HERITAGE AND STABILISATION FUND

QUARTERLY INVESTMENT REPORT

JANUARY TO MARCH 2020

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[1] This section includes economic data available as at May 18, 2020.

EXECUTIVE SUMMARY

- The emergence of **the COVID-19 Pandemic** has led to a worldwide health crisis while efforts to contain its contagion have had a destabilising impact on international capital markets and resulted in a sharp decline in global GDP.

- In March, worldwide **efforts to contain the spread of the virus** saw many countries, both developed and developing, resort to closure of their borders, a lockdown of non-essential businesses and various restrictions to ensure social distancing, including stay-at-home orders. **To address the economic fallout**, major central banks and governments of both developed and developing countries introduced a range of monetary and fiscal stimulus measures. **The US Federal Reserve and the Bank of England**, for example, reduced benchmark interest rates, provided additional liquidity support through asset purchases and introduced various lending facilities to support targeted industries.

- On the fiscal front, **most governments introduced sizable spending packages** aimed at providing direct financial assistance to households affected by the loss or reduction in personal incomes. These packages also included various measures designed to provide financial support to businesses hard-hit by the fall in demand and the need to halt production to protect the health of employees. Some governments also provided short term tax relief to help businesses ward off bankruptcies.

- Amid the uncertainties and fears caused by the pandemic, **there was a major sell-off in global equity and corporate bond markets** as investors priced-in higher risks to corporate earnings and credit default. Correspondingly, the increased demand for liquid and safe-haven assets and the fall in market interest rates drove up global treasuries prices and led to record low yields.

  In the second quarter of fiscal 2020, **the HSF had a return of minus 7.33 per cent** (see Table 1). The Fund's exposure to global equity markets was the main contributor to the overall poor return performance. **The US Core Domestic Equity portfolio** declined by 19.85 per cent during the quarter, while **the value of the non-US Core International Equity portfolio** fell by 23.24 per cent.

- These losses were partially offset by **a modest gain in the Fund's fixed income holdings**. **The US Short Duration Fixed Income portfolio** earned 3.37 per cent in the quarter, largely because of the strong performance in the US Treasury sector due to rate cuts and increased demand from investors in search of safe havens. **The value of the US Core Domestic Fixed Income portfolio** remained broadly flat – a 0.18 per cent return -- held down by losses in the US corporate bond sub-sector.

- When compared to its SAA benchmark, the HSF underperformed by 182 basis points (see Table 2). The Fund's weaker performance relative to the benchmark was due mainly to the US Core Fixed Income portfolio, which contributed 125 basis points to the underperformance. This portfolio performed poorly in the quarter due to its high exposure to US corporates and securitised bonds, prices of both were negatively impacted by higher liquidity and credit premiums demanded by investors.

- As at the end of March 2020, the total net asset value of the HSF was **US$5,925.3 million**, a decline of approximately US$553 million from the previous quarter's closing value of US$6,478.3 million. Of the quarterly decline of US$553 million, US$473.2 million was due to the fall in the market value of the Fund's assets, while US$79.9 million represented a withdrawal under the HSF for the petroleum revenue shortfall in fiscal year ended September 30, 2019. This withdrawal was effected in February 2020.

Table 1
Absolute Quarterly Returns
For the period January – March 2020
/per cent/

	Absolute Return HSF	Absolute Return Benchmark
Composite Portfolio	**-7.33**	**-5.51**
US Short Duration Fixed Income	3.37	3.80
US Core Domestic Fixed Income	0.18	3.15
US Core Domestic Equity	-19.85	-19.60
Non-US Core International Equity	-23.24	-22.15

Table 2
Contributions to Quarterly Returns
For the period January - March 2020
/per cent/

	3 Months Weighted Return as at 31-March-2020	
	HSF	Benchmark
Composite Portfolio	**-7.33**	**-5.51**
US Short Duration Fixed Income	0.79	0.94
US Core Domestic Fixed Income	0.01	1.26
US Core Domestic Equity	-3.97	-3.57
Non-US Core International Equity	-4.16	-4.09

NB: Differences in totals are due to rounding.

SECTION 1 – INTERNATIONAL ECONOMIC ENVIRONMENT

In December 2019, a partial trade agreement between the United States (US) and China as well as the lower probability of a disorderly Brexit broadly improved the global economic outlook for 2020. However, the emergence of the Covid-19 pandemic abruptly halted economic growth in the first quarter as the closure of borders and non-essential businesses, social distancing restrictions and "stay-at-home" orders had an unfathomable toll on global economic activity.

By March, global investors quickly became aware that there would be an immense economic cost associated with the measures implemented to manage the global health crisis and started to price assets accordingly. The IMF, in its April World Economic Outlook, revised its global growth projections for 2020 down by 6.6 percentage points to -3.0 per cent. The IMF further noted that advanced economies are forecasted to register a sharp contraction of -6.1 per cent compared to an overall growth rate of 1.7 per cent in 2019

In the United States (US), despite solid growth at the start of the year, economic data rapidly deteriorated towards the end of the quarter as containment measures came into effect. The first reading of GDP reflected a contraction of 4.8 per cent in the three months to March. Large declines in business fixed investment and personal consumption were partially offset by a modest expansion within the government sector. The Markit U.S. Composite PMI fell to 40.9 points in March from 52.7 points in December. While activity in the manufacturing sector declined modestly, the services sector was severely impacted by the shutdown measures. As a result, the Markit U.S. Services PMI dropped to 39.8 points in March from 52.8 points in December. The unemployment rate rose to 4.4 per cent in March from 3.5 per cent in December as jobless claims during the final two weeks of the quarter neared 10.0 million erasing close to five years of job gains. Meanwhile, inflation eased to 1.5 per cent in March from 2.3 per cent in December.

In Europe, economic growth had begun to stagnate prior to the onset of the virus in the region. GDP growth for the United Kingdom (UK) and the Eurozone during the final quarter of 2019 was 0.0 per cent and 0.1 per cent, respectively. Similar to the US, non-essential activity ceased towards the latter half of the quarter as a result of the quarantine. In the three months to March 2020, GDP growth in the UK and the Eurozone contracted by 2.0 per cent and 3.8 per cent, respectively. Among the member states, Germany's economy declined by 2.2 per cent, while the French and Spanish economies fell by 5.8 per cent and 5.2 per cent, respectively.

