HERITAGE AND STABILISATION FUND (HSF)

QUARTERLY INVESTMENT REPORT

OCTOBER TO DECEMBER 2020

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[1] This section includes economic data available as at March 5, 2021.

EXECUTIVE SUMMARY

- During the first quarter of the financial year 2021, a few developed countries began to administer Covid-19 vaccines. Despite this positive development, the global economic recovery lost momentum as surging Covid-19 cases across Europe and the United States (US) forced governments to re-impose stay-at-home orders and limit the operations of non-essential services. In the expectation that the slowdown may persist for longer than first envisaged, many developed countries proceeded to deliver additional monetary and fiscal stimulus in order to boost economic activity and provide much needed financial assistance to households and small businesses. These measures seemed to have added little to the recovery process started in the third quarter of 2020. In the fourth quarter, the US quarterly growth slowed to 1.0 per cent after the historic 7.5 per cent growth in the previous quarter. The United Kingdom (UK) also recorded a growth of 1.0 per cent in the fourth quarter following an estimated 16.1 per cent in the previous quarter. Having grown by 8.5 per cent in third quarter, Germany's recovery slowed to 0.3 per cent in the last quarter of 2020. Japan grew by 3.0 per cent in the quarter considerably less than the 5.3 per cent recorded in the third quarter. At the end of the quarter, the short term outlook on global growth remained largely uncertain driven by the unrelenting spread of the virus, the discovery of new variants and unanticipated logistical challenges in administering the Covid-19 vaccines.

- Global equity markets rallied during the quarter as concerns over the results of the US Presidential election faded and the commencement of Covid-19 vaccination improved market sentiment. The US government's US$900 billion spending bill and the post-Brexit trade deal helped to extend equity market gains towards the end of the fourth quarter. The performance of the global fixed income market during the quarter was mixed and trailed global equity markets. The additional market support measures by governments and central banks increased inflation expectations and as a result, long-term yields rose and treasury prices fell. In contrast, prices on corporate bonds and other credit instruments rose as market support measures (such as, asset puchase and lending programmes) eased credit concerns and as higher yields compared to treasuries continued to attract investors.

- In the first quarter of the financial year 2021, the HSF returned 6.43 per cent with all investment mandates generating positive returns (see Table 1). Of the Fund's total performance, 5.78 per cent came from its equity mandates while the fixed income mandates added a modest 0.65 per cent (see Table 2).

- When compared to its SAA benchmark, which returned 5.50 per cent, the HSF outperformed by 93 basis points (see Table 2). The HSF's outperformance was mainly driven by its overweight US equity exposure relative to the SAA benchmark, which benefitted the Fund due to the strong equity returns over the quarter. The US Core Domestic Equity mandate contributed 50 basis points of the 93 basis points benchmark outperformance. A further 35 basis points came from the US Core Fixed Income mandate, which had overweight exposure to the broader fixed income market (corporate bonds and other credit products) when compared to the SAA benchmark. This allocation proved beneficial in the quarter as the broader fixed income outperformed the treasury sector.

- As at the end of December 2020, the total net asset value of the HSF was **US$5,888.1 million**, approximately US$156.3 million lower than the previous quarter's closing value of US$5,731.8 million. During the quarter, **US$198.9 million was withdrawn** from the Fund. This amount represented the first tranche of the roughly US$292 million approved by the HSF Board under Section 15 of the Act (2007) to cover the shortfall in petroleum revenue for the financial year 2019/2020.

Table 1
Absolute Quarterly Returns
For the period October – December 2020
/per cent/

	Absolute Return HSF	**Absolute Return Benchmark**
Composite Portfolio	**6.43**	**5.50**
US Short Duration Fixed Income	0.16	0.02
US Core Domestic Fixed Income	1.59	0.67
US Core Domestic Equity	14.11	14.33
Non-US Core International Equity	14.46	15.62

Table 2
Contributions to Quarterly Returns
For the period October - December 2020
/per cent/

	3 Months Portfolio Weighted Return to 30-September-2020	
	HSF	**Benchmark**
Composite Portfolio	**6.43**	**5.50**
US Short Duration Fixed Income	0.03	0.00
US Core Domestic Fixed Income	0.62	0.27
US Core Domestic Equity	2.98	2.48
Non-US Core International Equity	2.80	2.75

NB: Differences in totals are due to rounding.

SECTION 1 – INTERNATIONAL ECONOMIC ENVIRONMENT

Global economic growth moderated during the fourth quarter of 2020 as near-term risks stemming from the virus continued to derail recovery efforts. In the US and Europe, lockdown measures were re-introduced to address the resurgence in Covid-19 infections. This notwithstanding, manufacturing sector activity proved to be resilient as companies were better prepared to handle the disruptions caused by the spread of the virus. However, the service sector remained challenged by the direct impact of social distancing restrictions on some businesses such as bars, restaurants and personal services. The availability of a few effective vaccine candidates originally raised hopes that widespread immunity could be achieved by the major economies sometime in the second half of 2021. While this lifted the global growth outlook, the prospects of a strong and quick global economic recovery were dampened by the emergence of new virus strains, the unrelenting spread of Covid-19 and logistical challenges with administering the vaccines.

