6.5%
BBB	17.3%	18.8%
Not Rated*	0.1%	0.3%

* Not Rated debt securities refer to securities that are issued or unconditionally guaranteed by the agency of a sovereign government. The rating for each of these investments is implicitly tied to the credit rating of the government of the United States of America or the United Kingdom.

Money-market counterparts should have a minimum credit rating of A1 from Standard & Poor's, or P1 from Moody's. Counterparty credit risk is also managed by limiting the exposure of a single counterparty to 3% of the Fund.

Concentration risk

Concentration risk is the risk of loss attributable to holding investments in a single security or to a limited number of investment styles or asset classes. The Strategic Asset Allocation (SAA) reduces this risk by ensuring the Fund's assets are invested across various asset classes and styles. The Fund is invested in three broad asset classes:- Fixed Income including Government and Government-Related, Supranational, Corporate and Securitised bonds; Equities including financial, consumer discretionary, healthcare, utilities, information technology, industrials, consumer staples and telecom services; and Cash Equivalents including U.S. Treasury and agency bills, Certificates of deposits and Money Market funds managed by the custodian with an AAAm rating and comprising only of the eligible asset classes defined in the Fund's investment policy.

Each asset class in which the Fund invests, reacts differently under the same market conditions, and usually when one asset class has strong returns another will have lower returns. Diversification across asset classes reduces the total risk of the Fund.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Concentration risk (continued)

Concentration risk is also managed at the portfolio level, relative to the Strategic benchmark. Total net exposure to each of the sub-sectors of the Barclays Capital U.S. Aggregate Bond Index (U.S. Treasury, Government-Related, Corporate and Securitised) cannot exceed plus or minus 20% versus the benchmark. Sector deviations relative to the Russell 3000 (Ex Energy) and MSCI EAFE (Ex Energy) indices are limited to plus or minus 5%. The Fund's policy also prescribes concentration limits for the various asset classes, including no more than 3% of the portfolio to any one corporate issuer and country allocation limited to plus or minus 10% of the MSCI EAFE (Ex Energy) index.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises: currency risk, interest rate risk and price risk.

i. *Currency risk*

This is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Fund invests in international bonds and equities denominated in currencies other than the United States Dollar, the base currency of the Fund. Currency risk is managed at the portfolio level. For the Fixed Income and U.S. Core Domestic Equity mandates, no more than 10% of the market value of the portfolio can be invested in securities denominated in currencies other than the United States Dollar. For the Non US Core International Equity mandate, currency hedging is allowed for up to 15% of the market value of the portfolio.

A 1% change in the US dollar relative to other currencies (see below) in which the Fund trades would have changed the net assets of the Fund as at 30 September 2017 and 30 September 2016 as follows:

	Sep-17 $	Sep-16 $
Change in net assets	17,115,645	14,137,923

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Market risk (continued)

i. Currency risk (continued)

Foreign Currency Concentration Exposure on Financial Assets and Financial Liabilities

Financial Assets	Sep-17	Sep-16
Currency	% of financial assets	% of financial assets
Australian dollar	0.52	1.05
Canadian dollar	0.00	0.26
Danish krone	0.20	0.24
Euro	7.16	4.67
Hong Kong dollar	0.39	0.77
New Israel shequel	0.15	0.21
Japanese yen	4.66	3.78
New Zealand dollar	0.03	0.31
Norwegian krone	0.38	0.30
Singapore dollar	0.75	0.02
Swedish krona	1.05	0.23
Swiss franc	1.16	1.26
British pound	3.30	3.30
United States dollar	80.25	83.60
Total	100.00	100.00

Financial liabilities	Sep-17	Sep-16
Currency	% of financial liabilities	% of financial liabilities
Canadian dollar	52.28	0.00
Euro	2.74	0.00
Japanese yen	0.00	6.10
Norwegian krone	0.00	0.02
Swedish krona	0.00	8.05
British pound	0.00	62.87
United States dollar	44.98	22.96
Total	100.00	100.00

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Market risk (continued)

ii. Interest rate risk

This is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Fund invests in fixed and floating rate debt securities that expose it to fair value and cash flow interest rate risk. Interest Rate Risk is managed at the portfolio level whereby the average weighted effective duration of the U.S. Short Duration Fixed Income mandate must not vary from that of the Benchmark by more than plus or minus six (6) months. The weighted average effective duration of the U.S. Core Fixed Income mandate may range between one (1) year longer or shorter than the weighted average duration of the Benchmark .

	2017		2016	
	Portfolio	Index	Portfolio	Index
US Short Duration Fixed Income	2.59	2.61	2.66	2.66
US Core Fixed Income	5.63	5.89	5.37	5.51

iii. Price risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes other than those arising from interest rate risk or currency risk, whether those changes are caused by factors specific to the individual financial instruments or issuer, or factors affecting all similar financial instruments traded in the market.

Price risk is managed through asset class diversification and selection of securities within the limits approved by the Board of Governors. The Fund's policy limits its holdings of any equity security to no more than 3% of that security's outstanding shares.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Market risk (continued)

iii. Price risk (continued)

The tables below summarise the sector concentrations within the Fund:

US Short Duration Fixed Income - Sector Concentrations

	2017		2016	
	US Short Duration Mandate	Merrill Lynch US Treasury 1-5 Year Index	US Short Duration Mandate	Merrill Lynch US Treasury 1-5 Year Index
US Treasuries	47.9%	100.0%	50.1%	100.0%
Agencies	21.4%	-	18.8%	-
Non-US Government	11.7%	-	13.0%	-
Supranationals	12.8%	-	9.8%	-
Agency CMBS	3.7%	-	4.8%	-
Agency RMBS	0.5%	-	1.6%	-
Local Government Obligations	1.7%	-	1.5%	-
Municipals	0.3%	-	0.4%	-
Credits	0.0%	-	0.0%	-
ABS/CMBS	0.0%	-	0.0%	-
Mortgages	0.0%	-	0.0%	-
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Market risk (continued)

iii. Price risk (continued)

US Core Fixed Income - Sector Concentrations

	2017		2016	
	US Core Fixed Income Mandate	Barclays US Aggregate Bond Index	US Core Fixed Income Mandate	Barclays US Aggregate Bond Index
Corporates	35.0%	25.5%	38.0%	26.0%
US Treasuries	22.1%	37.0%	16.4%	36.3%
Residential Mortgage Backed Securities	11.5%	0.0%	15.9%	0.0%
Mortgage Backed Securities	12.9%	28.1%	13.9%	27.6%
Asset Backed Securities	13.2%	0.5%	8.2%	0.5%
Commercial Mortgage Backed Securities	0.7%	1.8%	3.5%	1.6%
Government Related Securities	4.1%	7.0%	3.2%	7.9%
Emerging Market Debt	0.5%	0.0%	0.9%	0.0%
Covered Bonds	0.0%	0.1%	0.0%	0.1%
Convertibles	0.0%	0.0%	0.0%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Market risk (continued)

iii. Price risk (continued)

US Core Domestic Equity - Sector Concentrations

	2017		2016	
	US Core Equity Mandate	Russell 3000 Ex-Energy Index	US Core Equity Mandate	Russell 3000 Ex-Energy Index
Financials	21.1%	22.6%	20.3%	21.2%
Technology	21.9%	20.1%	19.4%	18.7%
Health Care	14.9%	14.7%	15.4%	15.0%
Consumer Discretionary	13.9%	14.3%	15.3%	14.9%
Producer Durables	12.3%	11.7%	12.1%	11.4%
Consumer Staples	7.2%	6.9%	7.6%	8.5%
Utilities	5.1%	5.5%	5.8%	6.1%
Materials & Processing	3.6%	4.2%	4.1%	4.2%
Total	100.0%	100.0%	100.0%	100.0%