Meanwhile in Asia, Japan's economy shrunk 7.3 per cent in the final quarter of 2019 and the preliminary reading for the first quarter of 2020 showed a further contraction of 3.4 per cent. Weak domestic demand and a steep downturn in tourism and other business activity contributed to the decline. The country suffered another setback during the period with the postponement of the Tokyo 2020 Olympic Games. In China, GDP shrank for the first time since the data series was released, contracting by 6.8 per cent year-on-year in the first quarter of 2020. The country was the first to institute travel bans and other quarantine measures, given that the virus originated in the Hubei province as early as December 2019.

G-7 countries unleashed unprecedented levels of fiscal and monetary stimulus measures in response to the staggering loss of output and tightening financial market conditions due to the Covid-19 virus. In the US, the Fed cut its key policy rate by a total of 150 basis points over two emergency meetings to end the quarter at 0.0 to 25 basis points. In addition, the Fed provided a range of programmes aimed at delivering liquidity and credit to markets. The bank re-started its asset purchase programme pledging to buy an unlimited amount of US Treasuries and expanded its support to include the municipal as well as investment grade corporate bond sectors. The US government provided assistance to businesses and households through a US$2.0 trillion package, which was approved at the end of March. Similarly, in the United Kingdom, the Bank of England (BOE) lowered its Bank Rate by 65 basis points to 0.10 per cent and plans to increase its holdings of UK government debt and non-financial investment grade debt by £200 billion. The UK government launched a £350 billion rescue package to support workers and businesses. The package included salary grants, tax, rent and mortgage deferrals as well as loan programmes for businesses.

The European Central Bank (ECB) and Bank of Japan (BOJ) maintained interest rates at –0.50 per cent and -0.10 per cent, respectively. However, both central banks expanded their quantitative easing programmes. The ECB announced that it would buy €750 billion euros in bonds this year to reduce borrowing costs for euro governments. The BOJ expanded the size of its quantitative easing programmes by doubling its annual buying target for exchange-traded funds to ¥12 trillion and raising its upper limit for purchasing corporate bonds and commercial paper, by ¥2 trillion.

On the fiscal stimulus front, individual member states within the Eurozone provided relief at a country level. However, discussions are ongoing among the 19 members of the euro-zone to deliver a joint stimulus plan. Meanwhile, Japan's Prime Minister Shinzo Abe indicated that the government was planning a stimulus package to provide close to ¥15 trillion to households and businesses.

SECTION 2 – CAPITAL AND MONEY MARKET REVIEW

Developed capital markets remained relatively sanguine in January as the headwinds from the trade war between the US and China and Brexit uncertainty began to fade. Equity indices achieved new highs mid-February as investors were initially optimistic that the Covid-19 virus would be successfully contained and maintained a positive outlook for 2020. However, deepening concerns surrounding the growing spread of the virus outside of China significantly increased market volatility near the end of February. Stocks sold off sharply in March as the World Health Organisation declared a global pandemic citing the rising number of cases, the growing number of affected countries and the sustained risk of further spread.

During the quarter, the turmoil in oil markets worsened investors' sentiment even further. Energy prices collapsed due to a combination of lower demand and increased production. In early March, Saudi Arabia and Russia entered a price war which drove oil prices as measured by West Texas Intermediate crude to US$20.48 per barrel at the end of March from US$61.06 per barrel at the close of December 2019.

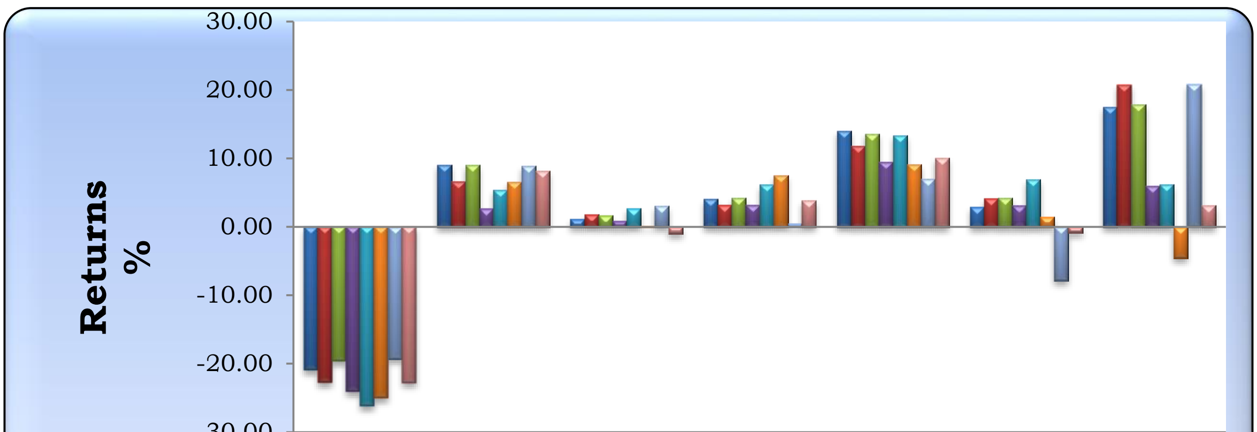
In the US, market volatility as measured by the Chicago Board Options Exchange Volatility Index (VIX) reached an intra-day high of 85.47 points during the quarter, levels not seen since the 2008 global financial crisis. Similarly, the European measure of investor anxiety, the Euro Stoxx 50 Volatility Index (VSTOXX), increased to a high of 95.02 as investors feared that the recession would be worse than anticipated. Heightened investors risk aversion in the market drove demand for the safest assets and liquidity. US Treasuries and other sovereign bonds benefitted in this environment, while credit instruments and stocks sold-off sharply.

The Standard and Poor's (S&P) 500 index in the US lost 19.6 per cent for the quarter. Equity prices declined at a rapid pace as uncertainty related to the health scare and expectations for a severe recession fuelled a sharp sell-off. The Fed's rate cuts and the US Government's $2.0 trillion stimulus provided some relief to markets but ultimately fell short against the immense selling pressure. All sectors declined with Information Technology and Health Care performing the best, returning -11.93 per cent and -12.67

per cent, respectively. The Energy and Financials sectors were ranked near the bottom, falling 50.45 per cent and 31.95 per cent, respectively. The steep decline in oil prices weakened the outlook for all sectors of the Oil and Gas industry. Whilst, earnings expectations for Financials were hampered by the low interest rate environment, flat yield curve and potentially higher loan impairments.

Non-US developed markets, as represented by the MSCI EAFE index, declined 22.79 per cent, when measured in US dollar terms (Figure 1). The UK's FTSE 100 index and Germany's DAX 30 index lost 24.03 per cent and 25.01 per cent, respectively. However, Japanese equities held up relatively better with the Nikkei 225 index falling 19.29 per cent over the quarter.

