HERITAGE AND STABILISATION FUND (HSF)

QUARTERLY INVESTMENT REPORT

APRIL TO JUNE 2021

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[1] This section includes economic data available as at July 20, 2021.

EXECUTIVE SUMMARY

- Global economic prospects improved during the third quarter of the financial year with further progress in vaccination rates in most major economies. The increase in vaccination and easing of pandemic restrictions led to a sharp rebound in consumer spending and business activity. Inflation jumped higher as rising commodity prices, strong demand and pandemic-related supply chain shortages intensified pricing pressures.

- During the quarter key central banks maintained their high levels of monetary accommodation but the future path of monetary policy remained uncertain. In the United States, the strength of the recovery and Federal Reserve (Fed) announced plans to review its asset purchase programme have increased market expectations that rate hikes could begin in 2023, one year earlier than anticipated. Meanwhile, diverging views among committee members at the Bank of England (BOE) and European Central Bank (ECB) sparked speculation around the appropriate timing for monetary policy tightening.

- Global equity markets extended gains as accelerated vaccination programmes, particularly in Europe, bolstered hopes for a durable recovery of the global economy. Investors' optimism was also fueled by robust economic and corporate earnings data as well as continued fiscal support. In US fixed income markets, returns were positive as longer-dated interest rates fell significantly due to lower inflation and growth expectations following the June Federal Open Market Committee (FOMC) meeting.

- The Heritage and Stabilisation Fund returned 4.00 per cent over the quarter ending June 2021. All investment mandates performed positively during the period (see Table 1). The largest contribution to the Fund's performance came from the equity mandates that added 3.15 per cent while collectively, the fixed income mandates provided 0.81 percent (see Table 2).

- When compared to its SAA benchmark, which returned 3.09 per cent, the HSF outperformed by 0.90 per cent or 90 basis points (see Table 2 and Appendix I). The HSF's outperformance was mainly driven by the overweight exposure to equities relative to the SAA benchmark. This benefitted the Fund as the returns generated from equities outpaced that of fixed income over the quarter. External asset manager strategies incrementally added to outperformance across all mandates, with managers within the US Core Fixed Income mandate providing the largest contribution.

- As at the end of June 2021, the total net asset value of the HSF was **US$5,583.2 million**; approximately US$78.5 million lower than the previous quarter's closing value of US$5,661.7 million. During the quarter, a total of US$300.0 million was withdrawn from the Fund under Section15A (1)(b) of the amended HSF Act.

Table 1

Absolute Quarterly Returns
For the period April – June 2021
/per cent/

	Absolute Return HSF	Absolute Return Benchmark
Composite Portfolio	**4.00**	**3.09**
US Short Duration Fixed Income	0.18	0.11
US Core Domestic Fixed Income	2.29	1.83
US Core Domestic Equity	8.25	8.15
Non-US Core International Equity	5.51	5.25

Table 2
Contributions to Quarterly Returns
For the period April - June 2021
/per cent/

	3 Months Portfolio Weighted Return to 30-Jun-2021	
	HSF	Benchmark
Composite Portfolio	**4.00**	**3.09**
US Short Duration Fixed Income	0.04	0.03
US Core Domestic Fixed Income	0.77	0.73
US Core Domestic Equity	1.89	1.40
Non-US Core International Equity	1.26	0.92

NB: Differences in totals are due to rounding.

SECTION 1 – INTERNATIONAL ECONOMIC ENVIRONMENT

The global economic outlook strengthened during the quarter ending June 2021. The World Bank, in its Global Economic Prospects mid-year review upgraded its growth projections for 2021 to 5.6 per cent from 4.1 per cent in January. The Covid-19 immunisation progress was a key factor to the brighter forecast, with a few major economies expected to drive the global recovery. However, the World Bank noted that the uneven access to Covid-19 vaccines was likely to result in growth in many developing economies lagging those in advanced economies as developing countries continued to struggle with getting sufficient supply of vaccines.

Among the advanced economies, the US and United Kingdom (UK) are expected to lead the recovery with the successful rollout of vaccines and significant progress towards the complete easing of Covid-19 restrictions. In the US, most states fully re-opened as infection rates remained somewhat contained with close to 55 per cent of the population vaccinated as at the end of June. Business confidence improved supported by a swift uptick in demand for goods and services. The Markit US Composite Purchasing Managers Index (PMI) rose by 4.0 points to end the quarter at 63.7 points. The rapid resurgence in activity along with pandemic related supply chain disruptions contributed to a sharp increase in inflation.