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Market risk (continued)

iii. Price risk (continued)

Non-US International Equity - Sector Concentrations

	2017		2016	
	Non-US International Equity Mandate	MSCI EAFE EX-Energy Index	Non-US International Equity Mandate	MSCI EAFE EX-Energy Index
Financials	23.6%	22.6%	19.9%	20.1%
Industrials	17.0%	15.2%	15.0%	14.8%
Consumer Staples	9.4%	11.8%	12.2%	13.5%
Consumer Discretionary	15.1%	12.9%	12.0%	12.8%
Health Care	8.1%	11.1%	11.6%	12.0%
Materials	8.8%	8.3%	10.7%	7.9%
Telecommunication Services	4.1%	4.3%	7.0%	5.0%
Real Estate	3.7%	3.7%	4.9%	4.2%
Information Technology	6.1%	6.6%	4.2%	5.8%
Utilities	4.1%	3.5%	2.5%	3.9%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The table below summarises the sensitivity of the Fund's net assets attributable to redeemable shares to equity price movements as at 30 September. The analysis is based on the assumption that the share price increased by 1% and decreased by 1%, with all other variables held constant, and that the fair value of the Fund's portfolio of equity securities moved according to their historic correlation with the price.

	Sep-17 $	Sep-16 $
Effect on net assets attributable to redeemable shares of a 1% increase/decrease in the share price	23,391,419	19,872,228

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Liquidity risk

This is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

One of the strategic objectives of the Fund is the maintenance of sufficient liquidity to cover its obligations at short notice and in accordance with the Act. In order to meet this stated objective, the Fund holds a combination of cash and short term assets such as U.S. Treasury and agencies bills and notes, certificates of deposits and money market funds managed by the custodian with an AAA, rating containing eligible asset classes in accordance with the investment policy. The Fund's investments in aggregate of any fixed income security must not exceed 5% of that security's outstanding par value.

The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

	Less than 1 month $	1 - 6 months $	6 - 12 months $	Total $
Sep-17				
Non-derivative financial liabilities				
Investment purchased	189,953,913	3,159,062	-	193,112,975
Foreign currency purchased	33,067,026	13,967,367	-	47,034,393
Interest payable	-	2,105	-	2,105
Due to money market	2,667,409	-	-	2,667,409
Due to brokers	74,372	-	-	74,372
Accrued expenses	3,372,081	1,382,521	7,830	4,762,432
	229,134,801	**18,511,055**	**7,830**	**247,653,686**
Sep-16				
Non-derivative financial liabilities				
Investment purchased	248,663,157	2,983,750	-	251,646,907
Foreign currency purchased	18,578,445	19,247,029	-	37,825,474
Interest payable	-	5,778	-	5,778
Due to money market	38,172	-	-	38,172
Due to brokers	95,208	-	-	95,208
Accrued expenses	3,102,938	283,189	5,238	3,391,365
	270,477,920	**22,519,746**	**5,238**	**293,002,904**

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Liquidity risk (continued)

The table below analyses the Fund's derivative financial instruments in a loss position.

	More than 12 months $	Total $
Sep-17		
Derivative financial liabilities		
Credit default swap	434,366	434,366
Interest rate swap	1,097,912	1,097,912
	1,532,278	1,532,278
Sep-16		
Derivative financial liabilities		
Credit default swap	271,426	271,426
Interest rate swap	648,808	648,808
	920,234	920,234

Operational risk

This is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It is managed through organisational policies, procedures and operational frameworks utilised by the Bank for management of the Fund. The internal and external processes for the Fund are similar to those which exist for management of the Official Reserves. These processes are tested and audited annually. The Bank strives to continually comply with international best practice.

4. Cash and cash equivalents

	Sep-17 $	Sep-16 $
Cash at bank	935,745	1,573,106
Cash at broker	3,586,644	2,166,388
US Government Money Market	113,305,121	173,293,126
	117,827,510	**177,032,620**
Net effect of exchange rate changes	3,656	774
	117,831,166	**177,033,394**

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

5. Financial assets

	Sep-17 $	Sep-16 $
Available-for-sale	5,665,107,940	5,505,532,562
Fair value through profit or loss	1,826,724	-
	5,666,934,664	**5,505,352,562**
Available-for-sale financial assets		
Cost/amortised cost	5,184,270,107	5,184:663,095
Net appreciation	480,837,833	320,689,467
	5,665,107,940	**5,505,352,562**
Represented by:		
Fixed income investments		
Amortised cost	3,304,534,597	3,443,402,930
Net appreciation in market value	21,431,477	74,726,799
	3,325,966,074	**3,518,129,729**
Equity		
Cost	1,879,735,510	1,741,260,165
Net appreciation in market value	459,406,356	245,962,668
	2,339,141,866	**1,987,222,833**
Total available-for-sale financial assets	**5,665,107,940**	**5,505,352,562**
Financial assets at fair value through profit or loss		
Cost	2,080,251	-
Fair value adjustments	(253,527)	-
Total financial assets at fair value through profit or loss	**1,826,724**	**-**

6. Fair value of financial assets

(a) Debt and equity securities

	Sep-17 Fair value $	Sep-17 % of net assets	Sep-16 Fair value $	Sep-16 % of net assets
Total debt securities	3,325,966,074	57.76	3,518,129,729	63.04
Total equity	2,339,141,866	40.63	1,987,222,833	35.61
Financial assets at fair value through profit or loss	1,826,724	0.01	-	-
Total financial assets	**5,666,934,664**	**98.40**	**5,505,352,562**	**98.65**

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

6. Fair value of financial assets (continued)

(b) Fair value hierarchy

Various methods are used in estimating the fair value of a financial instrument. The Fund classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making measurements.

The fair value of the Fund's investment securities are analysed by the fair valuation hierarchy below:

	Sep-17			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Asset-backed securities	-	290,512,667	-	290,512,667
Collateralised mortgage-backed securities (CMO)	-	103,166,399	-	103,166,399
Corporate bonds	-	968,938,353	-	968,938,353
Government issues	-	1,446,263,495	-	1,446,263,495
Mortgage-backed securities	-	482,494,864	-	482,494,864
Municipals	-	34,590,296	-	34,590,296
Fixed income	**-**	**3,325,966,074**	**-**	**3,325,966,074**
Common stock	2,212,844,577	-	-	2,272,844,577
Depository receipts	7,481,416	-	-	7,481,416
Preferred stock	2,420,553	-	-	2,420,553
Real estate investment trust	56,395,320	-	-	56,395,320
Equity	**2,339,141,866**	**-**	**-**	**2,339,141,866**
Interest rate swaps	-	4,114	-	4,114
Options	1,822,610	-	-	1,822,610
Financial assets at fair value through profit or loss	**1,822,610**	**4,114**	**-**	**1,826,724**
Total financial assets	**2,340,964,4 76**	**3,325,970,188**	**-**	**5,666,934,664**

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

6. Fair value of financial assets (continued)

(b) Fair value hierarchy (continued)

	Sep-16			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Asset-backed securities	-	255,677,065	1,333,786	257,010,851
Collateralised mortgage-backed securities (CMO)	-	221,526,731	81,756	221,608,487
Corporate bonds	-	1,047,940,969	-	1,047,940,969
Government issues	-	1,356,766,036	-	1,356,766,036
Mortgage-backed securities	-	611,716,284	-	611,716,284
Municipals	-	23,087,102	-	23,087,102
Fixed income	**-**	**3,516,714,187**	**1,415,542**	**3,518,129,729**
Common stock	1,926,666,126	-	-	1,926,666,126
Depository receipts	7,589,122	-	-	7,589,122
Preferred stock	3,081,511	-	-	3,081,511
Real estate investment trust	49,886,074	-	-	49,886,074
Equity	**1,987,222,833**	**-**	**-**	**1,987,222,833**
Total financial assets	**1,987,222,833**	**3,516,714,187**	**1,415,542**	**5,505,352,562**

Valuation techniques

Investment Securities included in Level 1

Exchange listed price or a broker quote in an active market.