In the US, the recovery continued albeit at a more gradual pace in the fourth quarter of 2020. The US GDP grew, quarter-on-quarter, by 1.0 per cent during the quarter (4.1 per cent annualised) considerably slower than the 33.4 per cent recorded in the previous quarter. The increase in fourth quarter GDP was driven mainly by the growth in exports, resident and nonresident fixed investment and personal consumption expenditure.

Revised data for calendar year 2020 showed that the US economy shrank by 3.5 per cent, following a growth of 2.2 per cent in 2019.

Despite US job losses in December, employment for the quarter rose and the unemployment rate declined from 7.8 per cent in September to 6.7 per cent in December 2020. The Markit US Manufacturing PMI rose 3.9 points to end the quarter at 57.1 points as low inventory levels boosted manufacturing activity. The Markit US Services PMI reached 58.4 points in November, up 3.8 points from September's level. However, services activity fell in December to 54.8 points with the re-introduction of restrictions in some states in order to curb the rising infection rates. The growth in consumer spending slowed during the quarter, which raised concerns about of an economic slowdown. The US government acted by approving a US$900 billion stimulus bill in an effort to support households and small businesses.

Risks of a double-dip recession rose in the European Union as surging infection rates resulted in the re-instatement of nationwide lockdowns in some countries. Many Governments either expanded or prolonged measures to curb the spread of the virus ahead of the holiday season, and amid concerns over a new more contagious Covid variant, initially discovered in the UK. These measures which included restrictions on movement, gatherings and non-essential businesses also affected economic activity.

The UK GDP grew by 1.0 per cent in the fourth quarter, following a growth of 16.1 per cent in third quarter. Over the year 2020 as a whole, the UK economy contracted by 9.9 per cent, marking the largest annual fall in GDP on record. During the quarter, furlough schemes were extended to help contain a sharp rise in unemployment and alleviate the burden on individuals. The economy's manufacturing industry continued to improve with the Markit Manufacturing PMI rising to 57.5 points in December from 54.1 points in September but the Markit Services PMI declined to 49.4 points in December from 56.1 from in September. The pace of the recovery, at least in the short term, is expected to be restrained by the economy's greater reliance on the service industry and post-Brexit headwinds, as the UK will encounter additional trade barriers without EU membership.

Elsewhere, Germany's economy grew by 0.3 per cent in the fourth quarter of calendar year 2020 compared to the previous quarter's growth of 8.5 per cent. The recovery slowed in the fourth due to the second Covid-19 wave and the re-introduction of a lockdown in November. Due to the restrictions, household and government consumption expenditures declined 3.3 and 0.5 per cent, respectively, from the previous quarter. The German economy would have suffered a larger decline in GDP if it was not for its large manufacturing sector, which experienced less disruption from the restrictions. Exports of goods and services were up 4.5 per cent compared to the third quarter of 2020. In addition, gross fixed capital formation in construction rose 1.8 per cent from the third quarter, while gross fixed capital formation in machinery and equipment remained roughly the same as in previous quarter (-0.1 per cent). For calendar year 2020, the German economy shrank by 4.9 per cent.

The Chinese economy expanded by 6.5 per cent year-on-year during the fourth quarter of 2020. This growth bolstered prospects in the region as trading partners such as Japan saw a boost in exports to Asia. The Japanese economy grew by 3 per cent in the fourth quarter but for the full year 2020, contracted 4.8 per cent. The fourth quarter's growth was supported by a domestic demand increase of 2.0 per cent and net exports, which rose by 1.0 per cent. Exports to the US and China were especially strong. Private consumption, which accounts for more than half of Japan's GDP, rose 2.2% in the last quarter after a 5.1% jump in the third quarter. The Japanese manufacturing sector PMI improved from 47.7 points in September to 50.0 points in December and the Tankan Business Conditions Survey reflected greater confidence among the large manufacturing companies. In an effort to further support the economy, the Japanese government approved a third fiscal stimulus package that added ¥21.8 trillion in spending. Despite the resurgence of Covid-19 infections late in the year, which was a hindrance, the Japanese economy was nearly back to levels pre-Covid in the fourth quarter of 2019.

Major central banks remain committed to supporting their respective economies through various monetary policy tools. Policymakers generally acknowledged the highly uncertain economic outlook, highlighting the potential downside risks due to the virus. The US Federal Reserve kept rates and its asset purchase programmes unchanged, while indicating that more accommodation would be provided if needed. Meanwhile, the European Central Bank (ECB) and Bank of England (BOE) increased the size of its asset purchase programmes, while the Bank of Japan (BOJ) extended its Covid-19 loan facility and announced more flexible terms.

SECTION 2 – CAPITAL AND MONEY MARKET REVIEW

The global equity market extended its gains for a third consecutive quarter as investors grew increasingly optimistic with the approval and distribution of the first Covid-19 vaccines in the US, Europe and Canada. In addition, near-term political risks diminished with the outcome of the US elections and an agreement on a post-Brexit trade deal. Additional stimulus in the US as well as expanded monetary policy support by some of the major central banks also added to overall positive market sentiment.