Figure 1
Total Returns on Equity Indices
/Per cent/

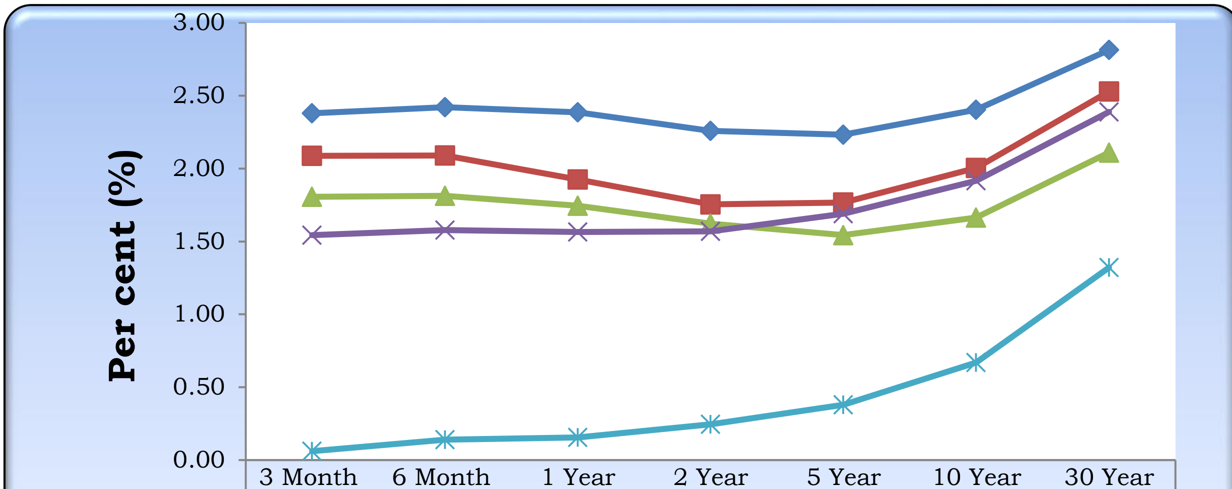


	QTR Ended Mar-20	QTR Ended Dec-19	QTR Ended Sep-19	QTR Ended Jun-19	QTR Ended Mar-19	FY 18/19	FY 17/18
Russell 3000	-20.90	9.09	1.16	4.09	14.04	2.91	17.57
Dow Jones	-22.73	6.67	1.83	3.21	11.81	4.21	20.76
S&P 500	-19.60	9.06	1.70	4.30	13.65	4.25	17.90
FTSE 100 - UK	-24.04	2.70	0.93	3.28	9.51	3.18	6.00
CAC 40 - France	-26.15	5.46	2.73	6.19	13.39	6.93	6.25
DAX 30 - Germany	-25.01	6.61	0.24	7.57	9.16	1.48	-4.54
Nikkei 225 - Japan	-19.29	8.92	3.10	0.48	6.99	-7.84	20.83
MSCI EAFE	-22.79	8.21	-1.00	3.90	10.14	-0.87	3.16

Source: Bloomberg

In the US fixed income market, US treasury yields declined significantly across the curve falling to record lows. The Fed's rate cuts, the risk-off sentiment in the market and the near certainty of a severe economic downturn placed downward pressure on yields. The 2-year yield fell 132 basis points to 0.25 per cent while the 10-year yield declined 125 basis points to 0.67 per cent.

Figure 2
US Treasury Curve
/Per Cent/

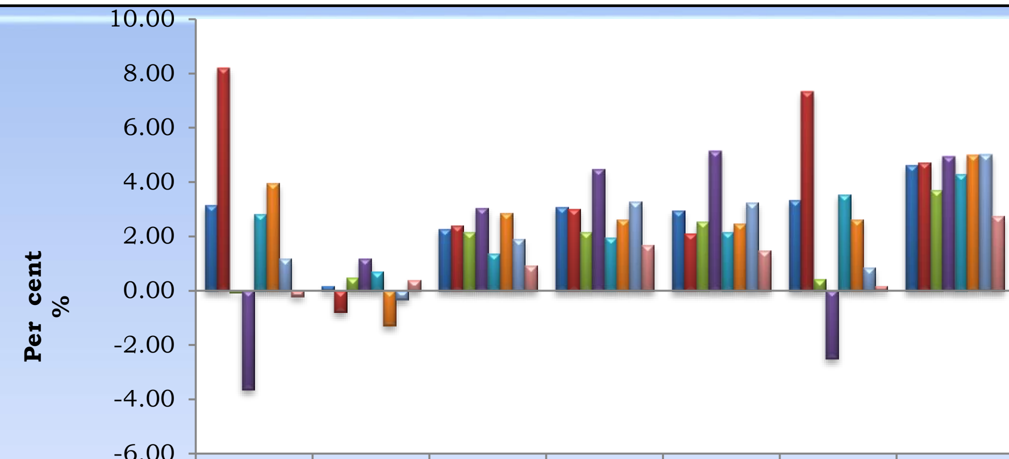


	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
Mar-19	2.38	2.42	2.39	2.26	2.23	2.41	2.81
Jun-19	2.09	2.09	1.93	1.75	1.77	2.01	2.53
Sep-19	1.81	1.81	1.74	1.62	1.54	1.66	2.11
Dec-19	1.54	1.58	1.57	1.57	1.69	1.92	2.39
Mar-20	0.06	0.14	0.15	0.25	0.38	0.67	1.32

Source: Bloomberg

The broader US fixed income market, as represented by the Bloomberg Barclays US Aggregate Bond Index, earned 3.15 per cent in the first quarter of 2020. Most of the returns were driven by the broad decline in rates. The best performing sub-sector was the US treasury segment which gained 8.20 per cent as investors sought the safest assets. In contrast, the US Corporate sector lost 3.63 per cent as spreads widened materially reflecting higher liquidity premiums as well as weaker credit fundamentals. U.S. Investment Grade corporate spreads widened by 179 basis points to end the quarter at 272 basis points (Figure 3).