Investment Securities included in Level 2

Where a security has ceased trading the last trade price or a broker quote in a non active market is used. Additionally, securities closely related (e.g. when issued, fungible shares) where the security held is not trading but related security is traded.

Investment Securities included in Level 3

Security in which no indications or comparables are available and the company's financials/information or other market indicators are used to calculate valuation.

(c) Transfers between fair value hierarchy levels

As at 30 September, 2017, there were no transfers between the fair value valuation levels. The Fund no longer holds the Level 3 instruments that were held as at 30 September 2016.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

6. Fair value of financial assets (continued)

(d) Collateral

	Sep-17	Sep-16
	$	$
Fixed income	1,020,000	1,595,000
Equity	-	450,000
	1,020,000	2,045,000

7. Receivables and prepayments

	Sep-17	Sep-16
	$	$
Pending trades	196,440,596	168,985,415
Interest receivable	16,367,824	15,125,233
Dividends receivable	4,642,374	4,029,220
Other receivables	4,757,392	4,257,968
	222,208,186	192,397,836

Accounts receivable as at 30 September, 2017 include Pending Trades -Investments and Foreign Currency Sold in the amounts of USD149,445,376 and USD46,995,220 respectively which will subsequently be settled during the period October - November 2017.

8. Other payables

	Sep-17	Sep-16
	$	$
Pending trades	240,147,368	289,472,382
Accruals	4,762,432	3,391,364
Other payables	2,743,886	139,158
	247,653,686	293,002,904

As at 30 September, 2017 there were Pending Trades - Investments and Foreign Currency Purchased of USD193,112,975 and USD47,034,393 respectively. Subsequent settlement ·will occur during the period October -November 2017.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

9. Financial liabilities

	Sep-17 $	Sep-16 $
(a) Financial liabilities at fair value through profit or loss		
Cost	1,572,670	682,681
Fair value adjustments	(40,392)	237,553
Financial liabilities at fair value through profit or loss	**1,532,278**	**920,234**

(b) Fair value of financial liabilities

	Level 1 $	Level 2 $	Level 3 $	Total $
Sep-17				
Financial liabilities				
Credit default swap	-	434,366	-	434,366
Interest rate swap	-	1,097,912	-	1,097,912
Financial liabilities at fair value through profit or loss	**-**	**1,532,278**	**-**	**1,532,278**
Total financial liabilities	**-**	**1,532,278**	**-**	**1,532,278**
Sep-16				
Financial liabilities				
Credit default swap	-	271,426	-	271,426
Interest rate swap	-	648,808	-	648,808
Financial liabilities at fair value through profit or loss	**-**	**920,234**	**-**	**920,234**
Total financial liabilities	**-**	**920,234**	**-**	**920,234**

(c) Valuation techniques

The techniques used to value all swaps are based on models which may include end of day net present values, spreads, ratings, credit analysis, industry and company performance information. Broker quotes in a non-active market are also utilised.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

10. Investment income

	Sep-17 $	Sep-16 $
Interest income		
Cash at bank	1,672	2,239
Available-for-sale financial assets	85,445,854	93,429,771
Amortisation of bond discount	3,251,224	1,855,564
Short term securities	376,406	12,266
	89,075,156	**95,299,840**
Dividend income	**54,646,128**	**51,392,636**
Fair value adjustments on financial assets and liabilities at fair value through profit or loss	24,418	187,285
Total	**143,745,702**	**146,879,761**

11. Investment expenses

	Sep-17 $	Sep-16 $
Amortisation of bond premium	6,815,632	10,602,624
External managers' fees	12,950,099	12,277,632
Custodian fees	887,845	829,700
External managers' expenses	82,880	128,704
Legal fees	975	12,772
Total	**20,737,431**	**23,851,432**

12. Asset management agreements

Under Section 10 (1) of the Act, the Bank as Manager of the Fund is responsible for the management of the assets and other resources of the Fund.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2017 (expressed in United States Dollars)

13. Board and other expenses

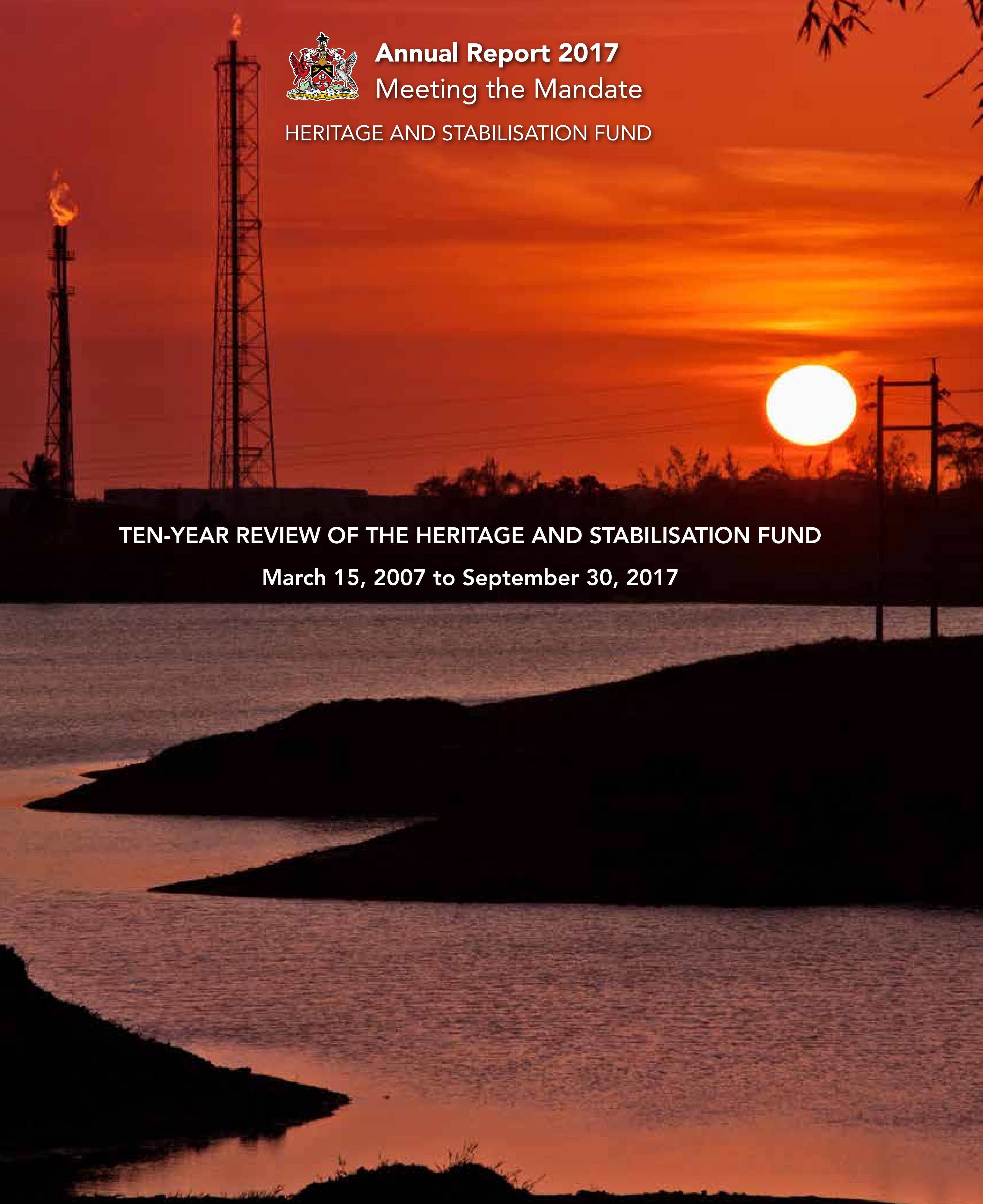
Under Section 4 (6) of the Act, the members of the Board shall be paid such remuneration and allowances as may be determined by the Minister of Finance. These expenses, along with other operating expenses of the Fund's Secretariat are met from the Consolidated Fund, and thus do not form a part of the Financial Statements of the Fund.