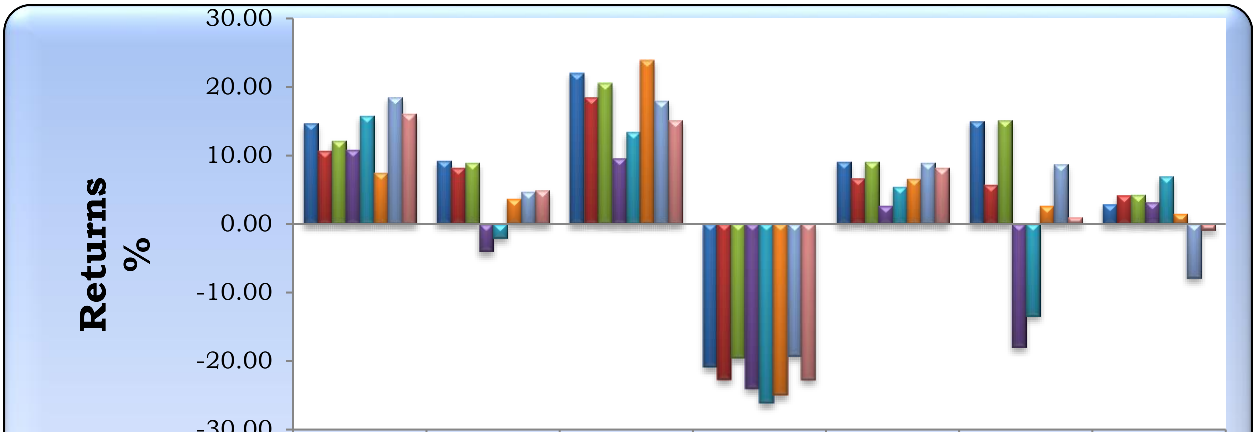
The prospect of widespread vaccinations largely outweighed concerns around the resurgence in infection rates and the discovery of new variants of the Covid-19 virus. The US Chicago Board Options Exchange Volatility Index (VIX) averaged 25.54 points in the three months to December compared to an average of 25.91 points during the prior quarter. Similarly, the European measure of investor anxiety, the Euro Stoxx 50 Volatility Index (VSTOXX) was incrementally lower over the period, declining by 0.99 points to close the quarter at 24.69 points.

US equity markets overcame early quarter losses to end the three months to December 2020 higher. Stocks recovered with vaccine hopes, reduced political uncertainty and additional fiscal stimulus. Overall, the US Standard and Poor's (S&P) 500 index rose 12.14 per cent (see Figure 1). Sectors with greater exposure to the economic cycle such as energy, financials and materials performed the best while utilities and consumer staples lagged the broader market.

Non-US developed markets, as represented by the MSCI EAFE index, rose 16.08 per cent, when measured in US dollar terms (see Figure 1). Exposure to local currencies was positive as the US dollar depreciated against the G-10 currencies. In local currency terms, the Japan's Nikkei 225 index and Germany's DAX 30 index gained 18.49 per cent and 7.51 per cent, respectively. The UK's FTSE 100 index returned 10.86 per cent as Brexit uncertainty faded with the UK and EU arriving at a trade deal days before the deadline.

The broader US fixed income market, as represented by the Bloomberg Barclays US Aggregate Bond Index, earned a modest 0.67 per cent during the fourth quarter of 2020 (see Figure 2). Credit investments performed well as spreads over US treasuries narrowed. The US Corporate sub-sector gained 3.05 per cent, while the US Commercial Mortgage Backed Securities sub-sector returned 1.05 per cent. In contrast, US treasuries underperformed the overall index, with a loss of 0.83 per cent (see Figure 2).

Figure 1
Total Returns on Equity Indices
/Per cent/

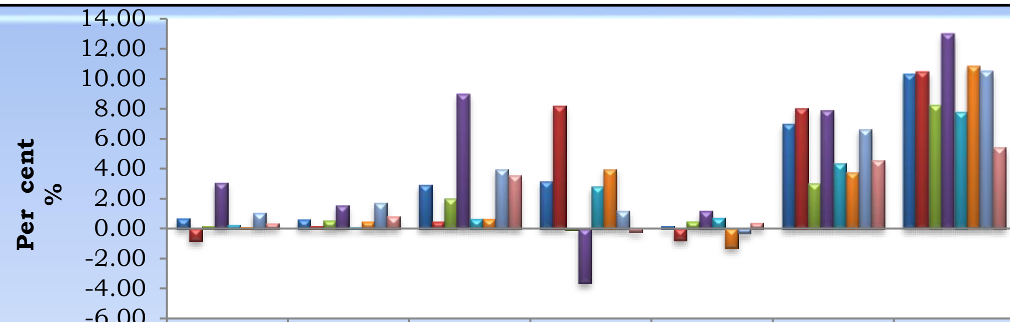


	QTR Ended Dec-20	QTR Ended Sep-20	QTR Ended Jun-20	QTR Ended Mar-20	QTR Ended Dec-19	FY 19/20	FY 18/19
Russell 3000	14.68	9.21	22.03	-20.90	9.09	14.99	2.91
Dow Jones	10.73	8.22	18.51	-22.73	6.67	5.70	4.21
S&P 500	12.14	8.93	20.54	-19.60	9.06	15.14	4.25
FTSE 100 - UK	10.86	-4.02	9.57	-24.05	2.70	-17.97	3.18
CAC 40 - France	15.76	-2.03	13.48	-26.15	5.46	-13.41	6.93
DAX 30 - Germany	7.51	3.65	23.90	-25.01	6.61	2.68	1.48
Nikkei 225 - Japan	18.49	4.75	17.97	-19.25	8.92	8.69	-7.84
MSCI EAFE	16.08	4.90	15.14	-22.76	8.21	0.95	-0.87