Figure 3
Returns on Fixed Income Indices
/Per Cent/

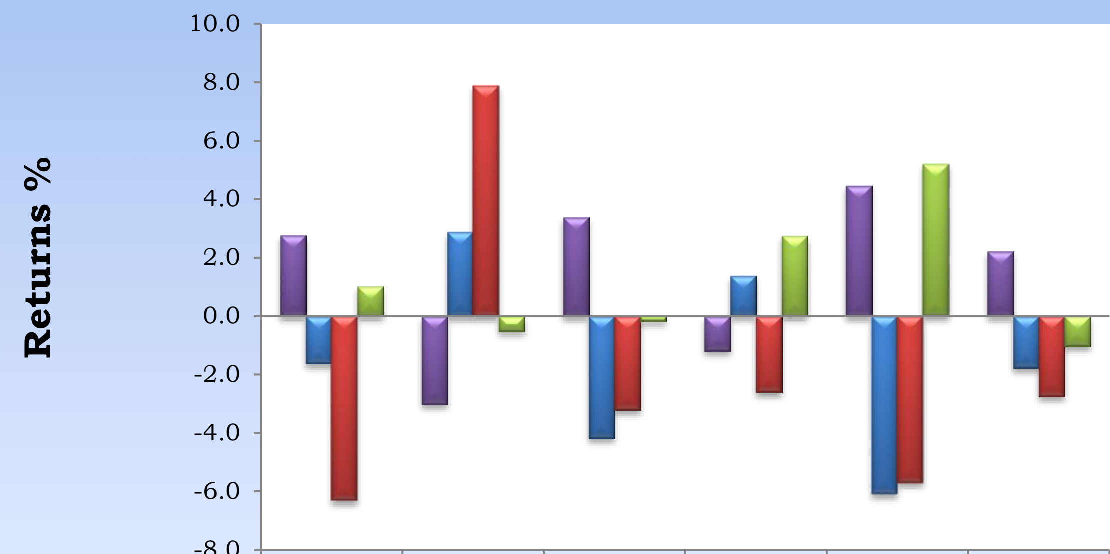


	QTR Ended Mar-20	QTR Ended Dec-19	QTR Ended Sep-19	QTR Ended Jun-19	QTR Ended Mar-19	FY 18/19	FY 17/18
Barclays US Aggregate	3.15	0.18	2.27	3.08	2.94	3.33	4.63
US Treasury	8.20	-0.79	2.40	3.01	2.11	7.34	4.73
Agencies	-0.07	0.49	2.17	2.17	2.54	0.42	3.70
US Corporate	-3.63	1.18	3.05	4.48	5.14	-2.49	4.96
US MBS	2.82	0.71	1.37	1.96	2.17	3.55	4.30
G7 Bonds (Hedged)	3.96	-1.29	2.86	2.63	2.48	2.62	5.00
US CMBS	1.18	-0.33	1.90	3.28	3.24	0.85	5.02
US ABS	-0.21	0.39	0.92	1.67	1.48	0.18	2.74

Source: Bloomberg

In currency markets, traditional safe haven currencies strengthened. The US dollar appreciated 2.76 per cent, as measured by the DXY Dollar Index Spot, while the Japanese Yen strengthened 1.02 per cent against the US dollar. On the other hand, the euro and pound sterling depreciated by 1.62 per cent and 6.31 per cent, respectively over the period. In addition to broad US dollar strength, the BOE's rate cut and quantitative easing measures placed downward pressure on the British pound (Figure 4).

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



	QTR Ended Mar-20	QTR Ended Dec-19	QTR Ended Sep-19	QTR Ended Jun-19	FY 18/19	FY 17/18
DXY CURNCY	2.76	-3.01	3.38	-1.19	4.46	2.21
EURUSD CURNCY	-1.62	2.88	-4.17	1.38	-6.08	-1.78
GBPUSD CURNCY	-6.31	7.88	-3.21	-2.60	-5.69	-2.74
JPYUSD CURNCY	1.02	-0.52	-0.17	2.75	5.20	-1.02

Source: Bloomberg

SECTION 3 – PORTFOLIO PERFORMANCE

Strategic Asset Allocation

Table 3 reports the actual mandate weights of the HSF's Investment Portfolio relative to its approved SAA for the quarter ended March 2020 and the previous three (3) quarters.

Table 3
Portfolio Composition relative to the Approved SAA[2]
/per cent/

			Jun-19	*Sep-19*	*Dec-19*	*Mar-20*
	Asset Class	*Target Weight SAA*	*Actual % of Fund*	*Actual % of Fund*	*Actual % of Fund*	*Actual % of Fund*
Portfolio Weights	US Short Duration Fixed Income	25.00	22.46	22.41	23.62	25.32
	US Core Domestic Fixed Income	40.00	38.65	39.19	38.60	42.25
	US Core Domestic Equity	17.50	21.22	21.32	19.92	17.45
	Non-US Core International Equity	17.50	17.67	17.07	17.86	14.98

Totals may not sum to 100 due to rounding.

During the period January to March 2020, changes in mandate weights were due to market value movements in the period which resulted in an overweight allocation to fixed income and a corresponding underweight to equities. At the HSF's mandate level, the Non-US Core International Equity mandate maintained the largest underweight position of 2.52 per cent while the US Core Domestic Fixed Income mandate had the largest overweight position amounting to 2.25 per cent (see Table 3). Notwithstanding

[2] Mandate weights are allowed to deviate from their approved SAA weights by +/- 5 per cent.

the deviations from the approved SAA, all the mandates weights remained within their respective approved range of +/- 5 per cent.

The total net asset value of the Fund as at the end of March 2020 was **US$5,925.3 million**, compared with US$6,478.3 million at the end of the previous quarter. Of this total, the investment portfolio was valued at US$5,924.6 million, while the remaining portion was held in an operating cash account to meet the day-to-day expenses that arise from the management of the Fund.

In accordance with Section 15 (1)(a) of the HSF Act (2007), a withdrawal of US$79.9 million occurred during the quarter.