14. Capital contributions

Capital contributions are calculated based on criteria set out under Sections 13(1) and 14 of the Act, (see Note 2 (n)). During the current financial year ended 30 September, 2017, no capital contributions were made given the level of petroleum revenues collected.

15. Withdrawals

Withdrawals from the Fund are made in accordance with the criteria set out Section 15 of the Act, (see note 2 (o)). During the month of March 2017, the amount of USD252,548,048 was withdrawn from the Fund.



Annual Report 2017
Meeting the Mandate

HERITAGE AND STABILISATION FUND

TEN-YEAR REVIEW OF THE HERITAGE AND STABILISATION FUND

March 15, 2007 to September 30, 2017

Ten-Year Review of the Heritage and Stabilisation Fund

1.0 Executive Summary

- Trinidad and Tobago is an energy-based economy and therefore extremely vulnerable to sharp fluctuations in energy prices. The country's past experience with energy price shocks and the impact on the fiscal accounts made it critical to establish a stabilisation mechanism. Furthermore, the resources are nonrenewable so it was also important that a portion of excess energy revenues be saved and invested for the future generation. As such, an Interim Revenue Stabilisation Fund was created in 2000.
- On March 15, 2007, the Heritage and Stabilisation Fund (HSF) was established with the passage of the Heritage and Stabilisation Fund Act and all the monies from the Interim Revenue Stabilisation Fund were transferred to the HSF.
- The HSF is a member of the International Forum for sovereign wealth funds. This group created a set of Generally Accepted Principles and Practices known as the Santiago Principles which provide a framework that supports strong governance, accountability and the conduct of prudent investment practices.
- Since the inception of the Fund, the HSF has grown in excess of 300 percent, moving from US$1,402.2 million to US$5,762.5 million as at the end of September 2017. This growth over the ten and a half years of existence occurred on account of Government's net contributions which amounted to US$1,927.0 million and portfolio returns which totaled US$2,433.3 million.
- In the general case, the criteria for making contributions or withdrawals from the Fund are based on actual petroleum revenues exceeding or lagging budgeted revenue by more than ten percent in any quarter. To date, the Government has made 14 contributions to the Fund amounting to US$2,554.6 million and two withdrawals totaling US$627.6 million. The first drawdown occurred in May 2016 while the second occurred in March 2017.
- The annualised return for the HSF since inception to September 2017 was 5.64 percent compared with a return of 5.05 percent for the benchmark. The solid absolute performance of the Fund can be attributed mainly to its exposure to US and Non-US International Developed equity markets. In August 2009, the HSF commenced its transition to the approved Strategic Asset Allocation which involved investing 65 percent of the assets in fixed income securities and 35 percent in equities. As at January 2011, the HSF was invested in accordance with the approved SAA. As at September 2017, it can also be concluded that the HSF achieved its SAA return objective by generating a real return in excess of 3.5 percent.
- In light of the likely changes to the HSF, consideration should be given to the proportion of the HSF that would be set aside for stabilisation purposes versus that for the future generation, determining new deposit and withdrawal rules and amending the reporting timeframe to allow for improved operational efficiency.

Ten-Year Review of the Heritage and Stabilisation Fund (continued)

2.0 Introduction

Trinidad and Tobago is an energy-based economy and is extremely susceptible to commodity price shocks. Past energy price shocks, particularly in the 1980s, resulted in tremendous economic challenges as the country faced deep fiscal adjustments. The lessons learnt during that period of economic hardship resonated deeply in the minds of decision makers, so when oil prices recovered in the late 1990s, the Government created an Interim Revenue Stabilisation Fund (IRSF) in 2000. Some years later, the IRSF was superseded by the HSF, which was established in March 2007, following the assent of the Heritage and Stabilisation Fund Act by Parliament, and all the monies from the IRSF were transferred to the HSF.

Since the HSF has been in existence for just over ten years, now is an appropriate time to determine whether the Fund has continued to achieve its purpose and objectives. Moreover, the Budget Statement 2018 reiterated the Government's intent to segregate the HSF into two separate funds; one for stabilisation and one with a heritage purpose. The Statement also indicated that appropriate amendments to the HSF Act will be laid in Parliament in early 2018.

This ten-year review attempts to provide a comprehensive overview of the developments surrounding the HSF, including its legislation, governance, operations, management and performance. In addition, it is intended to provide the foundation for what lies ahead for the Fund. As such, this review discusses the background to the establishment of the HSF; looks at the current legislative framework; examines the Fund's growth and performance since inception, taking into account the economic and financial environment, both internationally and domestically, over the last decade. Following which, the Fund's major accomplishments and milestones were highlighted and finally, it concludes with future considerations for the Fund in light of the proposed changes.

3.0 Background

Over the period 2007 to 2016, the energy sector contributed approximately 36 percent to Gross Domestic Product (GDP), 83 percent to exports and 46 percent to government revenues, annually. As such, the establishment of the HSF was an important step towards mitigating the impact of adverse movements in oil and gas prices on the economy.

Trinidad and Tobago's experience with commodity price shocks in the 1980s was the main motivating factor for the creation of the stabilisation fund. The country benefitted tremendously during the oil boom of the 1970s as oil prices soared, spurring economic growth and employment as government increased spending. However, when oil prices collapsed in the 1980s, the economy entered a deep recession, leading the authorities to implement an IMF Structural Adjustment Programme to bring it back on track. This experience underscored the importance of saving windfall gains from energy price surges to serve as a cushion for the budget and the economy if needed.

Petroleum and natural gas are nonrenewable resources, and locally these reserves have been declining. The establishment of the HSF was also intended to address this issue as revenues from these exhaustible resources are to be saved and invested, not only to provide a stable alternative source of income when they are exhausted, but also to provide a heritage for future generations.

Ten-Year Review of the Heritage and Stabilisation Fund (continued)

Oil prices rebounded in the late 1990s, following the collapse in the previous decade, and an IRSF was established in 2000, the forerunner to the HSF. The initial deposit to the IRFS of TT$415.3 million was made on September 2000. Upon formalisation of the HSF, all the monies in the IRSF were transferred to the HSF and the IRSF ceased to exist. The amount transferred from the IRFS to the HSF in March 2007 was US$1.4billion.

