



Ministry of Finance

2018

Annual Report

**Heritage and
Stabilisation
Fund**



Preserving our Heritage



**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.



Contents

Chairman's Foreword	3
Board of Governors	4
Governance	5
Overview of Activities	6
Investment Report	7
Executive Summary	7
Macroeconomic Environment	8
Financial Market Review	9
Strategic Asset Allocation	11
Portfolio Performance	12
Portfolio Risks	13

Appendices

Appendix I – Financial Year Portfolio Valuation	15
Appendix II – Historical Performance Since Inception	16

Financial Statements

Report of the Auditor General	17
Financial Statements	
Statement of Financial Position	21
Statement of Comprehensive Income	22
Statement of Changes in Equity	23
Statement of Cash Flows	24
Notes to the Financial Statements	25



Chairman's Foreword

Since the slump in energy prices in fiscal 2015/16, the Government has taken a range of measures to reduce the resulting fiscal imbalance and contain the increase in public debt. The main instrument has been a fiscal adjustment package that included a range of revenue measures and a sharp cutback in government expenditures. This was supported by a series of asset sales and by two drawdowns from the Heritage and Stabilisation Fund (HSF) for stabilisation purposes in fiscal 2015/16 and 2016/17.

The fiscal year 2017/18 saw a moderate rebound in global energy prices when compared with the previous two years. Nevertheless, energy revenues continue to lag behind budget expectations due to production shortfalls by the main producers, administrative delays in the implementation of the new royalty regulations and the non-payment of taxes by Petrotrin because of financial difficulties. Accordingly, notwithstanding the higher energy prices, there were no transfers to the HSF in 2017/18.

Quarterly Petroleum Revenues FY 2017/2018

/US\$ Millions/

	Petroleum Revenues		Variance
	Projected	Actual ¹	
Quarter 1	1,079.28	787.85	(291.43)
Quarter 2	1,185.88	700.29	(485.59)
Quarter 3	1,469.25	1,256.58	(212.68)
Quarter 4	1,522.91	1,372.05	(150.86)
Total	5,257.33	4,116.76	(1,140.56)

With no transfers to the HSF since July 2013, the increase in the Fund has come solely from investment returns. The positive returns were eked out in challenging conditions with elevated volatility in global financial markets and heightened anxiety over the impact of increased protectionism on global trade activity. Unfortunately, while investment returns in 2017/18 exceeded the benchmark, at 3.79 percent, they were below the average for the last five years (5 year average 5.60 percent).

Historical Performance – Financial Year Return

Financial Year End	Portfolio (%)	Benchmark (%)
September 2013	8.63	7.26
September 2014	7.65	5.60
September 2015	2.47	1.13
September 2016	5.83	6.29
September 2017	8.25	6.55
September 2018	3.79	2.65

The slow growth of the Fund in 2017/18 underscores the urgent need for revisions in the legal and operational modalities of the HSF. In addition to seeking a more rapid increase in the Fund balance, the amendments should also seek to better integrate the operations of the Fund with the fiscal policy stance.

Some of the amendments that are currently being considered include:

- Revising the methodology for calculation of the budget energy prices. This is required as increased volatility in global energy markets has made the current 11 year average formula less reliable.
- There is a need for a more comprehensive revision of the energy tax regime and in the current system transfer pricing.
- After more than ten years, there is a need for a review of the strategic asset allocation.

In the course of this review, there would finally need to be a decision on whether the Fund should remain as a hybrid Heritage and Stabilisation Fund or should be separated into two funds, each covering the savings and stabilisation objectives.

¹ Preliminary actual petroleum revenues



Board of Governors



Mr. Ewart Williams
– Chairman



Dr. Alvin Hilaire
– Member



Mrs. Judith Morrain-Webb
– Member



Mr. Bevan Narinesingh
– Member



Mrs. Suzette Taylor Lee-Chee
– 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.^v

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.

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

- The 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 2017 and the Audited Financial Statements for the period ending September 30, 2017 were presented to the Parliament in January 2018.

Deposits/Withdrawals to the Fund

There were no deposits nor were there any withdrawal from the Fund during the 2018 financial year.

Governance

The Board of Governors of the HSF 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 six ordinary meetings during the financial year 2017/18.



Investment Report

Executive Summary

The Heritage and Stabilisation Fund (HSF) generated a return of 3.79 percent for the financial year ended September 30, 2018. This compares with a gain of 2.65 percent for its Strategic Asset Allocation (SAA) benchmark. The main driver of the fund's return was its exposure to the equity markets. The fund's equity holdings generated positive returns for the financial year, despite faltering in the second quarter amid elevated volatility in financial markets and growing trade tensions between the US and its major trading partners. However, the rising rate environment in the United States negatively impacted fixed income assets. As a result, the Fund's exposure to fixed income assets detracted from overall returns.

Among the Fund's four mandates, the US Core Domestic Equity portfolio delivered the strongest performance with an absolute return of 17.52 percent, while the Non-US Core international equity mandate returned a disappointing 2.53 percent. On the other hand, both Fixed Income mandates delivered negative returns, with the US Short duration detracting 0.37 percent from returns whilst the US Core Fixed income mandate declined 0.72 percent.

The Fund's performance over the year was against a backdrop of moderated, less synchronized global growth that was nonetheless expansionary. Growth in developed markets was affected by developments in the US where tax cuts kept the economy accelerating whilst other regions saw a slowdown in economic growth. With tightening labour markets and an increase in inflation expectations, major Central Banks lowered their levels of monetary accommodation. Additionally, the US threatened and implemented tariffs which drew retaliatory responses from affected economies which contributed to global growth concerns. Further, ongoing political risk in Europe dampened activity and sparked speculation around a potential slowdown. As a result there were bouts of heightened volatility during the year and global equity markets generated mixed returns over the period.

As at the end of September 2018, the Fund's Net Asset Value stood at US\$5,965.8 million, up from US\$5,762.5 million one year earlier. During the financial year, there were no contributions made to the Fund.