Source: Bloomberg

In the US fixed income market, the yield curve steepened as longer dated treasury yields increased while the shorter end of the curve remained relatively stable (see Figure 3). The 2-year yield declined by 1 basis points to 0.12 per cent as the Federal Reserve was projected to maintain its main policy rate at current levels for some time. Meanwhile, promising vaccine news improved the growth outlook and increased inflation expectations. The 10-year yield increased by 23 basis points to end the quarter at 0.91 per cent.

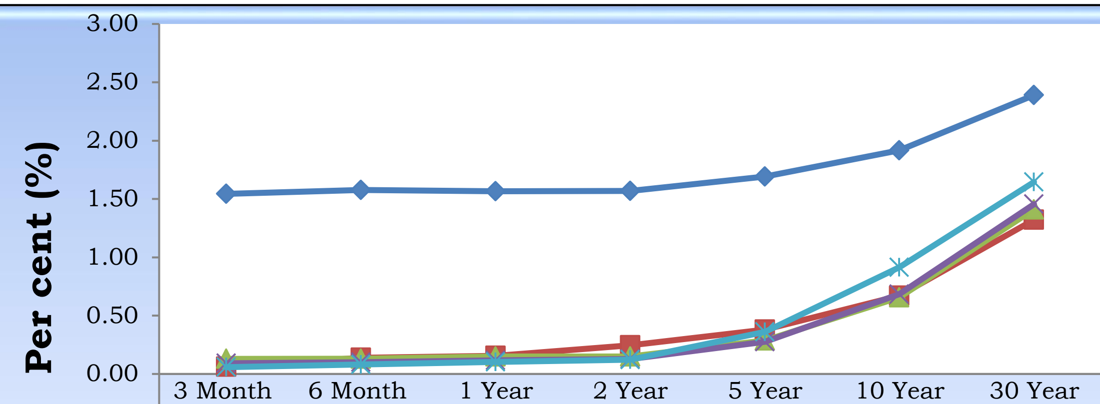
Figure 2
Returns on Fixed Income Indices
/Per Cent/



	QTR Ended Dec-20	QTR Ended Sep-20	QTR Ended Jun-20	QTR Ended Mar-20	QTR Ended Dec-19	FY 19/20	FY 18/19
Barclays US Aggregate	0.67	0.62	2.90	3.15	0.18	6.98	10.30
US Treasury	-0.83	0.17	0.48	8.20	-0.79	8.04	10.48
Agencies	0.18	0.55	2.02	-0.07	0.49	3.02	8.24
US Corporate	3.05	1.54	8.98	-3.63	1.18	7.90	13.00
US MBS	0.25	0.11	0.67	2.82	0.71	4.36	7.80
G7 Bonds (Hedged)	0.14	0.45	0.66	3.96	-1.29	3.77	10.84
US CMBS	1.05	1.71	3.95	1.18	-0.33	6.63	10.51
US ABS	0.36	0.80	3.54	-0.21	0.39	4.55	5.42