4.0 The Heritage and Stabilisation Fund

4.1 Key Provisions of the Heritage and Stabilisation Fund Act (2007)

4.1.1 Purpose

The HSF Act was designed with a dual purpose since it is intended to (1) insulate fiscal policy and the economy from adverse swings in international oil and gas prices (the stabilisation objective) and (2) accumulate savings from the country's exhaustible assets of oil and gas for future generations (the heritage element). According to the Act, the Fund was established for the purpose of saving and investing surplus energy revenues derived from production business in order to:

(a) *Cushion the impact on or sustain public expenditure capacity during periods of revenue downturn whether caused by a fall in prices of crude oil or natural gas;*

(b) *Generate an alternate stream of income so as to support public expenditure capacity as a result of revenue downturn caused by the depletion of non-renewable petroleum resources; and*

(c) *Provide a heritage for future generations of citizens of Trinidad and Tobago from savings and investment income derived from the excess petroleum revenues.*

4.1.2 Rules Governing Deposits to the Fund

The Act specifies a number of key provisions for governing the Fund. One of the most important is the rule concerning the deposits to the Fund. Sections 13 and 14 of the Act specify the conditions under which excess revenues must be deposited to the Fund. These are as follows:

- Where petroleum revenues collected in each quarter of any financial year exceed the estimated petroleum revenues for that quarter by more than ten percent, the currency of the USA equivalent of the excess revenue shall be withdrawn from the Consolidated Fund and deposited to the HSF. Alternatively, if the petroleum revenues collected in that quarter exceed the estimated revenues by less than ten percent, then the Minister may direct that all or part of the excess revenue be deposited in the HSF. The deposits to the Fund are to be made quarterly and no later than one month following the end of the quarter for which the deposit was calculated.
- In addition to the above requirement, a minimum of sixty percent of the total excess (difference between estimated and actual) revenues must be deposited to the Fund during a financial year.

The Act also prescribes how the estimated petroleum revenues are to be calculated. It states that the petroleum revenues, other than royalties, shall be calculated on the basis of a unit price for petroleum derived from an 11 year moving average for prices at which oil and natural gas were disposed of in the current financial year.

Ten-Year Review of the Heritage and Stabilisation Fund (continued)

4.1.3 Rules Governing Withdrawals from the HSF

Just as important are the rules guiding withdrawals from the Fund. Section 15 of the Act stipulates;

- Where the petroleum revenues collected in any financial year fall below the estimated petroleum revenues for that financial year by at least ten percent, withdrawals may be made from the Fund. However, the amount that can be withdrawn is subject to limitations. Either sixty percent of the amount of the shortfall of petroleum revenues for the relevant year can be withdrawn or twenty-five percent of the balance of the Fund at the beginning of that year, whichever is the lesser amount.
- The withdrawals are also limited by a threshold below which the balance in the Fund is not permitted to fall. The Act precludes any withdrawal where the balance standing to the credit of the Fund would fall below one billion US dollars if such withdrawal were to be made.

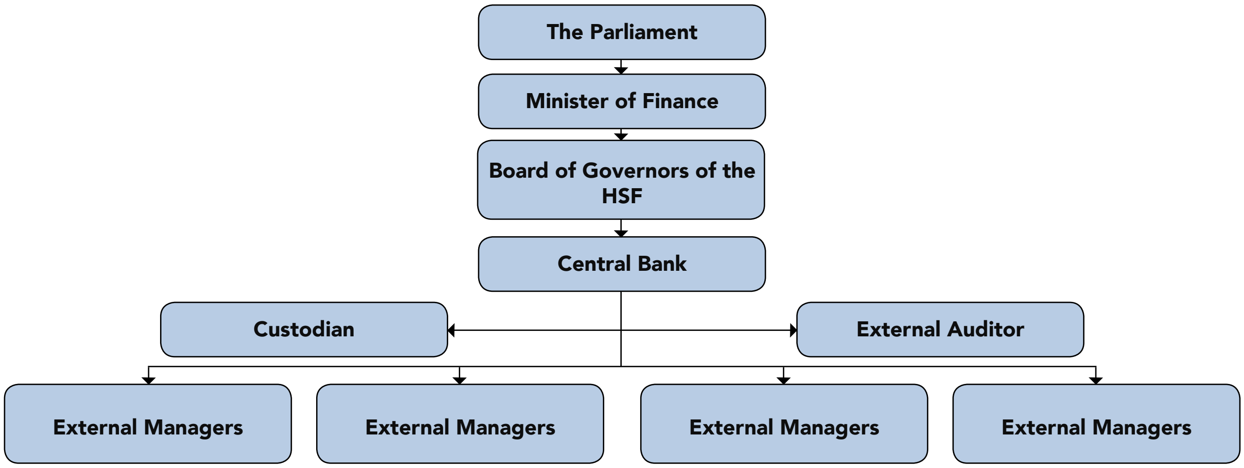
4.1.4 Governance Structure

The HSF was one of the sovereign wealth funds (SWFs) that comprised the International Working Group of SWFs which was established in 2008. This group created a set of Generally Accepted Principles and Practices known as the Santiago Principles which was aimed at providing a framework that supports strong governance, accountability and the conduct of prudent investment practices by SWFs. This Group subsequently became the International Forum for SWFs (IFSWF) with the mandate of helping members implement the Santiago Principles. Chart 1 below highlights the governance structure of the HSF.

4.1.4.1 The Parliament

Parliament passed the enabling legislation and has ultimate oversight of the Fund through the review of annual reports and audited financial statements, no later than four months following the end of the financial year. This

CHART 1: Governance Structure



Ten-Year Review of the Heritage and Stabilisation Fund (continued)

reporting requirement allows the citizens of Trinidad and Tobago the opportunity to assess the Fund's performance and more generally, how the operations are conducted. This aids in fostering transparency and accountability, and ensuring effective ownership of the Fund by the population.

4.1.4.2 The Minister of Finance

The Minister of Finance advises the President on the appointment of the Board of Governors in accordance with the legislation. The Act provides for the appointment of a five member Board of Governors comprising an officer from the Central Bank and one from the Ministry of Finance. The Minister is also responsible for approving deposits and withdrawals from the HSF in accordance with the legislation and reports annually to the Parliament.

4.1.4.3 The Board of Governors of the HSF

The Heritage and Stabilisation Fund Act provides that the Fund be governed by a Board of Governors who under section 9 has the responsibility for the management of the Fund. Section 10 however, provides for the Board to delegate its management responsibility to the Central Bank of Trinidad and Tobago. The Board decides on the investment objectives and approves the manner in which the funds are to be invested by the Central Bank. The Operational and Investment Policy and the Strategic Asset Allocation were approved by the Board. The Board reviews the HSF's performance and submits to the Minister of Finance quarterly and annual investment reports on the operation and performance of the Fund.

4.1.4.4 The Central Bank

The Act specifies that the Board shall delegate its responsibility for the management of the Fund to the Central Bank. Thus, the Central Bank is charged with the responsibility for *"the investment of the assets and other resources of the Fund in accordance with the Heritage and Stabilisation Fund Act, 2007 and the operational and investment guidelines developed by the Board".*[1] In essence, the Central Bank is responsible for day to day management of the Fund to meet the investment objectives of the Board. The Central Bank submits reports quarterly and annually to the Board on the performance of the HSF. The quarterly and annual reports of the HSF are published on the Ministry of Finance website.