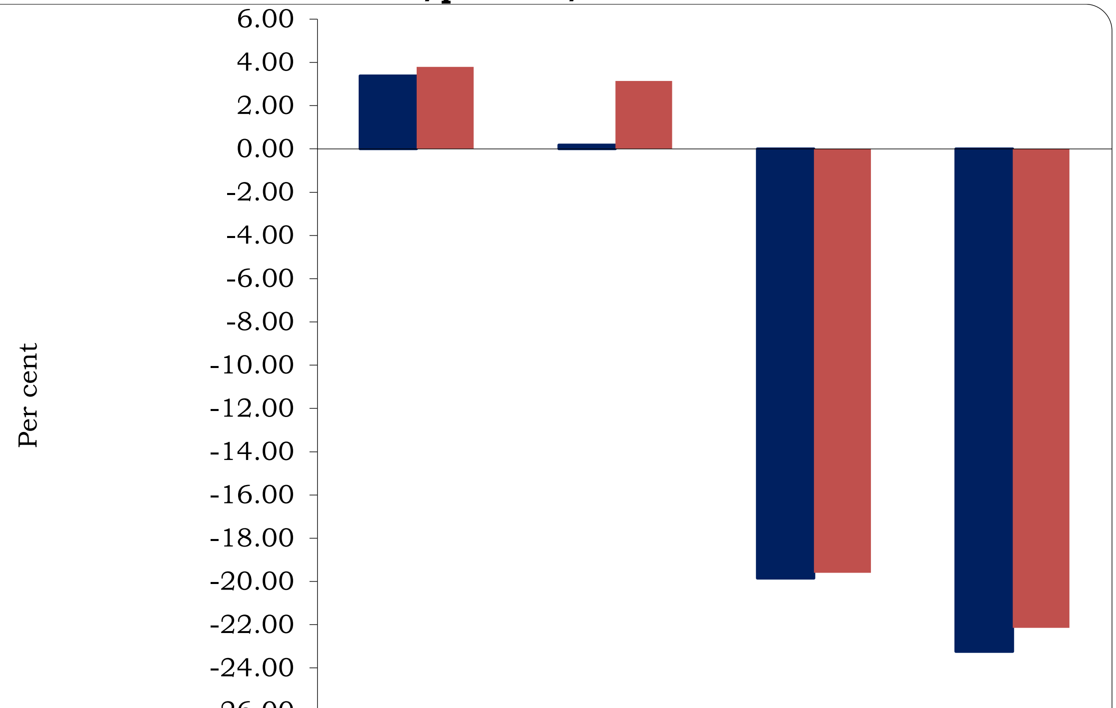
Performance of the Investment Portfolio

During the first quarter of 2020, the HSF's Investment Portfolio declined 7.33 per cent primarily due to the broad sell-off in global equity markets which adversely affected its equity investments. US Core Domestic and Non-US Core International equity mandates returned -19.85 and -23.24 per cent, respectively (see Figure 5). However, the HSF benefitted from its fixed income exposure which helped to somewhat cushion the losses in its equity investments (see Figure 5). The US Short Duration Fixed Income investment mandate returned 3.37 for the quarter and the US Core Domestic Fixed Income investment mandate returned 0.18 per cent.

When compared with its SAA benchmark[3], which lost 5.51 per cent, the HSF underperformed by 182 basis points. This was mainly due to all of the Fund's investment mandates underperforming their respective benchmarks, especially the US Core Domestic Fixed income mandate (see Table 2). Despite its positive weighted return of one (1) basis point for the quarter, US Core Domestic Fixed Income mandate underperformed its benchmark (the Bloomberg Barclays US Aggregate Index) by 1.25 per cent (or 125 basis points).

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

Figure 5
Absolute Returns by Mandate
For the period January – March 2020
/per cent/



	US Short Duration	US Core Fixed Income	US Core Domestic Equities	Non US Core International Equities
Composite Portfolio Return	3.37	0.18	-19.85	-23.24
SAA Benchmark Return	3.80	3.15	-19.60	-22.15

In addition, the HSF's overweight allocation to US equities and corresponding underweight to fixed income relative to its SAA benchmark also detracted from total return as stock markets fell while bonds benefitted from declining interest rates and the increased demand for liquid and safe assets.

The **US Core Domestic Equity** mandate declined significantly during the first quarter of 2020, falling 19.85 per cent, while its benchmark, the Russell 3000 ex Energy index, lost 19.60 per cent. The 25 basis points underperformance was due to poor stock selection. Holdings within the financial services and producer durables detracted from performance while, investment decisions in consumer discretionary and consumer staples helped to partially reduce the mandate's overall benchmark underperformance.

The net asset value of this mandate as at March 31, 2020 was **US$1,033.7 million** compared with US$1,290.2 million three months earlier.

The **Non-US Core International Equity** mandate also incurred large losses, declining 23.24 per cent during the three months ending March 31, 2020. This compares to a return of -22.15 per cent for its benchmark, the MSCI EAFE ex Energy index. Underperformance in March overshadowed positive relative performance earlier in the quarter. In aggregate, stock selection detracted broadly across all regions and the combined effect of currency hedging and country allocation also detracted over the period. The mandate's net asset value at the end of March 31 2020 was **$887.6 million** compared with $1,157.0 million at the end of December 31 2019.

The **US Short Duration Fixed Income** mandate gained 3.37 per cent during the first quarter of 2020. It underperformed its benchmark, the Bank of America Merrill Lynch US Treasury 1-5 year index, by 43 basis points. Investment strategies incrementally added value in the first two months; however gains were eclipsed by large negative excess returns in March. Spread products such as agencies, supranationals and mortgage-backed securities detracted from performance due to the broad risk aversion in the market. The net asset value of this mandate as at the end of March 31 2020 was **US$1,500.0 million**, compared to US$1,529.7 million at the end of December 31 2020. This decrease in value was due mainly to the withdrawal of US$79.9 million from the mandate in the quarter, which was partially recovered as US Treasuries performed well during the period.

The longer duration **US Core Domestic Fixed Income** mandate returned 0.18 per cent compared to 3.15 per cent for its benchmark, the Barclays Capital US Aggregate Bond index. While the overall decline in yields benefitted US treasury holdings, the portfolio's higher allocation to spread products when compared to its benchmark detracted from returns. Greater exposure to investment grade corporate credit and securitised investments hurt performance especially during the month of March as liquidity conditions worsened and credit concerns emerged. The net asset value of this mandate at the end of March 2020 was **US$2,503.3 million** compared to **US$2,499.8** million three months earlier**.**

SECTION 4 – COMPLIANCE AND PORTFOLIO RISKS

Compliance

During the quarter, asset managers' strategies underperformed and several managers failed to meet the acceptable range of return expectations and risk objectives established in the investment guidelines. Understandably, the extreme volatility and tight liquidity conditions across all markets would have adversely impacted the ability of managers to effectively implement their investment strategies over the period. Nonetheless, the Central Bank, as manager of the Fund, will continue to closely monitor the managers' performance and, where necessary, provide guidance in order to ensure that they return to compliance with their investment guidelines as soon as practical.

In addition, there were several bonds held in the US Core Fixed Income mandate that lost their eligibility due to credit rating downgrades. Credit ratings agencies have begun reviewing default risk given the sharp fall in corporate earnings stemming from the covid-19 virus. These bonds will be sold as soon as valuations have sufficiently recovered and a temporary waiver was granted to allow for such flexibility.

Portfolio Risks

The main risks for the HSF portfolio are credit, concentration, interest rate, and currency risks. . The following paragraphs give a description of how these risks are mitigated.