The Consumer Price Index (CPI) ex-Food and Energy jumped to 4.5 per cent in June when compared to 1.6 per cent in March 2021. Meanwhile, the unemployment rate was 5.9 per cent in the second quarter of 2021, a decline of just 0.1 percentage point from the first quarter. On the fiscal front, President Biden secured a$1.2 trillion infrastructure deal to be disbursed over eight years. However, the economic boost from government spending may begin to fade during the second half of the year as Covid-19 fiscal relief programmes wind-down and the slow rollout of the $1.2 trillion infrastructure deal.

Similarly, the UK economy rebounded during the quarter as the country slowly emerged from its third lockdown. Vaccination rates approached 70 per cent at the national level, representing one of the highest among developed countries. Nonetheless, the government warned that the risk to a durable recovery remained high due to the growing presence of the highly contagious Delta virus variant. Business conditions recovered with the Markit/CIPS UK Composite PMI increasing by 5.8 points over the quarter to 62.2 points in June. The UK Government provided additional support to companies to help with the resumption of operations and lent assistance to workers through the extension of its jobs retention programme. The unemployment rate was relatively stable at 4.8 per cent in May when compared to 4.9 per cent in March. Pricing pressures increased with inflation more than doubling over the quarter. The CPI ex-food and energy climbed to 2.3 per cent in June from 1.1 per cent in March 2021.

The near-term outlook for the Eurozone economies improved as immunisations gathered pace with the vaccinated population, rising to around 50 per cent from just 12.0 per cent at the end of March. The region's largest economies were in lockdown early in the quarter but falling infection rates encouraged countries to relax restrictions. The Markit Euro Area Composite PMI increased six points to 59.5 points, largely due to a rebound in service sector activity. The Markit Euro Area Services PMI rose to 58.3 points in June from 49.6 points in March 2021, the reading signalled considerable expansion in business activity over the quarter. The re-opening of businesses supported the labour market and the unemployment rate declined to 7.9 per cent in May 2021 from 8.1 per cent in March. Higher commodity prices and supply shortages coupled with robust demand drove inflation to a multi-year high of 2.0 per cent in May. However, when compared to March 2021, CPI ex-food and energy remained stable at 0.9 per cent in June.

In Japan, the slow pace of immunisations and elevated infection rates over the quarter led to protracted lockdowns. As businesses remained shuttered, weak private consumption and capital expenditure were partially offset by solid overseas demand. Total export volume grew by 38.5 per cent in May with shipments to the US and Europe rising by 77.7 per cent and 38.8 per cent, respectively. Meanwhile, inflation increased modestly towards the end of the quarter but remained at subdued levels. Following eight consecutive months of declines, the National CPI gained 0.2 per cent in June. The government accelerated its vaccination programme in hopes of easing measures ahead of the Tokyo Olympic in July. However, with approximately 25 per cent of population inoculated, the country endured another setback as concerns around the spread of the more contagious virus variants led officials to prohibit spectators at the games.

Major central banks left policy rates unchanged and conveyed that support would remain in place for as long as necessary. Policymakers were generally encouraged by the strong economic rebound thus far but acknowledged the downside risks posed by the virus variants. Despite strong inflation data, officials re-affirmed the view that recent pricing pressures were a result of transitory effects that would eventually abate. The US Fed surprised markets at its June FOMC meeting with its plans to review the size of its asset purchase programme. In addition, the continued rise in consumer prices and strong growth numbers as increased market expectations that the first rate hike could occur in 2023, a year earlier than expected. At the ECB's June policy meeting, some governing council members were in favour of small reductions to its bond buying given concerns around maintaining pandemic emergency measures. In contrast, the BOE signalled its willingness to tolerate above-target CPI in the near term and cautioned against tightening prematurely. Elsewhere, the Bank of Japan (BOJ) responded to the slow recovery by extending emergency lending facilities by six months, through the end of March 2022.