4.1.4.5 The External Managers, Global Custodian and External Auditors

The Central Bank, with the approval of the Board of Governors, engaged the services of skilled asset managers to manage the HSF portfolio. In addition, a global custodian was hired to perform the role of safe keeping assets, trade settlement and reporting. Since the Fund is a public account, the legislation states that it shall be audited annually by the Auditor General.

1 The Heritage and Stabilisation Fund Act, 2007, Schedule A. (b)

Ten-Year Review of the Heritage and Stabilisation Fund (continued)

4.2 Operational Framework for the Fund

4.2.1 Operational and Investment Policy

The Operational and Investment Policy guideline provides the framework for the management of the HSF by the Central Bank. This document was developed by the Central Bank with the assistance of the World Bank and approved by the Board of Governors on July 30, 2009. The Board is required to review the Operational and Investment policy (OIP) at least every three years. To date, the initial OIP continues to be relevant and represents the latest operating framework for the Fund. In the OIP, the strategic objectives for the HSF are to:

- Maintain sufficient liquidity to cover potential annual withdrawals.
- Preserve the long-term real value of the HSF by achieving a long-term real rate of return of 3.5 percent over the next five years.
- Constrain the risk of not meeting its performance objectives over the rolling five year period.

4.2.2 Strategic Asset Allocation

The Central Bank, in conjunction with the World Bank, developed a Strategic Asset Allocation (SAA) consistent with the strategic objectives outlined in the OIP document. The SAA is a process of allocating funds to permissible asset classes in specific proportions in order to achieve the investor's long term goals. As such, the process integrated the specified return objective, risk tolerance and investment constraints. Table 1 shows the SAA that was approved by the HSF Board of Governors in October 2007, comprising the four selected asset classes, and Table 2 below shows the approved risk budget for the Fund and each mandate.

TABLE 1: Strategic Asset Allocation - SAA

Asset Classes	Allocation	Policy Benchmark
Fixed Income	65.0%	
US 1-5 Year Treasury Securities	25.0%	Merrill Lynch US Government Treasury 1-5 Years Index
US Core Domestic Fixed Income	40.0%	Barclays Capital US Aggregate Index
Equity	35.0%	
US Core Domestic Equities	17.5%	Russell 3000 Ex-Energy - comprises of the 3000 largest market capitalisation stocks in the US and accounts for roughly 97 percent of the total market capitalisation of that country.
Non-US Core International Equities	17.5%	MSCI EAFE Ex Energy Index - comprises of stocks in the following countries: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and UK.

NB: This SAA continued to be applicable to the HSF at the end of the review period.

Ten-Year Review of the Heritage and Stabilisation Fund (continued)

TABLE 2: Approved Risk Budget

Asset Class	Portfolio Allocation (%)	Total Risk Budget (bps)	Risk Contribution (bps)
US 1-5 year Treasury Securities	25.0	50	13
US Core Domestic Fixed Income	40.0	100	40
US Equities	17.5	400	70
Non US Equities	17.5	450	79
Total HSF	100		200

NB: Portfolio risk is defined in terms of tracking error (TE). TE is the condition in which the performance of a portfolio does not match the performance of the portfolio's benchmark. The larger the tracking error, the greater is the mismatch between the performance of the portfolio and the performance of the benchmark.

4.2.3 External Managers' Selection Process

Following the approval of the SAA, the Bank commenced a rigorous external manager selection process in February 2008 which resulted in the engagement of eight managers to manage the four investment mandates. By August 2009, contracts were finalised with each asset manager.

4.2.4 Transition Plan to Approved SAA

In early 2008, the Board of Governors and the Bank agreed to a three-year Transition Plan for the implementation of the SAA with the understanding that the timing of the investments into the allowable asset classes may be adjusted if market conditions so required. It was also agreed that the asset weights in the HSF portfolio would be incrementally adjusted such that at the end of the proposed transition period, the portfolio's asset class composition would be consistent with the approved SAA.

Following the onset of the global financial crisis in September 2008, the Board agreed to delay the implementation of the Transition Plan. At this time the HSF remained invested in US Treasury securities (approximately 5 percent) and US short-term money market deposits (around 95 percent.) The transition plan subsequently commenced in August 2009 as US$1.6 billion was allocated to the external investment managers. The SAA was attained in January 2011 as the HSF was fully invested in the four major asset classes as reflected in Table 3.

Ten-Year Review of the Heritage and Stabilisation Fund (continued)

TABLE 3: SAA Transition Plan June 2009 – January 2011

Asset Class	Jun-09	Sep -09	Jan-10	Apr-10	Jul-10	Oct-10	Jan-11
US Fixed Deposits	95.00%	46.00%	30.00%	22.00%	14.00%	6.00%	0.00%
Merrill Lynch US 1-5 Treasury Index	5.00%	13.50%	17.50%	19.50%	21.50%	23.50%	25.00%
Fixed Income (Barclays US Aggregate)	0.00%	21.60%	28.00%	31.20%	34.40%	37.60%	40.00%
US Equities (Russell 3000 ex energy)	0.00%	9.45%	12.25%	13.65%	15.05%	16.45%	17.50%
Non-US equities (MSCI EAFE ex energy)	0.00%	9.45%	12.25%	13.65%	15.05%	16.45%	17.50%

5.0 Economic and Financial Market Review

5.1 International

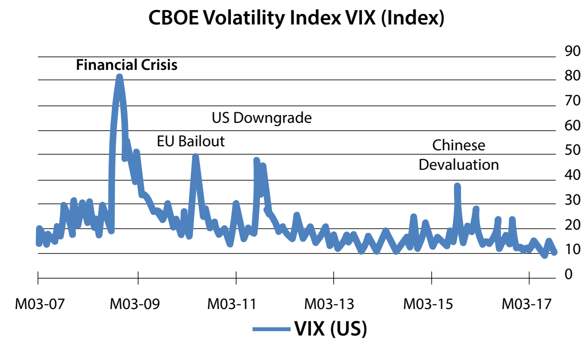
Over the last ten years, the global economy was challenged by a number of developments which contributed to an environment of prolonged uncertainty and heightened volatility. The first major challenge over the review period was the US sub-prime mortgage crisis which spiraled into a global economic and financial crisis in September 2008. As a result, economic growth across the globe declined significantly. By 2009, the four major economies were in a recession and commenced unconventional monetary policy in the form of asset purchases, alongside decreasing their benchmark interest rates. Although the US economic recovery started before the other major economies, the path to recovery was not a smooth one. Concerns about sharp fluctuations in commodity prices, economic growth in China, sovereign debt issues in Europe and geo-political turmoil periodically added to market uncertainty. As the global recovery has become more broad-based and continues to gain momentum, monetary policy has been gradually less accommodative. Accordingly, there remains much anticipation about the timing of increases in benchmark interest rates, particularly by the US Federal Reserve which started to raise its federal funds rate in December 2015. One major downside risk to global growth is the lower-than-expected inflation rates in advanced economies. Underlying inflation in most of these nations has been below the targets set by the Monetary Authorities for a considerable period of time.

On the financial market front, equity markets posted a strong performance over the last decade, more than recouping the mammoth losses experienced in 2008 when US stocks fell by almost 37 percent and other developed equity markets suffered a decline of approximately 43 percent. Since then, US equities as measured by the Standard and Poor's 500 (S&P) index gained a cumulative 133 percent or an annualised return of 14.9 percent between 2009 and September 2017 while the MSCI EAFE index earned an annualised rate of 9 percent. The relatively

Ten-Year Review of the Heritage and Stabilisation Fund (continued)

strong performance has been mainly attributed to positive economic data and the favourable outlook for the major advanced economies. Despite the numerous developments across the globe, market volatility remained relatively subdued over the ten-year period, with intermittent spikes around major events (See Chart 2). In the fixed income market, ten-year sovereign bond yields trended downwards over the review period, even reaching negative territory in Germany and Japan in 2016. For the year to September 2017, yields have been on an upward trajectory across the major economies, led by those in the US and the UK (Chart 3 refers). In the US, the aggregate bond market posted fairly robust annual returns, averaging 4.3 percent between 2007 and September 2017.