Credit Risk

Within the **money market portion** of the Fund, credit risk is minimised by the strict adherence to the following standards: (i) all counterparties must have a minimum credit rating of either A-1 from the Standard and Poor's rating agency or P-1 from Moody's Investors Services; and (ii) a maximum exposure limit for counterparties of no more than 5.0 per cent of the market value of the portfolio.

For **fixed income instruments**, credit risk is mitigated by the use of credit concentration limits as well as minimum credit quality ratings. Bonds must have an investment grade rating as defined by Standard and Poor's, Moody's Investors Services or Fitch Ratings Incorporated. Should the required ratings on an existing fixed income security fall below the minimum standards, the security must be sold within an agreed upon timeframe. Table 4 below shows the average credit quality of the US Short Duration and US Core Fixed Income Portfolios as at March 31, 2020.

Table 4
Average Credit Rating

Mandate	Portfolio	Benchmark
US Short Duration	**AA+**	**AA+**
US Core Fixed Income	**AA**	**AA**

Concentration Risk

Concentration or diversification risk is minimised by investing across various asset types and holding a large number of positions within an asset class. The aim is to minimise risk and/or maximise return by investing in a wide cross-section of asset classes and positions that would each react differently to the same market event. As such, it is likely that when one has strong returns, another may have lower returns to the same market event.

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. In addition, concentration risk is minimised within asset groups by approved market exposure and issuer holding limits. For the **equity portfolios**, this risk is managed by imposing a maximum percentage holding of 3.0 per cent of any security's outstanding shares, as well as a maximum sector deviation relative to the benchmark of 5.0 per cent.

Interest Rate Risk

Interest rate risk is managed using a weighted average effective duration limit on the respective portfolios. For the US Short Duration Fixed Income mandate, the allowable range is six months longer or shorter than the weighted average duration of its respective benchmark. While the US Core Domestic Fixed Income mandate has an allowable range of 12 months longer or shorter than the weighted average duration of its respective benchmark. Table 5 shows the weighted average duration for the US Short Duration and US Core Domestic Fixed Income portfolios as at March 31, 2020.

Table 5
Weighted Average Duration
/Years/

Mandate	Portfolio	Benchmark
US Short Duration	**2.53**	**2.58**
US Core Domestic Fixed Income	**5.80**	**5.69**

Currency Risk

Currency risk is managed by containing and managing the exposure to non-US dollar instruments. For the fixed income mandates, no more than 10 per cent of the market value of the portfolio can be invested in securities which are denominated in currencies other than the US Dollar. For these mandates, non-US dollar currency exposure is fully hedged into the US Dollar. However, the effectiveness of the hedge may vary depending on market conditions.

For the US Core Domestic Equity mandate, no more than 5 per cent of the market value of the portfolio can be invested in securities, which are denominated in currencies other than the US Dollar. The performance benchmark for the Non-US Core International Equity portfolio is the custom MSCI EAFE ex-energy Index. The index comprises of equity securities of issuers domiciled in developed markets countries, excluding the US and Canada. Where benchmark securities are quoted in currencies other than the US dollar, the Fund accepts the currency risk. For this mandate, however, managers can hedge up to 15 per cent of the market value of their currency exposure into the US dollar, the base reporting currency for the HSF. At the end of March 2020, the currency exposure for this portfolio was 98 per cent of its market value. During the quarter, all the portfolios were within their respective limits.

SECTION 5 – AMENDMENT TO THE HSF ACT (2007)

On March 26, 2020, Section 15 of the HSF Act (2007), which covers the conditions for withdrawal from the Fund, was amended to include Section 15A.

Section 15A (1) allows the Minsiter to withdraw from the Fund for the following exceptional circumstances:

(a) a disaster area is declared under the Disaster Measures Act;
(b) a dangerous infectious disease is declared under the Public Health Ordinace; or
(c) there is, or is likely to be, a precipitous decline in budgeted revenues which are based on the production or price of crude oil or natural gas.

Section 15A (2) limits the amount that can be withdrawn under these exceptional circumstances to one and one half billion dollars in any financial year.

In the event of a withdrawal under Section 15A (1), Section 15A (3) requires the Minister to lay before the House of Representatives a report within sixty days of the withdrawal.

Appendix I

HSF Portfolio - Historical Performance

Quarter End	Current Returns			Financial YTD			Annualised Return Since Inception		
	Portfolio	Benchmark	Excess	Portfolio	Benchmark	Excess	Portfolio	Benchmark	Excess
	%	%	bps	%	%	bps	%	%	bps
FY 2010									
December	0.96	0.89	6.65	0.96	0.89	6.65	3.72	3.78	-6.16
March	1.61	1.68	-6.20	2.59	2.58	0.49	3.95	4.03	-7.76
June	-1.83	-1.89	6.05	0.71	0.64	6.69	3.07	3.12	-5.18
September	5.33	5.08	24.73	6.07	5.75	31.93	4.37	4.35	2.06
FY 2011									
December	2.29	2.21	8.15	2.29	2.21	8.15	4.70	4.65	4.13
March	1.62	1.54	7.24	3.94	3.79	15.68	4.81	4.76	5.72
June	1.88	1.81	6.68	5.89	5.67	22.91	4.98	4.91	7.00
September	-4.82	-4.28	-53.66	0.79	1.14	-34.89	3.57	3.63	-6.29
FY 2012									
December	2.74	3.03	-28.52	2.74	3.03	-28.52	3.97	4.08	-12.00
March	5.04	4.46	57.50	7.92	7.63	29.29	4.78	4.78	-0.08
June	-0.90	-0.60	-30.42	6.95	6.98	-3.72	4.37	4.43	-6.13
September	3.53	2.98	55.03	10.73	10.18	55.02	4.68	4.65	2.07
FY 2013									
December	1.49	1.45	4.11	1.49	1.45	4.11	4.88	4.83	4.76
March	3.29	2.90	39.19	4.82	4.38	44.01	5.23	5.12	11.20
June	-0.30	-0.69	39.05	4.51	3.66	84.64	4.97	4.80	17.26
September	3.95	3.47	47.35	8.63	7.26	137.06	5.40	5.16	24.01
FY 2014									
December	3.95	2.66	129.38	3.95	2.66	129.38	5.80	5.37	42.67
March	1.46	1.30	16.28	5.47	4.00	147.73	5.80	5.37	43.52
June	2.56	2.30	25.90	8.17	6.38	178.44	5.96	5.51	45.76
September	-0.48	-0.73	25.31	7.65	5.60	204.51	5.69	5.22	47.69
FY 2015									
December	2.25	1.63	62.27	2.25	1.63	62.27	5.81	5.26	54.46
March	2.29	2.25	3.95	4.60	3.92	67.71	5.92	5.39	53.34
June	-0.02	-0.51	49.43	4.58	3.39	119.07	5.74	5.16	57.93