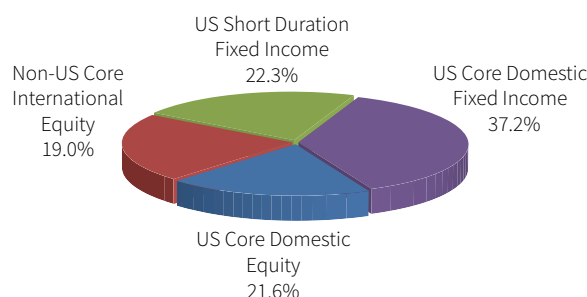
Fund Highlights

8.25%1 Year Return to
September 2018**US\$5,762.5
million**Net Asset Value
(September 30, 2018)**5.64%**Since Inception Return
to September 2018
(annualised)**US\$2,554.6
million**Cumulative Contributions
by the Government**US\$627.6
million**Cumulative Withdrawals by
the Government



Investment Report (continued)

Portfolio Composition as at September 30, 2018



Macroeconomic Environment

Global economic activity during the financial year ended September 2018 was steady from the previous year's rate. According to the International Monetary Fund's October 2018 World Economic Outlook, global output is projected to expand by 3.7 percent in calendar 2018, the same as in 2017. However, among the developed economies, most experienced a slower pace of growth with the exception of the United States. Escalating trade tension between the world's two largest economies, the US and China, as well as broader protectionist trade policies, dampened export and manufacturing activity throughout Europe and Asia. The negative effects materialized towards the end of the financial year and resulted in a cautious outlook.

In the **United States (US)**, economic growth was broad-based as GDP growth increased to 3.0 percent over the year compared to 2.3 percent over the previous financial year. Fiscal stimulus delivered through tax cuts in the first quarter of the financial year provided a boost in output while a strengthening labour market, with unemployment falling from 4.2 percent to 3.7 percent, also helped to support consumer confidence and consumption. The Federal Reserve Bank (Fed) increased its benchmark interest rate by 0.25 percent four times during the financial year 2017/2018 to end at a target range of 2.00 percent to 2.25 percent. The Fed also reduced its balance sheet over the period, bringing an end to its monetary accommodation.

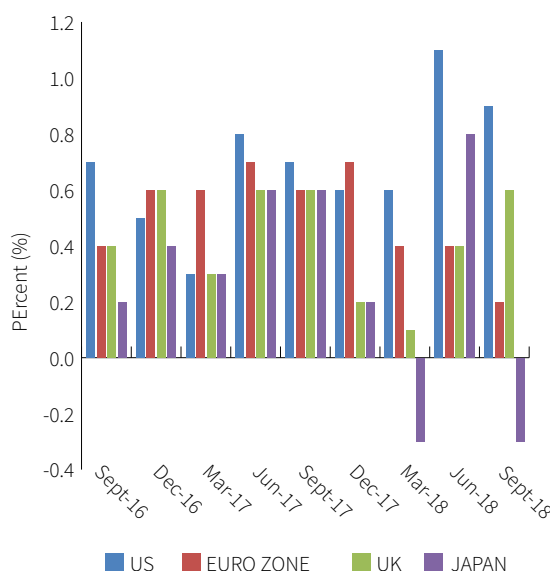
In the **Eurozone**, economic growth slowed to 1.7 percent over the financial year 2017/2018 and the region contended with heightened political risk. A number of issues affected the Euro area, including trade tensions and protectionism as direct trade tariffs on European products as well as the broader global trade disputes dampened export demand. Further, uncertainty about the future of the Italian economy, the risks associated with the ongoing Brexit negotiations and concerns that the financial crisis in Turkey can spread to other markets

also weighed on sentiment. However, the unemployment rate in the Eurozone declined over the year, reaching 8.1 percent, its lowest level in ten years. The European Central Bank held rates steady over the year, but further reduced its monthly bond purchases re-iterating the banks' commitment to providing ample levels of monetary accommodation for as long as necessary.

The economy of the **United Kingdom (UK)** demonstrated resilience over the year, as it recovered from a temporary downturn earlier in the year, ending the year with GDP growth at 1.2 percent. Inflation moved above the bank's 2.0 percent target and remained at elevated levels, supported in part by higher employment and wage growth. Despite the uncertainty over the ongoing Brexit negotiations, the Bank of England (BOE) raised rates by 25 basis points on two occasions over the financial year 2017/2018, citing rising domestic inflationary pressures. Nonetheless, the committee acknowledged the need for its rate hiking cycle to be gradual and limited as the UK prepares to leave the European Union in March 2019.

In contrast, **Japan** ended its longest period of growth since the 1980's in the second quarter of financial year 2018, when Gross Domestic Product (GDP) contracted due to broad-based declines in domestic demand. While economic

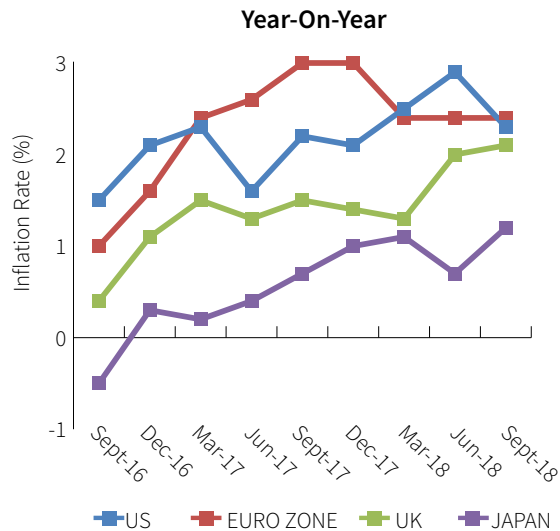
**CHART 1: GDP Growth: Selected Developed Economies
Quarter Over Quarter**



Source: Bloomberg. Data for September 2018 are preliminary and may be subject to revisions.



Investment Report (continued)

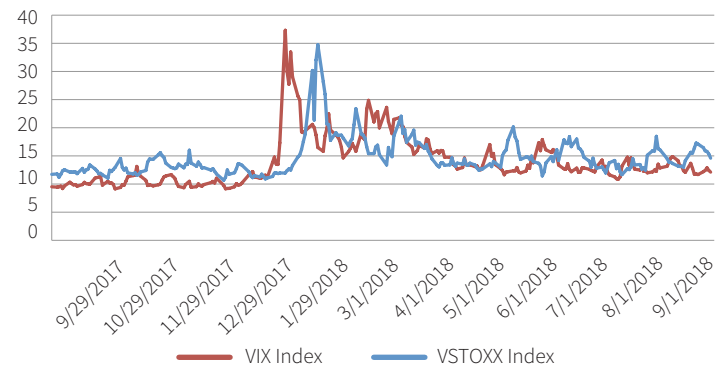
CHART 2: Inflation Rates: Selected Developed Economies

Source: Bloomberg.

activity recovered somewhat thereafter, in the three months to September 2018, output fell once again as the country contended with a series of natural disasters which dampened domestic consumption while the rise in trade protectionism hurt overseas demand. The tenuous economic environment and subdued inflation outlook resulted in the Bank of Japan (BOJ) maintaining its accommodative monetary policy stance.