SECTION 2 – CAPITAL AND MONEY MARKET REVIEW

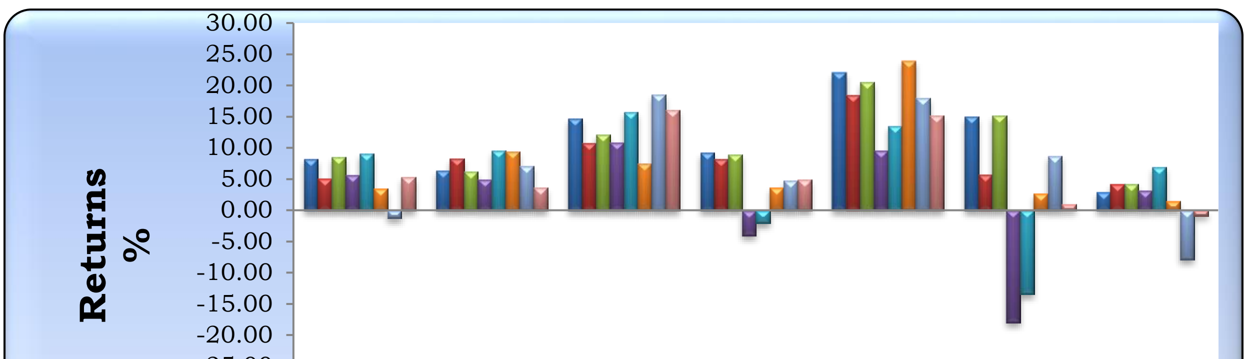
Global equities continued their strong performance as vaccination rates accelerated in most developed economies and fuelled hopes for a durable recovery. Despite concerns around inflation and the new more contagious virus variants, the rapid resurgence in re-opening activity strengthened expectations for continued growth during the second half of the year. Market volatility declined with the US Chicago Board Options Exchange Volatility Index (VIX) averaging 17.97 points in the three months to June when compared to an average of 23.16 points during the prior quarter. Similarly, the European measure of investor anxiety, the Euro Stoxx 50 Volatility Index (VSTOXX), was lower over the period, declining by 2.86 points to close the quarter at 18.50 points.

The US Standard and Poor's (S&P) 500 index gained 8.54 per cent, rising for a fifth consecutive quarter. In addition to positive sentiment stemming from vaccination progress, encouraging economic data and robust corporate earnings growth lifted stock markets higher. All sectors in the S&P 500 index delivered positive returns except for Utilities, which declined a modest 0.41 per cent. Real estate, Information technology and Energy stocks performed the best. Oil prices rose 24.2 per cent over the quarter to end at $73.47 per barrel (West Texas Intermediate Oil).

Non-US developed stock markets, as represented by the MSCI EAFE index, rose by 5.33 per cent, when measured in US dollar terms (see Figure 1). Exposure to local currencies was positive for returns as the US dollar depreciated against most of the G-10 currencies. Despite the ongoing downside risks posed by Covid-19 variants, the UK's FTSE 100 index gained 5.63 per cent, Germany's DAX 30 index advanced 3.48 per cent and France's CAC 40 index rallied 9.07 per cent in local currency terms. In contrast, Japan's Nikkei 225 index retreated 1.24 per cent as pandemic restrictions remained in place during the quarter.

Figure 1

Total Returns on Equity Indices
/Per cent/

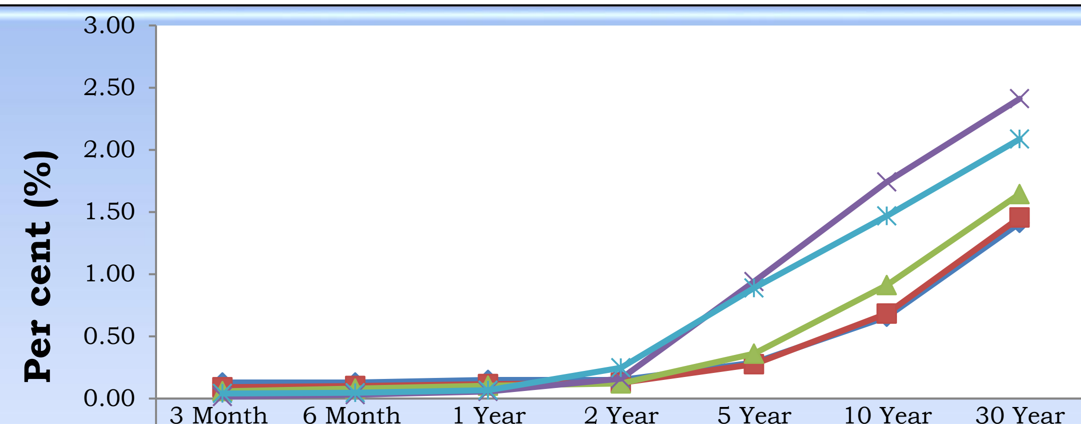


	QTR Ended Jun-21	QTR Ended Mar-21	QTR Ended Dec-20	QTR Ended Sep-20	QTR Ended Jun-20	FY 19/20	FY 18/19
Russell 3000	8.24	6.34	14.68	9.21	22.03	14.99	2.91
Dow Jones	5.08	8.29	10.73	8.22	18.51	5.70	4.21
S&P 500	8.55	6.17	12.14	8.93	20.54	15.13	4.25
FTSE 100 - UK	5.63	4.97	10.87	-4.02	9.58	-17.96	3.18
CAC 40 - France	9.07	9.59	15.76	-2.03	13.48	-13.41	6.93
DAX 30 - Germany	3.48	9.40	7.51	3.65	23.90	2.68	1.48
Nikkei 225 - Japan	-1.24	7.07	18.52	4.75	17.97	8.69	-7.84
MSCI EAFE	5.33	3.62	16.08	4.90	15.14	0.95	-0.87