Quarter End	Current Returns			Financial YTD			Annualised Return Since Inception		
	Portfolio	Benchmark	Excess	Portfolio	Benchmark	Excess	Portfolio	Benchmark	Excess
	%	%	bps	%	%	bps	%	%	bps
FY 2015									
September	-2.02	-2.19	16.83	2.47	1.13	134.06	5.31	4.73	58.12
FY 2016									
December	1.68	1.67	0.22	1.68	1.67	0.22	5.36	4.79	56.52
March	0.80	1.26	-46.14	2.48	2.95	-46.70	5.30	4.80	49.64
June	0.80	1.11	-30.92	3.30	4.09	-78.90	5.24	4.79	44.83
September	2.45	2.12	32.85	5.83	6.29	-45.72	5.37	4.89	47.33
FY 2017									
December	-0.46	-0.98	51.92	-0.46	-0.98	51.92	5.17	4.66	51.64
March	3.17	2.92	24.41	2.69	1.91	77.74	5.37	4.84	52.92
June	2.74	2.44	30.00	5.50	4.40	110.45	5.51	4.97	54.69
September	2.61	2.06	54.78	8.25	6.55	170.48	5.64	5.05	58.79
FY 2018									
December	2.24	1.83	40.22	2.24	1.83	40.22	5.72	5.11	61.32
March	-0.55	-0.94	38.21	1.67	0.88	78.91	5.53	4.90	63.49
June	0.26	0.21	5.36	1.94	1.09	84.52	5.43	4.81	62.52
September	1.81	1.54	27.02	3.79	2.65	113.37	5.47	4.84	63.61
FY 2019									
December	-4.69	-3.54	-114.99	-4.69	-3.54	-114.99	4.93	4.41	51.33
March	5.93	5.61	31.25	0.96	1.88	-91.66	5.33	4.79	53.03
June	3.01	3.26	-25.10	4.00	5.20	-119.99	5.47	4.97	49.95
September	1.05	1.27	-21.70	5.10	6.54	-144.08	5.44	4.97	47.15
FY 2020									
December	3.62	3.20	41.90	3.62	3.20	41.90	5.63	5.13	49.64
March	-7.33	-5.51	-182.43	-3.98	-2.48	-149.43	4.90	4.58	32.73

Notes:

(1) Differences in totals are due to rounding.

(2) In August 2009, International Equities and Fixed Income Securities were added to the HSF portfolio. The performance benchmark for the HSF portfolio became a blended benchmark which comprise, Bank of America/Merrill Lynch US Treasury 1-5 Years Index, US One-month LIBID Index, Barclays US Aggregate, Russell 3000 ex Energy, and MSCI EAFE ex Energy.

(3) In January 2011, the HSF Portfolio achieved its Strategic Asset Allocation where the portfolio was invested in four assets classes. US Short Duration Fixed Income (25), US Core Fixed Income (40), US Equity (17.5) and Non-US International Equity (17.5).

(4) With effect from the quarter ended December 2012, the Annualised Returns Since Inception were computed using a geometric average and not the previously used arithmetic average. For comparative purposes, prior period annualised returns since inception shown above were computing using a geometric average.

Appendix II

Heritage and Stabilisation Fund

Portfolio Valuation (USD)

Valuation Date	Net Asset Value	Total Comprehensive Income	Accumulated Surplus & Unrealized Capital Gains/Losses	Contributions / (Withdrawals)
Annual Portfolio Valuation				
September 30,2007	1,766,200,701	41,966,361	41,966,361	321,706,043
September 30,2008	2,888,421,556	68,412,770	110,379,131	1,054,174,457
September 30,2009	2,964,686,478	76,248,691	186,755,766	-
September 30,2010	3,621,984,041	177,645,460	364,361,226	477,344,263
September 30,2011	4,084,016,158	9,715,841	374,074,067	451,400,519
September 30,2012	4,712,376,278	420,693,705	794,770,772	207,550,846
September 30,2013	5,154,027,747	399,007,950	1,193,778,722	42,414,251
September 30,2014	5,533,425,248	379,167,024	1,572,945,746	-
September 30,2015	5,655,143,565	120,639,605	1,693,585,351	-
September 30,2016	5,584,246,290	305,452,096	1,999,037,447	(375,050,860)
September 30, 2017	5,762,544,777	429,475,446	2,428,512,893	(252,548,048)
September 30, 2018	5,965,847,092	203,717,910	2,632,230,803	-
September 30, 2019	6,255,349,599	288,837,111	2,921,067,914	-
Quarterly Portfolio Valuation				
December 31, 2014	5,653,895,156	120,509,077	1,693,454,823	-
March 31, 2015	5,779,420,631	125,471,133	1,818,925,956	-
June 30, 2015	5,774,951,169	(4,765,278)	1,814,160,678	-
September 30, 2015	5,655,143,565	(120,575,327)	1,693,585,351	-
December 31, 2015	5,744,963,957	90,833,573	1,784,418,924	-
March 31, 2016	5,787,343,363	42,134,260	1,826,553,184	-
June 30, 2016	5,454,568,405	42,838,704	1,869,391,888	(375,050,860)
September 30, 2016	5,584,246,290	129,645,559	1,999,037,447	-
December 31, 2016	5,555,039,859	(29,605,256)	1,969,432,191	-
March 31, 2017	5,473,047,983	170,609,885	2,140,042,076	(252,548,048)
June 30, 2017	5,619,311,033	146,006,897	2,286,048,973	-

Appendix II

Heritage and Stabilisation Fund

Portfolio Valuation (USD)

Valuation Date	Net Asset Value	Total Comprehensive Income	Accumulated Surplus & Unrealized Capital Gains/Losses	Contributions / (Withdrawals)
Quarterly Portfolio Valuation				
September 30, 2017	5,762,544,777	142,463,920	2,428,512,893	-
December 31, 2017	5,888,599,170	124,900,387	2,553,413,280	-
March 31, 2018	5,852,789,288	(36,468,342)	2,516,944,938	-
June 30, 2018	5,863,070,206	12,336,541	2,529,281,479	-
September 30,2018	5,965,847,092	102,949,324	2,632,230,803	-
December 31,2018	5,683,219,683	(486,810,763)	2,349,137,950	-
March 31, 2019	6,016,429,263	333,123,750	2,682,261,700	-
June 30, 2019	6,194,328,757	177,424,921	2,859,686,621	-
September 30, 2019	6,255,349,599	61,381,293	2,921,067,914	-
December 31, 2019	6,478,340,872	222,180,512	3,143,248,426	-
March 31, 2020	5,925,283,653	(473,394,404)	2,669,854,022	(79,853,158)