Financial Market Review

Volatility returned to the financial markets in the first quarter of 2018 amidst investors' concerns over the escalating trade tensions between the US and China and expectations for higher inflation in the US. The Chicago Board Options Exchange Volatility Index (VIX), a proxy of investor anxiety, climbed to a high of 37.32 points in February 2018 from 9.51 points at the end of September 2017 (Refer to Chart 3). The index subsided to 12.12 points by the financial year end given the improvement in investors' outlook for the global economy. The European equivalent, the Euro Stoxx 50 Volatility Index (VSTOXX), also increased over the period; to 14.76 points from 12.12 points as at September 30, 2017.

CHART 3: Implied Financial Market Volatility
/Points/

Source: Bloomberg.

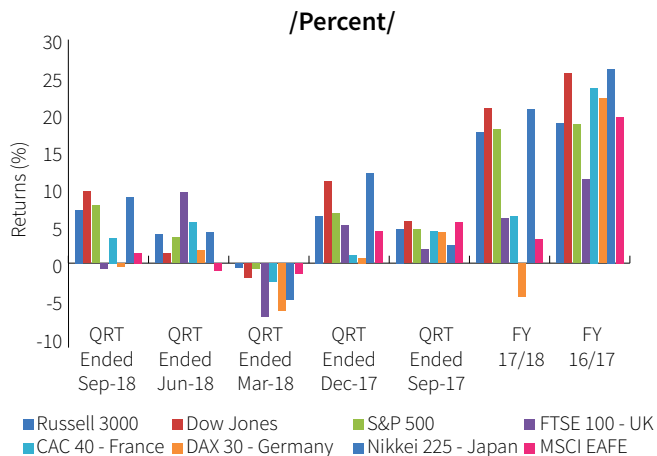
Positive economic data and strong corporate earnings boosted equity markets' performance during the second half of the financial year. In the US, the S&P 500 index returned 17.90 percent for the financial year ended September 2018 (See Chart 4). This compares with a return of 18.60 percent for the previous year. While gains were broad-based, growth sectors such as Consumer Discretionary and Information Technology outperformed the traditional defensive sectors such as Consumer Staples and Utilities.

In Europe, equity returns were generally more modest as geopolitical risks in the UK and Italy weighed on investors. UK's FTSE 100 index gained 6.00 percent over the period, compared with a return of 11.21 percent in the prior year. Germany's DAX 30 index, however, fell 4.54 percent compared with a gain of 22.05 percent in the previous financial year.



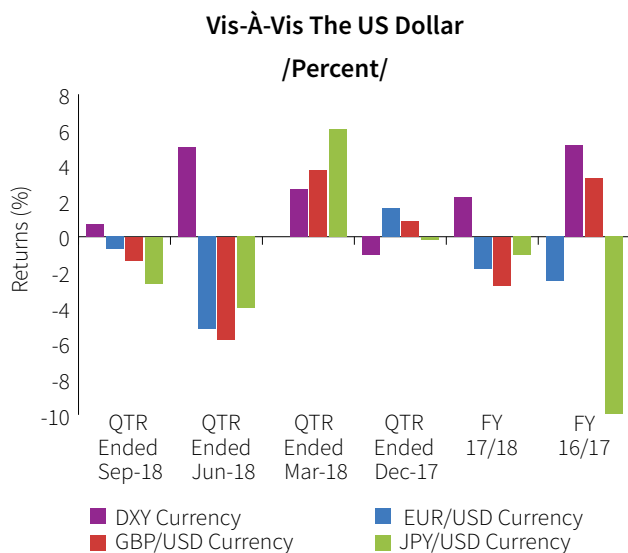
Investment Report (continued)

CHART 4: Total Returns On Equity Indices



With respect to the currency market, most major currencies depreciated relative to the US Dollar as the divergence in monetary policy between the United States versus other developed countries broadly supported a stronger dollar. The British Pound and Euro depreciated 2.74 percent and 1.78 percent vis-à-vis the USD respectively (Refer to Chart 5).

CHART 5: Foreign Exchange Returns For Major Currencies



US Treasury yields rose in tandem with monetary policy rates and investors' expectations for higher inflation. The 2-year and 10-year rates increased 134 basis points and 73 basis points to end the period at 2.82 percent and 3.06 percent, respectively (Refer to Chart 7). The curve flattened significantly over the year and the spread between the 2-year and 10-year rates decreased by 61 basis points to 24 basis points at the end of the financial year.

Spread products therefore outperformed similar duration US Treasuries as sectors that were exposed to less interest rate risk generally delivered higher returns. The US Asset-Backed Securities sector of the Barclays US Aggregate Index gained 0.51 percent for the financial year ended September 2018.

CHART 6: Returns On Fixed Income Indices

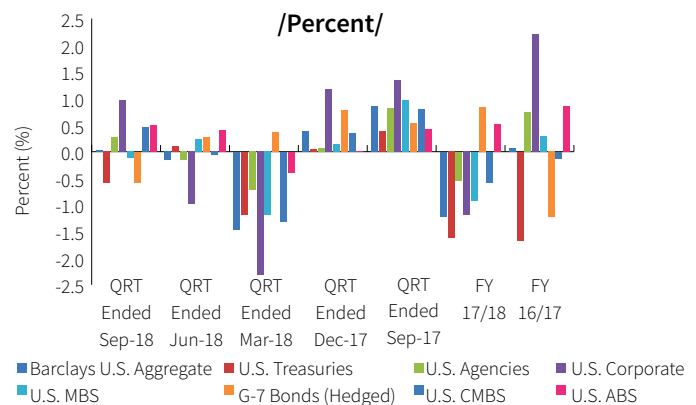
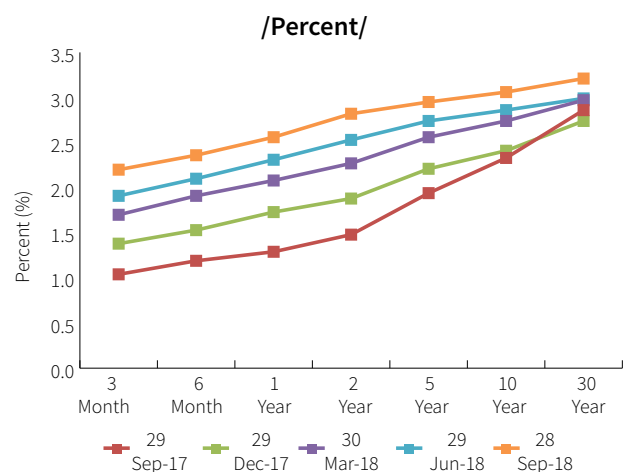


CHART 7: US Treasury Yield Curve





Investment Report (continued)

Non-US developed sovereign bond yields also increased over the financial year (Refer to Table 1). In the U.K., the BOE raised rates for the first time since the financial crisis, however, the possibility that the bank would have to reverse course in the event of a disorderly Brexit somewhat tempered the increase in Gilt yields. The 10-year Gilt rose 21 basis points to 1.57 percent at the end of the period. In Europe, Italian yields rose sharply given the increasing likelihood that the governing coalition's 2019 budget draft would be rejected by the European Commission. Investors demanded greater compensation for the heightened political risk, driving yields higher by 104 basis points to end the financial year at 3.14 percent.