Source: Bloomberg

Figure 3
US Treasury Curve
/Per Cent/

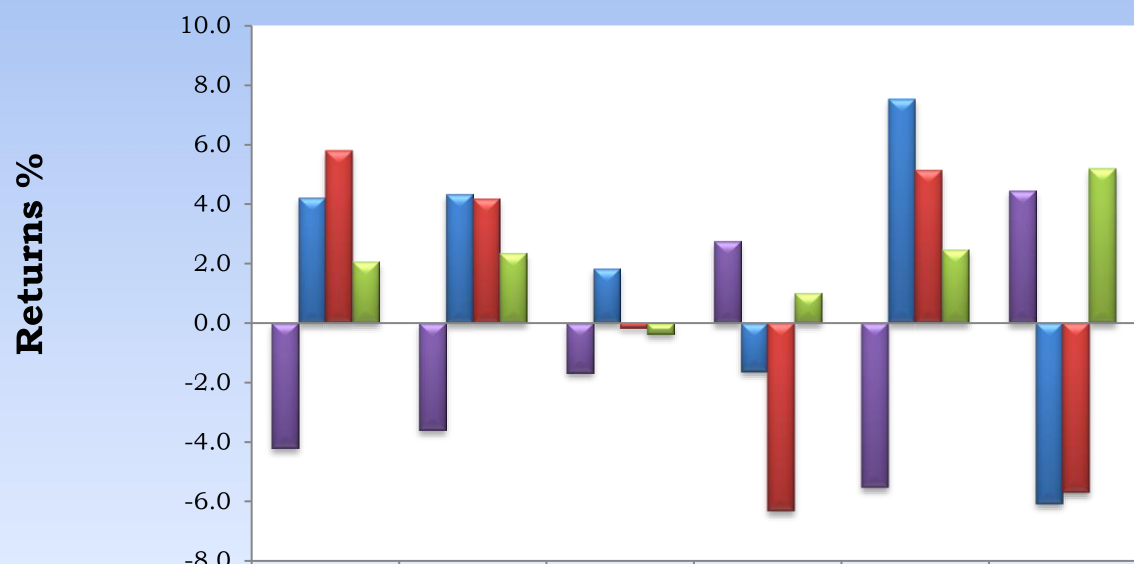


	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
Dec-19	1.54	1.58	1.57	1.57	1.69	1.92	2.39
Mar-20	0.06	0.14	0.15	0.25	0.38	0.67	1.32
Jun-20	0.13	0.13	0.15	0.15	0.29	0.66	1.41
Sep-20	0.09	0.10	0.12	0.13	0.28	0.68	1.46
Dec-20	0.06	0.08	0.10	0.12	0.36	0.91	1.64

Source: Bloomberg

In currency markets, the US dollar as measured by the DXY index depreciated 4.21 per cent over the quarter (see Figure 4). With the successful resolution of the Brexit negotiations, the Euro and Pound strengthened by 4.22 per cent and 5.80 per cent, respectively, against the US dollar. In addition, the relatively larger fiscal and monetary stimuli response by the US government in comparison to other developed countries raised concerns by investors about the level of the US debt burden and resulted in overall US dollar weakness.

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



	QTR Ended Dec-20	QTR Ended Sep-20	QTR Ended Jun-20	QTR Ended Mar-20	FY 19/20	FY 18/19
DXY CURNCY	-4.21	-3.60	-1.67	2.76	-5.53	4.46
EURUSD CURNCY	4.22	4.34	1.84	-1.62	7.54	-6.08
GBPUSD CURNCY	5.80	4.19	-0.15	-6.31	5.13	-5.69
JPYUSD CURNCY	2.07	2.35	-0.37	1.02	2.49	5.20

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 December 2020 and the previous three (3) quarters.

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

			Mar-20	Jun-20	Sep-20	Dec-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	25.32	20.78	21.14	19.59
	US Core Domestic Fixed Income	40.00	42.25	39.97	39.36	36.50
	US Core Domestic Equity	17.50	17.45	21.61	20.61	22.88
	Non-US Core International Equity	17.50	14.98	17.65	18.89	21.03

Totals may not sum to 100 due to rounding.

During the period October to December 2020, changes in mandate weights were a result of movements in the market value of the Fund's assets and a withdrawal from the HSF. When combined, these events contributed to the HSF's overall underweight allocation to fixed income securities and corresponding overweight to equities as at the end of the quarter.

[2] The Board's approved investment policy allow the mandate weights to deviate from the approved SAA weights by +/- 5 per cent.

At the HSF's mandate level, the US Short Duration Fixed Income mandate held the largest underweight position of 5.41 per cent, while the US Core Domestic Equity mandate maintained the largest overweight position of 5.38 per cent (see Table 3).

At the end of the quarter, the Board of the HSF approved the slightly excess weights on asset classes above the approved 5 per cent limit for tactical reasons and hence, decided not to rebalance to Fund to the approved SAA weights. The Board assessed that the overweight exposure to equity will benefit the Fund's performance because it expected equity to outperform fixed income over the short-run without unduly impacting its approved risk tolerance for the HSF. The Board approved a monthly monitoring and assessment of its decision.

The total net asset value of the Fund as at the end of December 2020 was **US$5,888.1 million**, compared with US$5,731.8 million at the end of the previous quarter. Of this total, the Investment Portfolio was valued at US$5,885.9 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.

Performance of the Investment Portfolio

During the first fiscal quarter of 2021, the HSF's Investment Portfolio returned 6.43 per cent primarily due to significant gains in the equity mandates (see Figure 5).

When compared with its SAA benchmark[3], which rose 5.50 per cent, the HSF outperformed by 93 basis points. Overweight allocations to the equity mandates, which outperformed the fixed income mandates, was the main contributor to excess returns (see Table 2). This was augmented by the strong relative performance of asset managers, particularly within the US Core Domestic Fixed Income mandate.

The **US Core Domestic Equity** mandate continued to deliver strong gains returning 14.11 per cent for the quarter. However, it underperformed its benchmark, the Russell