Appendix III

Summary Characteristics of Composite Benchmarks

Fixed Income Benchmarks

Key Characteristics	Bloomberg Barclays US Aggregate Index	Merrill Lynch 1-5 Index
Total Holdings	11,360	150
Coupon (%)	3.11	2.11
Duration (Years)	5.69	2.58
Average Life (Years)	7.77	2.66
Yield to Maturity (%)	1.59	0.25
Option Adjusted Spread (bps)	95	0
Average Rating (S&P)	AA	AA+
Minimum Rating (S&P)	BBB	AA+

Equity Benchmarks

Key Characteristics	Russell 3000 (ex-Energy)	MSCI EAFE (ex-Energy)
Total Holdings	2,818	886
Earnings Per Share (EPS Growth 3-5yr fwd)	11.2	6.37
Price Earnings (P/E fwd)	16.4	13.66
Price / Book (P/B)	2.6	1.29
Weighted Average Market Capitalization* (Bn)	248.4	57.3

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

Appendix IV

Summary of the Fund's Net Asset Value by Mandate

/US$ Million/

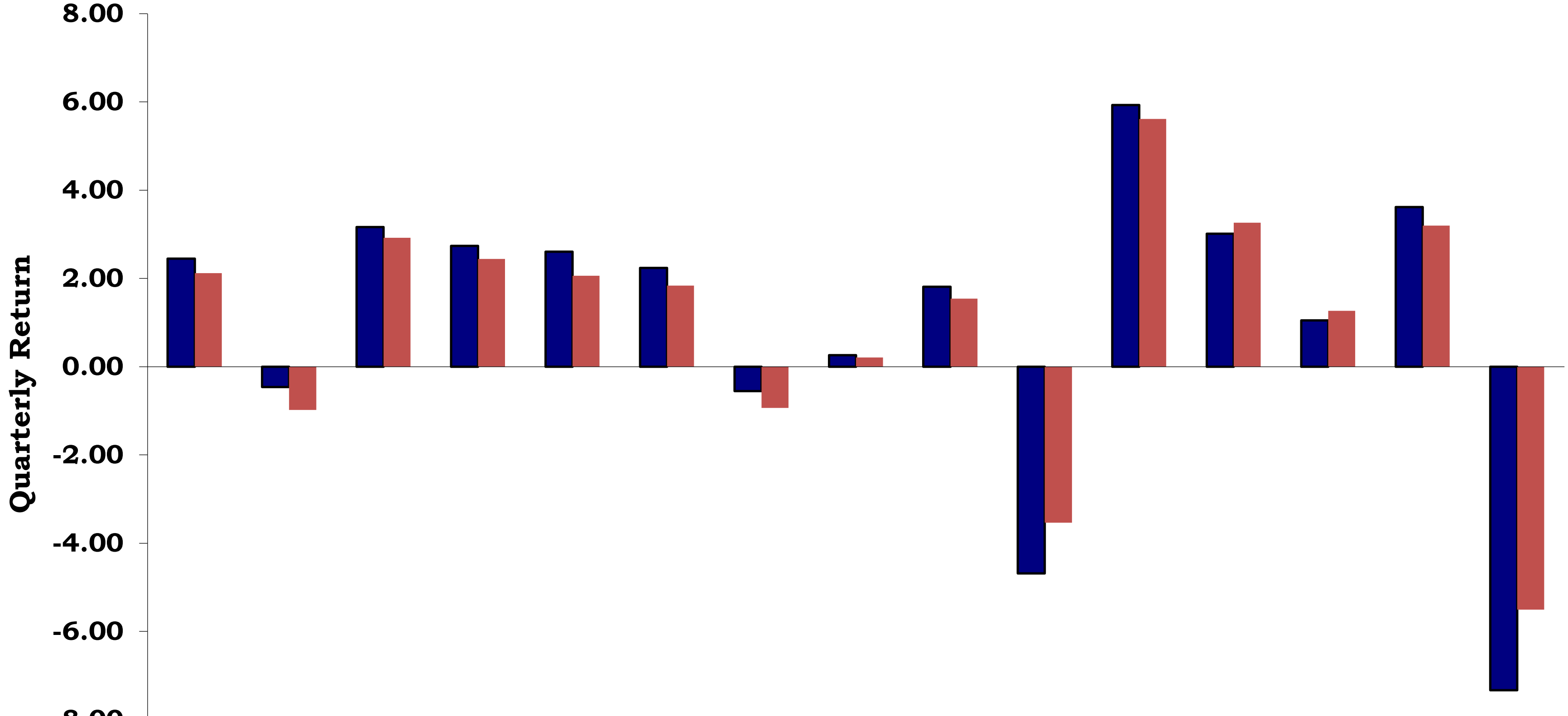
	Mar-19	**Jun-19**	**Sep-19**	**Dec-19**	**Mar -20**
Total Fund Value	**6,016**	**6,194**	**6,255**	**6,478**	**5,925**
Total Value of Equity	**2,329**	**2,408**	**2,401**	**2,447**	**1,921**
US Core Domestic Equity	1,259	1,314	1,333	1,290	1,034
Non-US Core International Equity	1,070	1,094	1,068	1,157	888
Total Value of Fixed Income	**3,686**	**3,784**	**3,853**	**4,029**	**4,003**
US Short Duration Fixed Income	1,367	1,391	1,402	1,530	1,500
US Core Domestic Fixed Income	2,319	2,393	2,451	2,500	2,503
Total Value of Cash or Cash Equivalents	**1**	**3**	**2**	**2**	**1**

NB: Differences in totals are due to rounding.

Appendix V

HSF Portfolio Quarterly Returns

/per cent/



	FY2016 Q4	FY2017 Q1	FY2017 Q2	FY2017 Q3	FY2017 Q4	FY2018 Q1	FY2018 Q2	FY2018 Q3	FY2018 Q4	FY2019 Q1	FY2019 Q2	FY2019 Q3	FY2019 Q4	FY2020 Q1	FY2020 Q2
HSF Portfolio	2.45	-0.46	3.17	2.74	2.61	2.24	-0.55	0.26	1.81	-4.69	5.93	3.01	1.05	3.62	-7.33
Benchmark	2.12	-0.98	2.92	2.44	2.06	1.83	-0.94	0.21	1.54	-3.54	5.61	3.26	1.27	3.20	-5.51