TABLE 1: G-7 Generic Government 10-Year Yields
/Percent/

Country	Generic Government 10-Year Yields		Change (basis points)
	Sep 2017	Sep 2018	
US	2.33	3.06	73
UK	1.36	1.57	21
France	0.74	0.80	6
Germany	0.46	0.47	1
Italy	2.11	3.14	104
Canadian	2.10	2.43	33
Japan	0.06	0.12	6

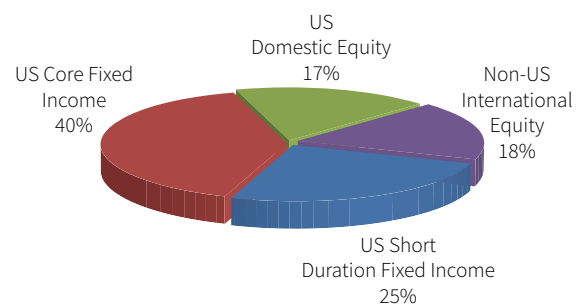
Source: Bloomberg.

Strategic Asset Allocation

a) Portfolio Desired Allocation

Since January 2011, the Fund's investment portfolio² was fully invested in the four major asset classes shown in Chart 8 below.

CHART 8: The Fund's Strategic Asset Allocation



Source: Bloomberg.

b) Portfolio Composition

During the financial year ended September 2018, the asset classes of the Fund deviated from their Strategic Asset Allocation (SAA), primarily as a result of asset valuation changes. With the outperformance of the equity mandates, the overweight positions of these mandates neared limits and the portfolio was rebalanced in January in order to comply with the allowable deviation range of +/- 5 percent. In this regard, a total of \$175.474 million was withdrawn from the US Core Domestic Equity and Non-US Core International Equity mandates and re-allocated to the US Short Duration and US Core Fixed Income mandates. As at September 30, 2018, the US Core Domestic Equity and Non-US Core International Equity mandates maintained an overweight allocation of 4.07 percent and 1.45 percent, respectively. Consequently the US Short Duration Fixed Income and US Core Domestic Fixed Income mandates carried allocations below their target weights of 2.73 percent and 2.79 percent, respectively. The Fund's SAA and the portfolio composition over the 2017/2018 financial year are shown below (Table 2, refers).

² Section 4 of the HSF Operational and Investment Policy states that the Central Bank may hold cash and cash equivalent in order to cover day-to-day liquidity needs and the remaining portion called the Investment Portfolio would be invested in accordance with the strategic asset allocation (SAA) approved by the Board.



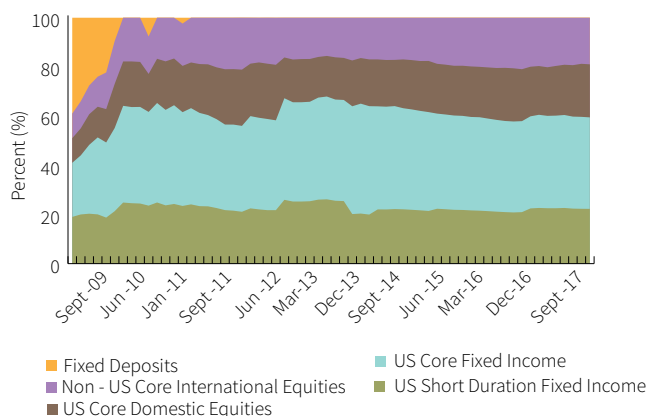
Investment Report (continued)

TABLE 2: Portfolio Composition Relative to the Approved SAA /Percent/

Portfolio Weights	Asset Class		Dec-17	Mar-18	Jun-18	Sep-18
		Target Weight SAA	Actual % of Fund	Actual % of Fund	Actual % of Fund	Actual % of Fund
	US Short Duration Fixed Income	25.00	20.82	22.65	22.64	22.27
	US Core Domestic Fixed Income	40.00	36.99	37.89	37.81	37.21
	US Core Domestic Equity	17.50	21.62	19.84	20.43	21.57
	Non-US Core International Equity	17.50	20.57	19.62	19.12	18.95

Totals may not sum to 100 due to rounding.

CHART 9: Asset Composition of the HSF Portfolio
/Percent/



c) Fund Value

The total net asset value of the Fund as at the end of September 2018 was US\$5,965.8 million, compared with US\$5,762.5 million at the end of September 2017. Of this total, the investment portfolio was valued at US\$5,965.7 million, while the remaining portion (US\$0.18 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 3.79 percent for the financial year ended September 2018, compared with a return of 2.65 percent for the SAA benchmark. The return on the Fund's investment portfolio was primarily driven by the strong performance of the US Core Domestic Equity market. The fixed income portion detracted 0.33 percent from the overall portfolio return.

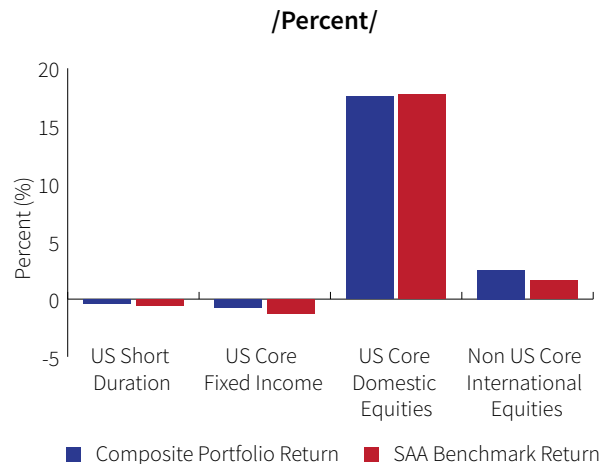
TABLE 3: Contribution to Annual Return FY 2017/2018/Percent/

	Beginning Portfolio Weights 30-Sep-17	Portfolio Weighted Return	Benchmark Weighted Return
COMPOSITE PORTFOLIO	100.00	3.79	2.65
US Short Duration Fixed Income	21.34	-0.07	-0.15
US Core Fixed Income	37.64	-0.26	-0.48
US Core Domestic Equity	20.80	3.54	2.97
Non US Core International Equity	20.21	0.59	0.33

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



Investment Report (continued)

CHART 10: Absolute Returns By Mandate FY 2017/2018

Source: Bloomberg.