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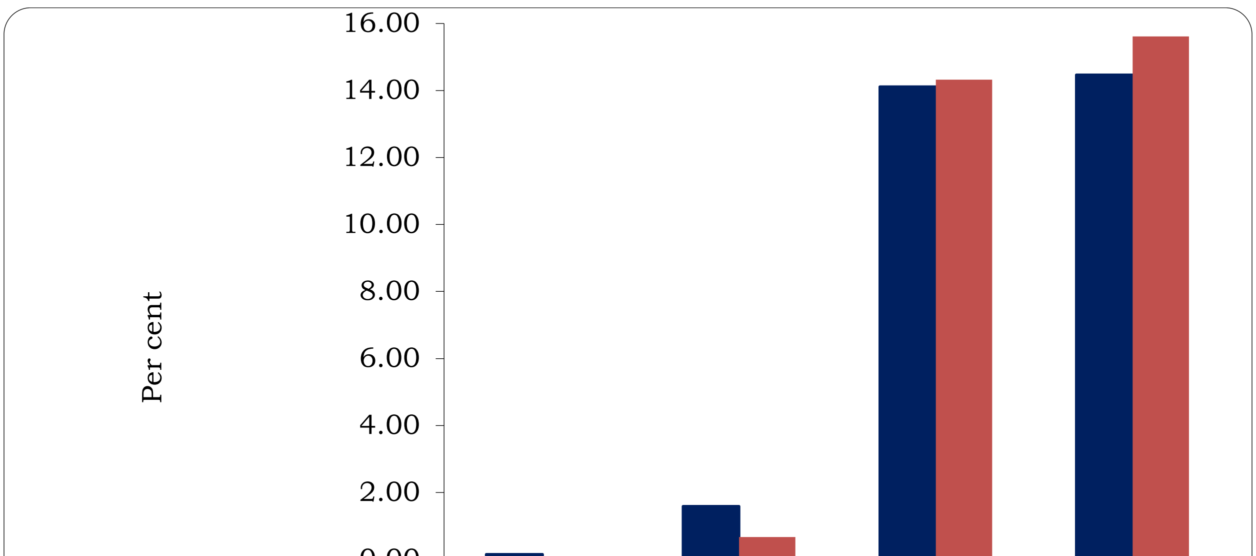
[3] The SAA benchmark is a blended benchmark, which comprises of the Bank of America/Merrill Lynch US Treasury 1-5 Years Index (25%), Bloomberg Barclays US Aggregate Bond Index (40%), Russell 3000 ex Energy Index (17.5%), and MSCI EAFE ex Energy Index (17.5%).

3000 ex Energy index, by 22 basis points (see Figure 5). The mandate underperformance was mainly due to poor stock selection over the period. Exposures within the utilities and consumer discretionary sectors detracted from performance, while investments in financial services, technology as well as materials and processing sectors helped to partially reduce the mandate's overall benchmark underperformance. The mandate's net asset value as at December 31, 2020 was **US$1,346.9 million** compared with US$1,180.8 million three months earlier.

Figure 5
Absolute Returns by Mandate
For the period October – December 2020
/per cent/



	US Short Duration	US Core Fixed Income	US Core Domestic Equities	Non US Core Internationa l Equities
Composite Portfolio Return	0.16	1.59	14.11	14.46
SAA Benchmark Return	0.02	0.67	14.33	15.62

The **Non-US Core International Equity** mandate also gained, rising 14.46 per cent during the quarter. This compares to a return of 15.62 per cent for its benchmark, the MSCI EAFE ex Energy index. In aggregate, security selection in Japan and Europe ex-UK detracted from performance. This was partially offset by stock choices in the UK. Country allocation also incrementally added to relative underperformance during the quarter. The mandate's net asset value at the end of December, 2020 was **US$1,237.6 million** compared with US$1,082.5 million at the end of September 2020.

The **US Short Duration Fixed Income** mandate returned a modest 0.16 per cent the first quarter of the financial year. It outperformed its benchmark, the Bank of America Merrill Lynch US Treasury 1-5 year index, by 14 basis points. The portfolio's allocation to credit spread products and its long inflation exposures contributed positively to performance. The net asset value of this mandate as at December 31, 2020 was **US$1,153.0 million** compared to US$1,211.5 million as at September 30, 2020. The decrease in the net asset value was mainly due to a withdrawal of US$60.0 million during the quarter.

The longer duration **US Core Domestic Fixed Income** mandate returned 1.59 per cent compared to 0.67 per cent for its benchmark, the Barclays Capital US Aggregate Bond index. This outperformance was driven by overweight exposures to investment grade corporate credits and securitised assets. The net asset value of this mandate at the end of December 2020 was **US$2,148.4 million** compared to US$2,255.8 million three months earlier. Market gains on the assets of the portfolio helped to partially offset the withdrawal of US$141.0 million from the mandate during the period.

SECTION 4 – COMPLIANCE AND PORTFOLIO RISKS

Compliance

As at the end of the quarter, one asset manager within the Non-US Core International equity mandate continued to fall below the performance objectives outlined in the investment guidelines. Also, the managers in the US Core Domestic Fixed Income mandate operated above the approved risk target relative to the benchmark, as stated in their respective investment guidelines. The Central Bank, as manager of the Fund, aims to bring the managers back in compliance with the investment guidelines as soon as feasible. These managers continue to be closely monitored by the Central Bank and frequent discussions are held regarding the market environment and portfolio positioning.

The withdrawal from the HSF and market movements during the quarter increased the deviation of the mandate weights from the approved SAA. As at December 31, 2020, the allocation to the US Short Duration Fixed Income and US Core Domestic Equity mandates exceeded the allowable +/- 5 per cent range (see Table 3). Based on the HSF Board's assessment, a decision was taken to defer the rebalancing of the Fund until the quarter ending March 30, 2021. To support the review of its decision, the Board has requested the Central Bank to provide monthly update on market developments, and changes to the asset exposures and performance of the Fund.