CHART 2: Volatility Index



Source: Bloomberg.

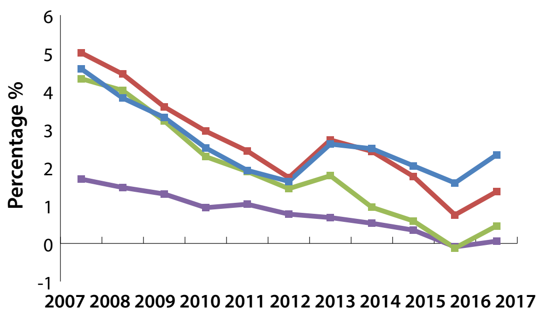
TABLE 5: Equity and Bond Market Returns/percent/

Calendar Year	S&P 500 Index	MSCI EAFE Developed Market Index	Barclay's US Bond Aggregate Index
2007	5.56	11.55	6.97
2008	-36.99	-43.07	5.24
2009	26.45	32.33	5.93
2010	15.08	8.21	6.54
2011	2.08	-11.87	7.84
2012	15.98	17.73	4.21
2013	32.36	23.22	-2.02
2014	13.65	-4.51	5.97
2015	1.38	-0.41	0.55
2016	11.93	1.41	2.65
2017*	14.23	20.32	3.14
Annual Average 2007-Sep 2017	7.77	2.82	4.34
Annual Average 2009-Sep 2017	14.85	8.99	3.94

Source: S&P, MSCI and Barclay's.
*Nine Months to September 2017.

Ten-Year Review of the Heritage and Stabilisation Fund (continued)

CHART 3: Yields on Selected 10-yr Government Bonds/percent/



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
US	4.59	3.82	3.31	2.51	1.92	1.63	2.61	2.49	2.04	1.59	2.33
UK	5.01	4.45	3.59	2.95	2.43	1.73	2.72	2.42	1.76	0.75	1.36
GER	4.33	4.02	3.22	2.28	1.89	1.44	1.78	0.95	0.59	-0.12	0.46
JAP	1.69	1.47	1.30	0.94	1.03	0.77	0.68	0.53	0.35	-0.09	0.06

Source: Bloomberg.

5.2 Domestic Economy

Developments in the global economy over the period 2007 to September 2017 have impacted the performance of the domestic economy. After experiencing fifteen years of positive economic growth, output contracted in 2009 as the effects of the global financial crisis spilled over to the local economy. While a recovery ensued during the following year, a deepening of the sovereign debt crisis in Europe along with energy production challenges derailed the upward economic trajectory.

More recently, the sharp decline in energy prices in 2014 has severely affected energy output and by extension, the country's overall GDP. The energy sector's value added to GDP moved from a high of 50.8 percent in 2008, down to 34.5 percent in 2014. By 2016, the sector's contribution declined to 18.5 percent. Over the same period, energy revenues as a proportion of government revenues declined from 59 percent in 2008 to just over 15 percent in 2016. The impact of the fall-off in energy prices for the economy has been quite significant as the fiscal position has deteriorated, foreign reserves have declined drastically, economic growth has remained in a state of contraction and savings in the HSF has slowed. Moreover, activity in the non-energy economy has also been adversely affected as this sector contracted in 2016 for the first time since 2009. For 2017 thus far, output from the energy sector has been boosted by the coming on stream of key projects including EOG's Sercan and BpTT's Trinidad Onshore Compression and Juniper projects. With energy prices likely to stabilise around current levels, the sector is carded to post an improved performance in 2017 although it is still expected to be in negative territory.

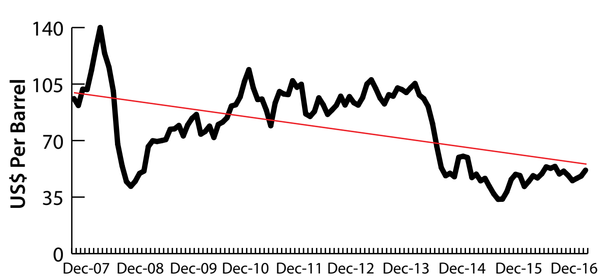
Ten-Year Review of the Heritage and Stabilisation Fund (continued)

TABLE 6: Selected Economic Indicators, 2007-2016

	Real GDP (%)	Energy GDP (%)	Non-Energy GDP (%)	Overall Fiscal Balance (%) GDP	Net Official Reserves – US$ Mn	Unemployment (%)
2007	4.8	1.7	7.6	-1.3	6,694.2	5.5
2008	3.4	-0.3	6.5	7.3	9,425.4	4.6
2009	-4.4	-1.8	-4.9	-4.8	8,746.0	5.3
2010	3.3	2.4	3.2	0.1	9,181.3	5.9
2011	-0.3	-3.9	3.2	-0.7	9,982.8	5.1
2012	1.3	-2.8	2.3	-1.3	9,370.7	4.9
2013	1.0	1.7	0.6	-2.9	10,175.9	3.7
2014	-0.3	-1.7	0.6	-2.6	11,497.1	3.3
2015	1.5	-2.5	3.9	-1.8	9,933.0	3.4
2016	-6.0	-11.1	-3.1	-5.4	9,465.8	3.9
2017P	-2.3	-3.1	-2.0	-8.4	8,506.6	4.5*
Average 2007 to 2017	**0.2**	**-1.9**	**1.6**	**-2.0**	**9,361.7**	**4.6**

Source: Central Bank of Trinidad and Tobago and the Central Statistical Office.
P-Provisional. *-March 2017

CHART 4: WTI Oil Prices, 2007- Sep 2017



Source: Bloomberg.

Ten-Year Review of the Heritage and Stabilisation Fund (continued)

6.0 Performance of the Heritage and Stabilisation Fund

6.1 Growth

The net asset value of the HSF has grown in excess of 300 percent from its inception in March 2007 to September 2017, increasing from US$1,402.2 million to US$5,762.5 million. This growth in value was attributed to net contributions[2] from the Government and portfolio returns. The latter accounted for US$2,433.3 million while the former amounted to US$1,927 million (See Table 7 below). For the first seven years of the HSF's existence, with the exception of financial year 2009, the Government made deposits into the Fund. Since the decline in energy prices in 2014, the conditions necessary for the Government to make deposits to the Fund were not met and as a result, no further contributions were made. Instead, in the financial years 2016 and 2017, the drawdown criteria were met and the Government made two withdrawals totaling US$627.6 million to partially finance its budget deficit. The first drawdown occurred in May 2016 in the amount of US$375.1 million while the second occurred in March 2017, amounting to US$252.5 million.