On an absolute return basis, the **Equity** portion of the Fund posted another positive return over the financial year ended September 2018. Despite withdrawing US\$175.5 million from the equity portfolios during the re-balancing process in January 2018, the net asset value of the equity holdings increased to \$2,417.4 million, from US\$2,363.3 million one year earlier.

The **US Core Domestic Equity** portfolio gained 17.52 percent, compared with a total return of 17.72 percent for its benchmark, the Russell 3000 ex Energy Index. This underperformance was due to a combination of sector allocation and stock selection decisions, particularly within the information technology and healthcare sectors.

The **Non-US International Equity** portfolio gained 2.53 percent, outperforming the MSCI EAFE ex Energy Index which returned 1.61 percent. The outperformance of the portfolio was attributed to the managers' security selection across the consumer staples, financials and materials sectors as well as selection decisions in Europe, Australia and New Zealand.

The **Fixed Income** portion of the Fund detracted from overall performance. On an absolute basis, the US Short Duration Fixed Income and the US Core Fixed Income mandates generated negative returns for the financial year. However, on a relative basis, the Fixed Income mandates outperformed their SAA benchmarks. As at the end of September 2018, the net asset value of the two mandates totaled US\$3,548.3 million, up from US\$3,399.0 million one year

earlier. The increase in value reflects the rebalancing activity which occurred in January 2018, when \$174.1 million was re-allocated from the equity mandates.

The **US Short Duration Fixed Income** mandate returned a negative 0.37 percent, compared with a loss of 0.58 percent for 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 shorter duration position and its exposure to spread assets, such as U.S. government-related agency securities, securitized products, and Non-U.S. government debt.

The **US Core Domestic Fixed Income** mandate returned -0.72 percent over the financial year ended September 2018. This mandate outperformed its benchmark, the Barclays Capital US Aggregate Bond index, by 50 basis points. The portfolio benefitted from its sector allocation to and security selection within investment grade corporate bonds, agency mortgage-backed securities and asset-backed securities. Duration and interest rate strategies also provided incremental gains to performance.

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



Investment Report (continued)

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 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, 2018.

TABLE 4: Weighted Average Duration/Years/

Mandate	Portfolio	Benchmark
US Short Duration	2.46	2.64
US Core Domestic Fixed Income	5.80	5.91

(d) Currency Risk

Currency risk is managed by containing and managing the exposure to non-US dollar instruments. The Fund is invested in twelve currencies in addition to the US dollar. These currencies include the Euro, Japanese Yen, Pound Sterling, Australian Dollar, Swiss Franc 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	81.68
EURO Currency	5.44
Japanese Yen	5.53
Pound Sterling	2.67
Swiss Franc	1.26
Swedish Krona	0.24
Singapore Dollar	0.42
Australian Dollar	0.90
Hong Kong Dollar	0.74
Norwegian Krone	0.50
Danish Krone	0.27
New Israeli Sheqel	0.23
New Zealand Dollar	0.00
Canadian Dollar	0.13
Composite	100.00

* Figures may not sum to 100 due to rounding.



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)
September 30, 2018	5,965,847,092	203,717,910	2,632,230,803	-



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
September 2018	3.79	2.65	113.37	5.47	4.84	63.61

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%).



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 2018

OPINION

The financial statements of the Heritage and Stabilisation Fund (the Fund) for the year ended 30 September 2018 have been audited. The statements as set out on pages 1 to 36 comprise a Statement of Financial Position as at 30 September 2018, and the Statement of Comprehensive Income, a Statement of Changes in Equity and a Statement of Cash Flows for the year ended 30 September 2018 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 2018 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.

**29th NOVEMBER,
2018 PORT OF SPAIN**



**MAJEED ALI
AUDITOR GENERAL**

SS
20171128 



Statement of Financial Position

As at 30 September, 2018 (expressed in United States Dollars)

	Notes	Sep-18 \$	Sep-17 \$
ASSETS			
Current assets			
Cash and cash equivalents	4	89,164,701	117,831,166
Financial assets	5,6	5,912,771,949	5,666,934,664
Receivables and prepayments	7	<u>242,746,869</u>	<u>222,208,186</u>
TOTAL ASSETS		<u>6,244,683,519</u>	<u>6,006,974,016</u>
LIABILITIES			
Current liabilities			
Other payables	8	282,223,622	247,653,686
Financial liabilities	9	<u>953,935</u>	<u>1,532,278</u>
TOTAL LIABILITIES		<u>283,177,557</u>	<u>249,185,964</u>
NET ASSETS		<u>5,961,505,962</u>	<u>5,757,788,052</u>
PUBLIC EQUITY			
Contributed capital		3,329,275,159	3,329,275,159
Available-for-sale financial assets revaluation reserve		421,113,383	481,338,298
Accumulated surplus		<u>2,211,117,420</u>	<u>1,947,174,595</u>
TOTAL EQUITY		<u>5,961,505,962</u>	<u>5,757,788,052</u>

Mr. Ewart Williams
(Chairman)

Mrs. Suzette Taylor-Lee Chee

Mrs. Judith Morrain-Webb



Dr. Alvin Hilaire

Mr. Bevan Narinesingh

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



Statement of Comprehensive Income

For the Year ended 30 September, 2018 (expressed in United States Dollars)

	Notes	Sep-18 \$	Sep-17 \$
Income			
Investment income	10	160,490,123	143,745,702
Investment expenses	11	(17,413,025)	(20,737,431)
Gain on sale of financial assets		296,189,994	347,388,839
Loss on sale of financial assets		(169,878,338)	(197,037,476)
Income from investments		269,388,754	273,359,634
Other income		503,733	877,282
Total income		<u>269,892,487</u>	<u>274,236,916</u>
Operating expenses			
Management fees	12	1,768,336	1,682,623
Subscription fees		14,616	14,445
Audit fees		2,489	14,617
Licence fees		4,458	4,356
Total operating expenses		<u>1,789,899</u>	<u>1,716,041</u>
Net profit for the year before tax		268,102,588	272,520,875
Withholding tax expense		(4,159,763)	3,360,227
Net profit for the year after tax		<u>263,942,825</u>	<u>269,160,648</u>
Other comprehensive income:			
Available-for-sale financial assets			
- Unrealised (loss)/gain from fair value changes		(60,224,915)	160,314,798
Other comprehensive income for the year		<u>(60,224,915)</u>	<u>160,314,798</u>
Total comprehensive income for the year		<u>203,717,910</u>	<u>429,475,446</u>