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 December 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 December 31, 2020.

Table 5
Weighted Average Duration
/Years/

Mandate	Portfolio	Benchmark
US Short Duration	**2.54**	**2.59**
US Core Domestic Fixed Income	**6.30**	**6.22**

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 December 2020, the currency exposure for this portfolio was 97 per cent of its market value. During the quarter, all the portfolios were within their respective limits.

Appendix I

HSF Portfolio - Historical Performance

Quarter End	Current Returns			Financial YTD			Annualised Return Since Inception		
	Portfolio	Benchmark	Excess	Portfolio	Benchmark	Excess	Portfolio	Benchmark	Excess
	%	%	bps	%	%	bps	%	%	bps
FY 2010									
December	0.96	0.89	6.65	0.96	0.89	6.65	3.72	3.78	-6.16
March	1.61	1.68	-6.20	2.59	2.58	0.49	3.95	4.03	-7.76
June	-1.83	-1.89	6.05	0.71	0.64	6.69	3.07	3.12	-5.18
September	5.33	5.08	24.73	6.07	5.75	31.93	4.37	4.35	2.06
FY 2011									
December	2.29	2.21	8.15	2.29	2.21	8.15	4.70	4.65	4.13
March	1.62	1.54	7.24	3.94	3.79	15.68	4.81	4.76	5.72
June	1.88	1.81	6.68	5.89	5.67	22.91	4.98	4.91	7.00
September	-4.82	-4.28	-53.66	0.79	1.14	-34.89	3.57	3.63	-6.29
FY 2012									
December	2.74	3.03	-28.52	2.74	3.03	-28.52	3.97	4.08	-12.00
March	5.04	4.46	57.50	7.92	7.63	29.29	4.78	4.78	-0.08
June	-0.90	-0.60	-30.42	6.95	6.98	-3.72	4.37	4.43	-6.13
September	3.53	2.98	55.03	10.73	10.18	55.02	4.68	4.65	2.07
FY 2013									
December	1.49	1.45	4.11	1.49	1.45	4.11	4.88	4.83	4.76
March	3.29	2.90	39.19	4.82	4.38	44.01	5.23	5.12	11.20
June	-0.30	-0.69	39.05	4.51	3.66	84.64	4.97	4.80	17.26
September	3.95	3.47	47.35	8.63	7.26	137.06	5.40	5.16	24.01
FY 2014									
December	3.95	2.66	129.38	3.95	2.66	129.38	5.80	5.37	42.67
March	1.46	1.30	16.28	5.47	4.00	147.73	5.80	5.37	43.52
June	2.56	2.30	25.90	8.17	6.38	178.44	5.96	5.51	45.76
September	-0.48	-0.73	25.31	7.65	5.60	204.51	5.69	5.22	47.69
FY 2015									
December	2.25	1.63	62.27	2.25	1.63	62.27	5.81	5.26	54.46
March	2.29	2.25	3.95	4.60	3.92	67.71	5.92	5.39	53.34
June	-0.02	-0.51	49.43	4.58	3.39	119.07	5.74	5.16	57.93
September	-2.02	-2.19	16.83	2.47	1.13	134.06	5.31	4.73	58.12

Quarter End	Current Returns			Financial YTD			Annualised Return Since Inception		
	Portfolio	**Benchmark**	**Excess**	**Portfolio**	**Benchmark**	**Excess**	**Portfolio**	**Benchmark**	**Excess**
	%	**%**	**bps**	**%**	**%**	**bps**	**%**	**%**	**bps**
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
June	8.62	7.57	104.53	4.30	4.90	-60.38	5.46	5.06	39.94
September	3.74	2.98	76.36	8.20	8.03	17.42	5.65	5.20	45.01
FY 2021									
December	6.43	5.50	93.52	6.43	5.50	93.52	6.02	5.51	51.10

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	-
September 30, 2020	5,731,799,397	457,090,777	3,378,158,691	(979,853,158)
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)
June 30, 2020	5,817,072,795	493,393,358	3,163,247,380	(600,000,000)
September 30, 2020	5,731,799,397	214,911,311	3,378,158,691	(300,000,000)
December 31, 2020	5,888,114,410	355,398,920	3,733,557,611	(198,943,283)

Appendix III

Summary Characteristics of Composite Benchmarks
Fixed Income Benchmarks

Key Characteristics	Bloomberg Barclays US Aggregate Index	Merrill Lynch 1-5 Index
Total Holdings	11,984	151
Coupon (%)	2.76	1.71
Duration (Years)	6.22	2.59
Average Life (Years)	8.28	2.66
Yield to Maturity (%)	1.14	0.18
Option Adjusted Spread (bps)	42	0
Average Rating (S&P)	AA	AAA
Minimum Rating (S&P)	BBB	AA+

Equity Benchmarks

Key Characteristics	Russell 3000 (ex-Energy)	MSCI EAFE (ex-Energy)
Total Holdings	2,944	844
Earnings Per Share (EPS Growth 3-5yr fwd)	13.5	9.38
Price Earnings (P/E fwd)	24.9	21.03
Price / Book (P/B)	4.0	1.76
Weighted Average Market Capitalisation* (Bn)	417.4	71.4

*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.