Source: Bloomberg

In the US fixed income market, the Treasury curve flattened with the spread between the 2-year and 10-year portion narrowing by 36 basis points to 1.22 per cent. The prospect of Fed tightening drove shorter-dated yields higher with the 2-year yield rising by nine basis points to 0.25 per cent. Conversely, the 10-year yield fell by 27 basis points to end June at 1.47 per cent, reversing course from its ascent during the prior period. Longer-dated treasury yields declined as investors priced in lower long-term inflation and growth projections.

Figure 2
US Treasury Curve
/Per Cent/

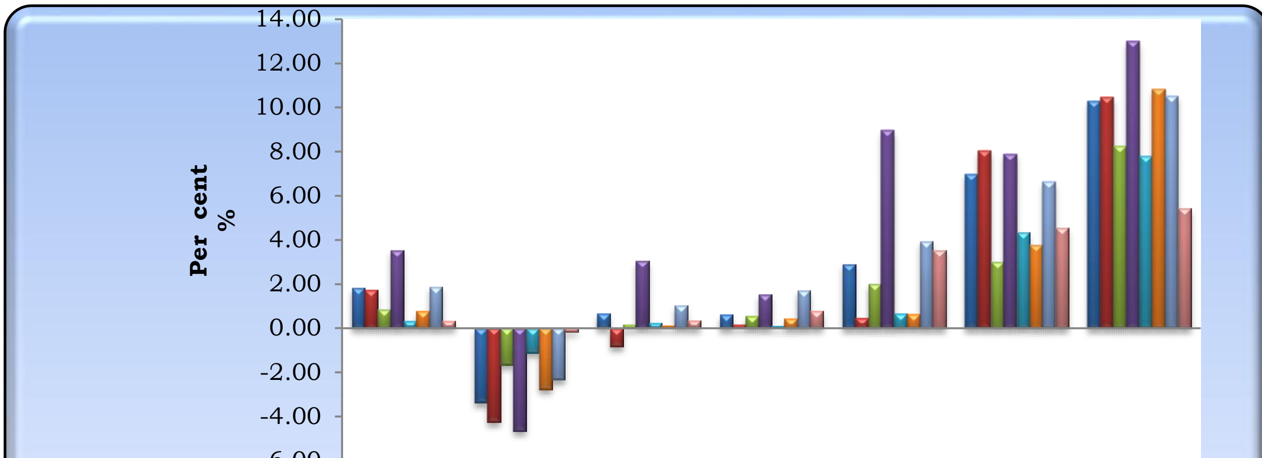


	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
Jun-20	0.13	0.13	0.15	0.15	0.29	0.66	1.41
Sep-20	0.09	0.10	0.12	0.13	0.28	0.68	1.46
Dec-20	0.06	0.08	0.10	0.12	0.36	0.91	1.64
Mar-21	0.02	0.03	0.06	0.16	0.94	1.74	2.41
Jun-21	0.04	0.05	0.07	0.25	0.89	1.47	2.09

Source: Bloomberg

The broader US fixed income market, as represented by the Bloomberg Barclays US Aggregate Bond Index, gained 1.83 per cent during the three months to June 2021 (see Figure 3). The index benefitted from its relatively higher interest rate risk exposures given the sharp decline in long-term yields. The US Corporate bond sub-sector outperformed the broader market, rising by 3.55 per cent. Meanwhile, US Asset Backed and Mortgage Backed securities lagged, returning 0.34 per cent and 0.33 per cent, respectively.