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



Statement of Changes in Equity

For the Year ended 30 September, 2018 (expressed in United States Dollars)

	Contributed Capital	Available-for- Sale Financial Assets Revaluation Reserve	Accumulated Surplus	Total
	\$	\$	\$	\$
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	<u>3,329,275,159</u>	<u>481,338,298</u>	<u>1,941,174,595</u>	<u>5,757,788,052</u>
Balance as at 1 October 2017	3,329,275,159	481,338,298	1,947,174,595	5,757,788,052
Total comprehensive income for the year	-	(60,224,915)	263,942,825	203,717,910
Balance as at 30 September 2018	<u>3,329,275,159</u>	<u>421,113,383</u>	<u>2,211,117,420</u>	<u>5,961,505,962</u>

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



Statement of Cash Flows

For the Year ended 30 September, 2018 (expressed in United States Dollars)

	Note	Sep-18 \$	Sep-17 \$
Cash flow from operating activities			
Net profit for the year before withholding tax		268,102,588	272,520,875
Adjustments			
Interest income		(98,958,387)	(89,075,156)
Dividend income		(61,324,591)	(54,646,128)
Fair value adjustment on financial assets and liabilities at fair value through profit or loss		(207,145)	(24,418)
Net realised gain from the sale of financial assets		<u>(126,311,656)</u>	<u>(150,351,363)</u>
Cash outflows before changes in operating assets and liabilities		(18,699,191)	(21,576,190)
Changes in operating assets and liabilities			
Increase in receivables and prepayments		(18,066,380)	(27,954,606)
Increase/(decrease) in other payables		34,569,936	(45,349,218)
Withholding tax paid		<u>(4,159,763)</u>	<u>(3,360,227)</u>
Net cash used in operating activities		<u>(6,355,398)</u>	<u>(98,240,241)</u>
Cash flows from investing activities			
Interest received		96,872,810	87,832,565
Dividend received		60,937,865	54,032,974
Net (purchase)/sale of financial assets		<u>(180,139,193)</u>	<u>149,717,640</u>
Net cash flows (used in)/from investing activities		<u>(22,328,518)</u>	<u>291,583,179</u>
Cash flows from financing activities			
Withdrawal from contributed capital by government		-	<u>(252,548,048)</u>
Net cash flows used in financing activities		-	<u>(252,548,048)</u>
Effects of exchange rate changes on cash and cash equivalents		17,451	2,882
Net decrease in cash and cash equivalents		(28,666,465)	(59,202,228)
Cash and cash equivalents at beginning of year		<u>117,831,166</u>	<u>177,033,394</u>
Cash and cash equivalents at end of year	4	<u>89,164,701</u>	<u>117,831,166</u>

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



Notes to the Financial Statements

For the Year ended 30 September, 2018 (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.

2. Accounting policies

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 and liabilities 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.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2018 (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)***

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 statements. However, the impact of adoption depends on the instruments 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:

- *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.

- *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
- Recognise revenue when (or as) the entity satisfies a performance obligation

This Fund is currently assessing the impact of this Standard.

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

- *IFRS 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, 2018 (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 (continued)*

- *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.

- *IFRS 17 – Insurance Contracts (effective January 1, 2021)*

IFRS 17 replaces IFRS 4 on accounting for insurance contracts and has an effective date of 1 January 2021.

It establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts.

Based on the IFRS 17 model, contract liabilities will be calculated as the present value of future insurance cash flows with a provision for risk. The discount rate will reflect current interest rates. Under the IFRS 17 model, a “contractual service margin” will be required to offset the day 1 gain if the present value of future cash flows produces a gain at the time a contract is issued. This contractual service margin would be amortised over the life of the contract. There will also be a new income statement presentation for insurance contracts, including a revised definition of revenue, and additional disclosure requirements.

IFRS 17 will also have accommodations for certain specific types of contracts. Short-duration insurance contracts will be permitted to use a simplified unearned premium liability model until a claim is incurred. However, contracts in which the cash flows are linked to underlying items, the liability value will reflect that linkage.

Earlier adoption of this standard is permitted if both; IFRS 15, *Revenue from Contracts with Customers*, and IFRS 9, *Financial Instruments*, have also been adopted. Retrospective application of this standard shall be applied, unless impracticable, in which case, either option of the modified retrospective approach or the fair value approach will be acceptable.

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, 2018 (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

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'.

Fair value through profit or loss

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 in market 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.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2018 (expressed in United States Dollars)

2. Accounting policies (continued)

e) Financial assets (continued)

ii. Subsequent measurement (continued)

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.

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 1 - unadjusted quoted prices in 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. 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.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2018 (expressed in United States Dollars)

2. Accounting policies (continued)

e) Financial assets (continued)

v. 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.

f) 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.

g) 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.

h) Income and Dividends

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.

i) Expenses

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

j) 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.

k) Receivables

Receivables are stated at their expected realisable value.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2018 (expressed in United States Dollars)

2. Accounting policies (continued)

l) Other payables

Other payables are stated at their expected realisable amounts.

m) Comparative information

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

n) 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.

o) Capital contributions

In accordance with Section 14 of the Act:

- i. a minimum of sixty per cent 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.

p) Withdrawals

In accordance with Section 15 of the Act, subsection 1, 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 per cent, withdrawals may be made from the Fund as follows, whichever is the lesser amount:

- i) Either sixty per cent of the amount of the shortfall of petroleum revenues for that year; or
- ii) Twenty-five per cent 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.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2018 (expressed in United States Dollars)

2. Accounting policies (continued)

q) 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.

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%



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2018 (expressed in United States Dollars)

2. Accounting policies (continued)

a) The Strategic Benchmark (continued)

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%.

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.	0.70%
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, 2018 (expressed in United States Dollars)

3. Financial risk management (continued)

b) Portfolio performance

The portfolio performance for the year ended 30 September, 2018 was as follows:

12 Month Performance			
Portfolio	Fund	Benchmark Return	Benchmark Composition
Composite	3.79%	2.65%	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	-0.07%	-0.15%	Merrill Lynch US Government Treasury 1-5 Years Index
US Core Fixed Income	-0.26%	-0.48%	Barclays Capital US Aggregate Bond Index
US Core Domestic Equity	3.54%	2.97%	Russell 3000 (Ex Energy)
Non-US Core International Equity	0.59%	0.33%	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, 2018 (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, 2018.