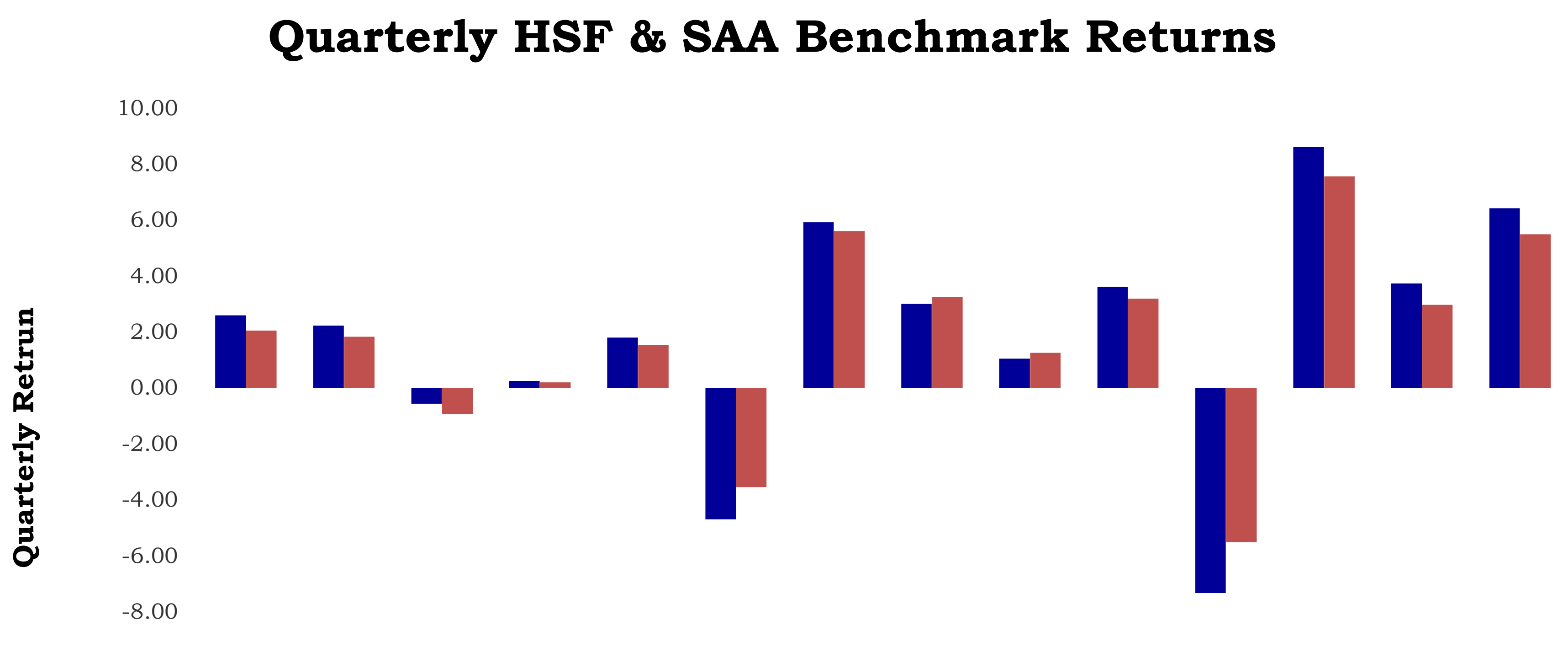
Appendix IV

Summary of the Fund's Net Asset Value by Mandate /US$ Million/

	Dec-19	**Mar -20**	**Jun -20**	**Sep -20**	**Dec -20**
Total Fund Value	**6,478**	**5,925**	**5,817**	**5,732**	**5,888**
Total Value of Equity	**2,447**	**1,921**	**2,283**	**2,263**	**2,584**
US Core Domestic Equity	1,290	1,034	1,256	1,181	1,347
Non-US Core International Equity	1,157	888	1,026	1,083	1,238
Total Value of Fixed Income	**4,029**	**4,003**	**3,532**	**3,467**	**3,301**
US Short Duration Fixed Income	1,530	1,500	1,208	1,211	1,153
US Core Domestic Fixed Income	2,500	2,503	2,324	2,256	2,148
Total Value of Cash or Cash Equivalents	**2**	**1**	**2**	**1**	**2**

NB: Differences in totals are due to rounding.

Appendix V
HSF Portfolio Quarterly Returns
/per cent/



	FY2017 Q4	FY2018 Q1	FY2018 Q2	FY2018 Q3	FY2018 Q4	FY2019 Q1	FY2019 Q2	FY2019 Q3	FY2019 Q4	FY2020 Q1	FY2020 Q2	FY2020 Q3	FY2020 Q4	FY2021 Q1
HSF Portfolio	2.61	2.24	-0.55	0.26	1.81	-4.69	5.93	3.01	1.05	3.62	(7.33)	8.62	3.74	6.43
Benchmark	2.06	1.83	-0.94	0.21	1.54	-3.54	5.61	3.26	1.27	3.20	(5.51)	7.57	2.98	5.50