TABLE 7: Heritage and Stabilisation Fund Portfolio Valuation/USD Millions/

Financial Year Ended	Net Asset Value (Period End)	FY Contributions	FY (Withdrawals)	FY Net Portfolio Returns
15-Mar-07*	1,402.2			
Sep-07	1,766.2	321.7		42.3
Sep-08	2,888.4	1,054.2		68.0
Sep-09	2,964.7	0		76.3
Sep-10	3,622.0	477.3		180.0
Sep-11	4,084.0	451.4		10.6
Sep-12	4,712.4	207.6		420.8
Sep-13	5,154.0	42.4		399.2
Sep-14	5,533.4	0		379.4
Sep-15	5,655.1	0		121.7
Sep-16	5,584.2	0	(375.1)	304.2
Sep-17	5,762.5	0	(252.5)	430.8
Total Flows		2,554.6	(627.6)	2,433.3

*HSF Inception Date.

2 Net Contributions refer to deposits less withdrawal by the Government.

Ten-Year Review of the Heritage and Stabilisation Fund (continued)

6.2 Portfolio Returns

For the ten and a half years of the HSF to September 2017, the cumulative return was 78.24 percent, which is equivalent to an annualised return of 5.64 percent. Over the same period, the benchmark generated a cumulative return of 68.06 percent or 5.05 percent on an annualised basis. During the period March 2007 and August 2009, the Fund was invested primarily in US Fixed Deposits and benchmarked against the US one-month LIBID index and posted financial year returns around 3 percent. When the initial funding of the external asset managers occurred in August 2009, the Fund gained exposure to the US broader fixed income and equity markets in addition to other developed equity markets. The apt timing of equity exposure allowed the Fund to benefit from the rebound in stock markets which started in 2009. Chart 5 below shows that the cumulative returns for the HSF since its inception outperformed the US equity market over the same period.

In 2017, US equities are set to record its ninth consecutive year of positive returns while other developed equity markets as measured by the MSCI EAFE index are likely to register their sixth year of gains over the same period. Undoubtedly, the HSF has benefitted tremendously from its exposure to equities and to a lesser extent, US fixed income securities. On an annualised basis, the equity portion of the Fund has contributed approximately 75 percent to the HSF total return while the fixed income holdings accounted for the remaining 25 percent of the Fund's return.

TABLE 8: Heritage and Stabilisation Fund Annualised Returns/percent/

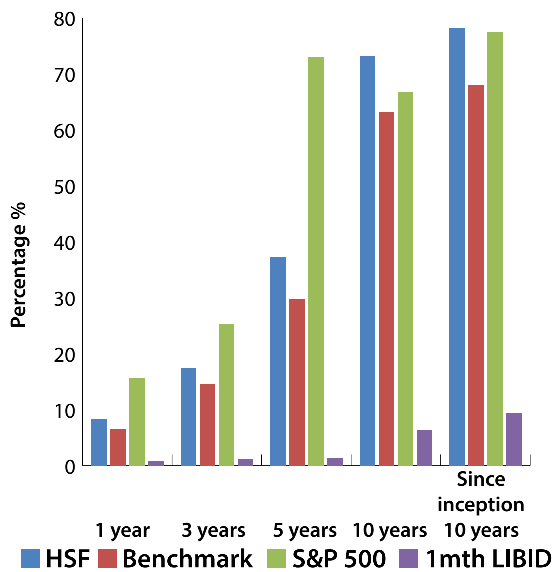
	1 yr	3 yr	5 yr	10 yr	Since inception (10.5yr)
HSF	8.25	5.49	6.54	5.64	5.64
Benchmark	6.55	4.62	5.34	5.02	5.05
Excess	1.70	0.86	1.20	0.62	0.59

TABLE 9: Heritage and Stabilisation Fund Cumulative Returns/percent/

	1 yr	3 yr	5 yr	10 yr	Since inception (10.5yr)
HSF	8.25	17.39	37.28	73.10	78.24
Benchmark	6.55	14.52	29.73	63.25	68.06
Excess	1.70	2.86	7.55	9.85	10.18

Ten-Year Review of the Heritage and Stabilisation Fund (continued)

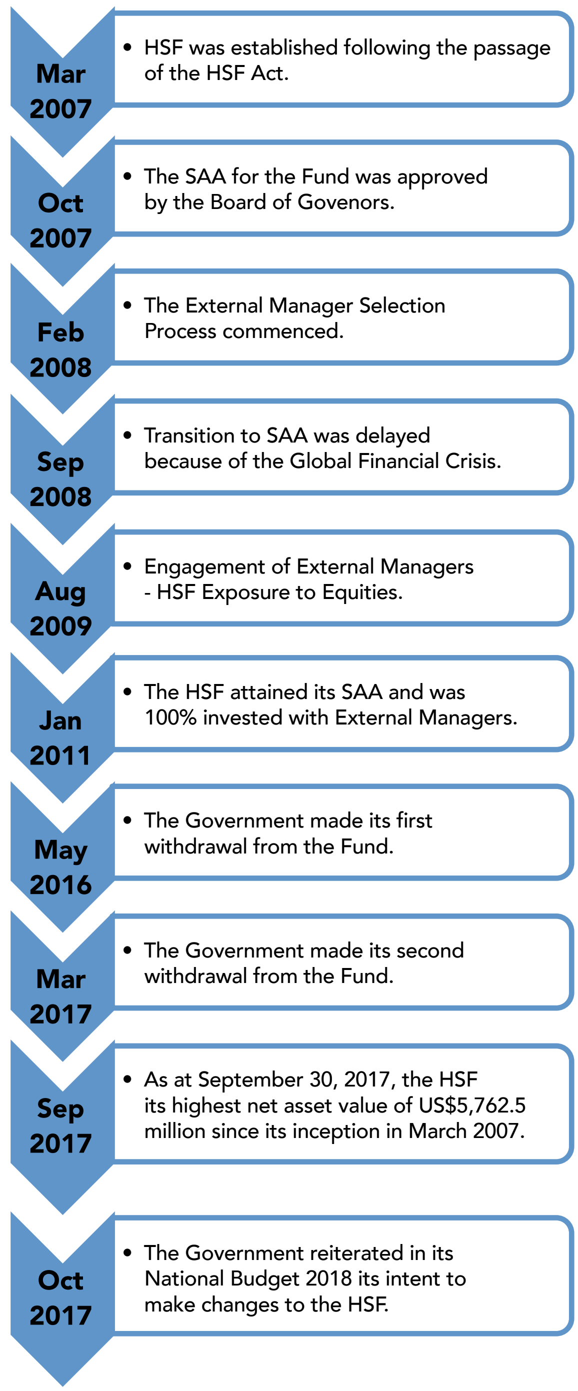
CHART 5: Cumulative Returns for the HSF versus Selected Indices



7.0 Timeline of HSF Events

The depiction on the right provides a summary of the major highlights of the HSF as it evolved from being invested predominantly in US fixed deposits and carried a balance of US$1,402.2 million, to its current diversified state and a balance of US$5,762.5 million as at the end of September 30, 2017.

CHART 6: Timeline of HSF Events



Ten-Year Review of the Heritage and Stabilisation Fund (continued)

8.0 Considerations for the Way Forward

Although the HSF has performed relatively solid during its first ten years of existence, the likely changes to the Fund suggests that amendments to the governing rules and operations will be warranted. In this regard, some of the key issues for consideration should include the following:-

(i) Deciding on whether the HSF should continue in its present form or should it be split;

(j) Depending on the decision with respect to (i) above, determine the Withdrawal and Deposit Rules of the Fund(s); and

(k) Improving the Operational Efficiency of the Fund by analysis whether changing the Strategic Asset Allocation warranted.

Design & Layout: Paria Publishing Co. Ltd.
Photographs of Directors: Heritage and Stabilisation Fund
Cover photo: Niko Photo/Nisha Ramroop
Printing: The Office Authority Limited

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