Debt securities by rating category

Credit Rating	2018	2017
AAA	12.7%	14.3%
AA	63.5%	62.6%
A	7.0%	5.7%
BBB	16.3%	17.3%
Not Rated *	0.5%	0.1%

* 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, the United Kingdom or France.

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.

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.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2018 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

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 2018 and 30 September 2017 as follows:

	Sep-18 \$	Sep-17 \$
Change in net assets	<u>20,770,453</u>	<u>17,115,645</u>

Foreign Currency Concentration Exposure on Financial Assets and Financial Liabilities

Financial Assets	Sep-18	Sep-17
Currency	% of financial assets	% of financial assets
Australian dollar	0.90	0.52
Canadian dollar	0.13	0.00
Danish krone	0.27	0.20
Euro	5.44	7.16
Hong Kong dollar	0.74	0.39
New Israel shequel	0.23	0.15
Japanese yen	5.53	4.66
New Zealand dollar	0.00	0.03
Norwegian krone	0.50	0.38
Singapore dollar	0.42	0.75
Swedish krona	0.24	1.05
Swiss franc	1.26	1.16
British pound	2.67	3.30
United States dollar	<u>81.67</u>	<u>80.25</u>
Total	<u>100.00</u>	<u>100.00</u>



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2018 (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 (continued)

Financial Liabilities	Sep-18 % of financial liabilities	Sep-17 % of financial liabilities
Currency		
Canadian dollar	0.00	52.28
Euro	12.00	2.74
Swedish krona	4.00	0.00
Australian dollar	13.00	0.00
United States dollar	71.00	44.98
Total	<u>100.00</u>	<u>100.00</u>

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.

	2018		2017	
	Portfolio	Index	Portfolio	Index
US Short Duration Fixed Income	2.46	2.64	2.59	2.61
US Core Fixed Income	5.80	5.91	5.63	5.89

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, 2018 (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

	2018		2017	
	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	55.2%	100.0%	47.9%	100.0%
Agencies	13.8%		21.4%	
Non-US Government	13.0%		11.7%	
Supranationals	13.0%		12.8%	
Agency CMBS	0.0%		3.7%	
Agency RMBS	0.0%		0.5%	
Local Government Obligations	1.7%		1.7%	
Municipals	0.3%		0.3%	
Credits	0.0%		0.0%	
ABS/CMBS	3.0%		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, 2018 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Market risk (continued)

US Core Fixed Income - Sector Concentrations

	2018		2017	
	US Core Fixed Income Mandate	Barclays US Aggregate Bond Index	US Core Fixed Income Mandate	Barclays US Aggregate Bond Index
Corporates	34.1%	30.1%	35.0%	25.5%
US Treasuries	21.2%	38.1%	22.1%	37.0%
Residential Mortgage Backed Securities	11.7%	0.0%	11.5%	0.0%
Mortgage Backed Securities	14.5%	28.1%	12.9%	28.1%
Asset Backed Securities	12.7%	0.5%	13.2%	0.5%
Commercial Mortgage Backed Securities	0.9%	1.9%	0.7%	1.8%
Government Related Securities	3.8%	1.3%	4.1%	7.0%
Emerging Market Debt	0.4%	0.0%	0.5%	0.0%
Covered Bonds	0.5%	0.0%	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, 2018 (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

	2018		2017	
	US Core Equity Mandate	Russell 3000 Ex-Energy Index	US Core Equity Mandate	Russell 3000 Ex-Energy Index
Financials	21.0%	21.6%	21.1%	22.6%
Technology	22.5%	22.6%	21.9%	20.1%
Health Care	15.6%	15.1%	14.9%	14.7%
Consumer Discretionary	15.4%	15.2%	13.9%	14.3%
Producer Durables	11.9%	11.3%	12.3%	11.7%
Consumer Staples	5.6%	5.7%	7.2%	6.9%
Utilities	4.8%	4.9%	5.1%	5.5%
Materials & Processing	3.2%	3.6%	3.6%	4.2%
Total	100.0%	100.0%	100.0%	100.0%

Non-US International Equity - Sector Concentrations

	2018		2017	
	Non-US International Equity Mandate	MSCI EAFE EX-Energy Index	Non-US International Equity Mandate	MSCI EAFE EX-Energy Index
Financials	20.6%	21.0%	23.6%	22.6%
Industrials	16.0%	15.5%	17.0%	15.2%
Consumer Staples	10.5%	11.9%	9.4%	11.8%
Consumer Discretionary	12.1%	13.0%	15.1%	12.9%
Health Care	10.6%	11.8%	8.1%	11.1%
Materials	10.6%	8.6%	8.8%	8.3%
Telecommunication Services	5.4%	4.0%	4.1%	4.3%
Real Estate	4.1%	3.6%	3.7%	3.7%
Information Technology	6.2%	7.3%	6.1%	6.6%
Utilities	3.9%	3.5%	4.1%	3.5%
Total	100.0%	100.0%	100.0%	100.0%



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2018 (expressed in United States Dollars)

3. Financial risk management (continued)

c) Portfolio risk (continued)

Market risk (continued)

iii. Price risk (continued)

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-18 \$	Sep-17 \$
Effect on net assets attributable to redeemable shares of a 1% increase/decrease in the share price	<u>23,859,926</u>	<u>23,391,419</u>

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 AAAM 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 \$
Non-derivative financial liabilities				
Sep-18				
Investment purchased	203,420,303	-	-	203,420,303
Foreign currency purchased	32,011,309	31,725,454	-	63,736,763
Due to money market	10,714,364	-	-	10,714,364
Due to brokers	5,262	-	-	5,262
Accrued expenses	4,336,174	10,756	-	4,346,930
	250,487,412	31,736,210	-	282,223,622
Sep-17				
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



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2018 (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 \$
<i>Derivative financial liabilities</i>		
<i>Sep-18</i>		
Credit default swap	294,828	294,828
Interest rate swap	659,107	659,107
	953,935	953,935
<i>Sep-17</i>		
Credit default swap	434,366	434,366
Interest rate swap	1,097,912	1,097,912
	1,532,278	1,532,278

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-18 \$	Sep-17 \$
Cash at bank	5,452,285	935,745
Cash at broker	4,968,137	3,586,644
US Government Money Market	78,723,172	113,305,121
	89,143,594	117,827,510
Net effect of exchange rate changes	21,107	3,656
	89,164,70	117,831,166



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2018 (expressed in United States Dollars)

5. Financial assets

	Sep-18 \$	Sep-17 \$
Available-for-sale	5,902,563,463	5,665,107,940
Fair value through profit or loss	10,208,486	1,826,724
	<u>5,912,771,949</u>	<u>5,666,934,664</u>
Available-for-sale financial assets		
Cost/amortised cost	5,482,285,176	5,184,270,107
Net appreciation	420,278,287	480,837,833
	<u>5,902,563,463</u>	<u>5,665,107,940</u>
Represented by:		
Fixed income investments		
Cost	3,572,569,730	3,304,534,597
Net (diminution)/appreciation in market value	(55,998,822)	21,431,477
	<u>3,516,570,908</u>	<u>3,325,966,074</u>
Equity		
Cost	1,909,715,446	1,879,735,510
Net appreciation in market value	476,277,109	459,406,356
	<u>2,385,992,555</u>	<u>2,339,141,866</u>
Total available-for-sale financial assets	<u>5,902,563,463</u>	<u>5,665,107,940</u>
Financial assets at fair value through profit or loss		
Cost	10,426,449	2,080,251
Fair value adjustments	(217,963)	(253,527)
Total financial assets at fair value through profit or loss	<u>10,208,486</u>	<u>1,826,724</u>

6. Fair value of financial assets

(a) Debt and equity securities

	Sep-18		Sep-17	
	Fair value \$	% of net assets	Fair value \$	% of net assets
Total debt securities	3,516,570,908	58.99	3,325,966,074	57.76
Total equity	2,385,992,555	40.02	2,339,141,866	40.63
Financial assets at fair value through profit or loss	10,208,486	0.01	1,826,724	0.01
Total financial assets	<u>5,912,771,949</u>	<u>99.02</u>	<u>5,666,934,664</u>	<u>98.40</u>



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2018 (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 value valuation hierarchy below:

	Sep-18			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets				
Asset-backed securities	-	270,944,896	-	270,944,896
Collateralised mortgage-backed securities (CMO)	-	94,650,477	-	94,650,477
Corporate bonds	-	1,024,162,819	-	1,024,162,819
Government issues	-	1,531,026,887	-	1,531,026,887
Mortgage-backed securities	-	551,390,165	-	551,390,165
Municipals	-	44,395,664	-	44,395,664
Fixed income	-	3,516,570,908	-	3,516,570,908
Common stock	2,309,878,094	-	-	2,309,878,094
Depository receipts	14,319,926	-	-	14,319,926
Limited partnership units	85,378	-	-	85,378
Preferred stock	5,440,625	-	-	5,440,625
Real estate investment trust	56,268,532	-	-	56,268,532
Equity	2,385,992,555	-	-	2,385,992,555
Credit default swaps	-	532,621	-	532,621
Interest rate swaps	-	772,861	-	772,861
Options	8,903,004	-	-	8,903,004
Financial assets at fair value through profit or loss	8,903,004	1,305,482	-	10,208,486
Total financial assets	2,394,895,559	3,517,876,390	-	5,912,771,949



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2018 (expressed in United States Dollars)

6. Fair value of financial assets (continued)

(b) Fair value hierarchy (continued)

	Level 1 \$	Level 2 \$	Sep-17 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	2,272,844,577	-	-	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	2,340,964,476	3,325,970,188	-	5,666,934,664

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, 2018, there were no transfers between the fair value valuation levels.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2018 (expressed in United States Dollars)

6. Fair value of financial assets (continued)

(d) Collateral

Securities pledged as collateral were as follows:

	Sep-18 \$	Sep-17 \$
Fixed income	535,000	1,020,000
	<u>535,000</u>	<u>1,020,000</u>

7. Receivables and prepayments

	Sep-18 \$	Sep-17 \$
Pending trades	214,058,545	196,440,596
Interest receivable	18,453,401	16,367,824
Dividends receivable	5,029,100	4,642,374
Other receivables	4,205,823	4,757,392
	<u>242,746,869</u>	<u>222,208,186</u>

Accounts receivable as at 30 September, 2018 include Pending Trades – Investments, and Foreign Currency sold in the amounts of USD149,904,010 and USD64,154,535 respectively, which will subsequently be settled during the period October–November 2018.

8. Other payables

	Sep-18 \$	Sep-17 \$
Pending trades	267,157,066	240,147,368
Accruals	4,346,930	4,762,432
Other payables	10,719,626	2,743,886
	<u>282,223,622</u>	<u>247,653,686</u>

As at 30 September, 2018 there were Pending Trades – Investments, and Foreign Currency purchased of USD203,420,303 and USD63,736,763 respectively. Subsequent settlement will occur during the period October–November 2018.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2018 (expressed in United States Dollars)

9. Financial liabilities

Financial liabilities at fair value through profit or loss

	Sep-18 \$	Sep-17 \$
Cost	1,165,909	1,572,670
Fair value adjustments	(211,974)	(40,392)
Financial liabilities at fair value through profit or loss	<u>953,935</u>	<u>1,532,278</u>

10. Investment income

	Sep-18 \$	Sep-17 \$
Interest income		
Cash at bank	1,745	1,672
Available-for-sale financial assets	90,351,691	85,445,854
Amortisation of bond discount	6,962,914	3,251,224
Short-term securities	1,642,037	376,406
	<u>98,958,387</u>	<u>89,075,156</u>
Dividend income	61,324,591	54,646,128
Fair value adjustments on financial assets and liabilities at fair value through profit or loss	<u>207,145</u>	<u>24,418</u>
Total	<u>160,490,123</u>	<u>143,745,702</u>

11. Investment expenses

	Sep-18 \$	Sep-17 \$
Amortisation of bond premium	4,728,020	6,815,632
External managers' fees	11,342,676	12,950,099
Custodian's fees	785,686	887,845
External managers' expenses	556,643	82,880
Legal fees	-	975
Total	<u>17,413,025</u>	<u>20,737,431</u>



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2018 (expressed in United States Dollars)

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.

The Act specifies that within the instrument of delegation, the Bank be paid a management fee which is a percentage of the Fund's market value agreed between the board and the Bank. The management fee is exclusive of any custodian fees, broker fees, current account fees or any other third party fees that may accrue incidental to the management of the Fund.

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)).

15. Withdrawals

Withdrawals from the Fund are made in accordance with the criteria set out Section 15 of the Act, (see note 2 (o)). There were no withdrawals during the financial year ended September 30, 2018.