Figure 3
Returns on Fixed Income Indices
/Per Cent/

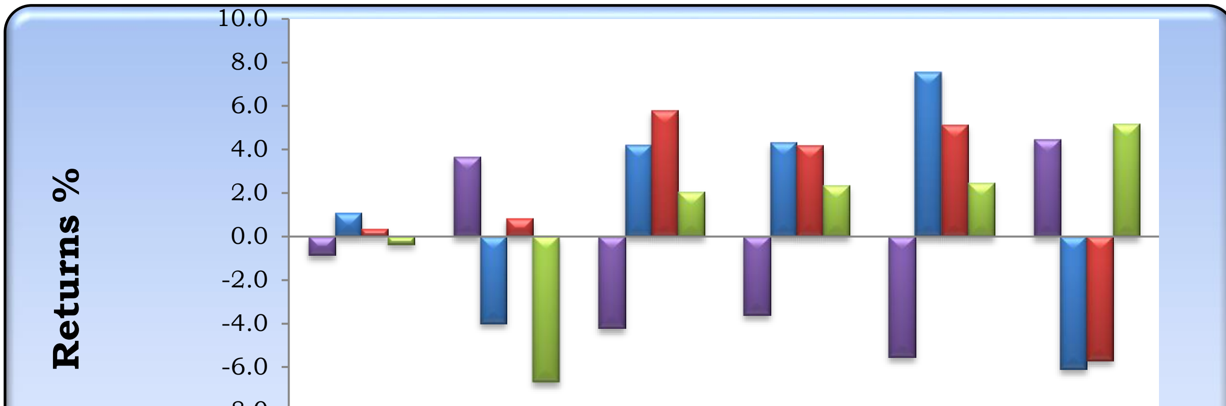


	QTR Ended Jun-21	QTR Ended Mar-21	QTR Ended Dec-20	QTR Ended Sep-20	QTR Ended Jun-20	FY 19/20	FY 18/19
Barclays US Aggregate	1.83	-3.37	0.67	0.62	2.90	6.98	10.30
US Treasury	1.75	-4.25	-0.83	0.17	0.48	8.04	10.48
Agencies	0.86	-1.66	0.18	0.55	2.02	3.02	8.24
US Corporate	3.55	-4.65	3.05	1.54	8.98	7.90	13.00
US MBS	0.33	-1.10	0.25	0.11	0.67	4.36	7.80
G7 Bonds (Hedged)	0.78	-2.77	0.14	0.45	0.66	3.77	10.84
US CMBS	1.87	-2.32	1.05	1.71	3.95	6.63	10.51
US ABS	0.34	-0.16	0.36	0.80	3.54	4.55	5.42

Source: Bloomberg

The US Dollar, as measured by the Dollar Spot Index (DXY), depreciated by 0.85 per cent over the quarter. Most of the weakness occurred early in the period due to rapidly rising inflation and a brief run of disappointing US economic data. However, the prospect of earlier than anticipated interest rate increases helped to stem the decline. In the UK, the British Pound strengthened further against the US dollar, rising 0.35 per cent over the quarter. When compared to previous periods, gains were more modest as a surge in Delta variant cases detracted from the currency. While, the Euro appreciated 1.09 per cent as the region's vaccination programme accelerated. In contrast, extended lockdowns, immunisation delays and growing divergence in economic outlooks resulted in the Yen depreciating by 0.35 per cent against the US dollar.

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



	QTR Ended Jun-21	QTR Ended Mar-21	QTR Ended Dec-20	QTR Ended Sep-20	FY 19/20	FY 18/19
DXY CURNCY	-0.85	3.66	-4.21	-3.60	-5.53	4.46
EURUSD CURNCY	1.09	-3.98	4.22	4.34	7.54	-6.08
GBPUSD CURNCY	0.35	0.83	5.80	4.19	5.13	-5.69
JPYUSD CURNCY	-0.35	-6.68	2.07	2.35	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 June 2021 and the previous three (3) quarters.

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

Portfolio Weights	Asset Class	Target Weight SAA	Sep-20 Actual % of Fund	Dec-20 Actual % of Fund	Mar-21 Actual % of Fund	Jun-21 Actual % of Fund
	US Short Duration Fixed Income	25.00	21.14	19.59	19.76	18.28
	US Core Domestic Fixed Income	40.00	39.36	36.50	33.78	33.23
	US Core Domestic Equity	17.50	20.61	22.88	23.56	24.01
	Non-US Core International Equity	17.50	18.89	21.03	22.91	24.48

Totals may not sum to 100 due to rounding.

During the period April to June 2021, changes in mandate weights were a result of movements in the market values of the Fund's assets and withdrawal activity from the HSF. When combined, these events contributed to the HSF's overall underweight allocation to fixed income securities and the corresponding overweight to equities as at the end of the quarter.

At the HSF's mandate level, the US Core Fixed Income mandate held the largest underweight position of 6.77 per cent, while the Non-US Core International Equity mandate had the largest overweight position of 6.98 per cent (see Table 3).

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

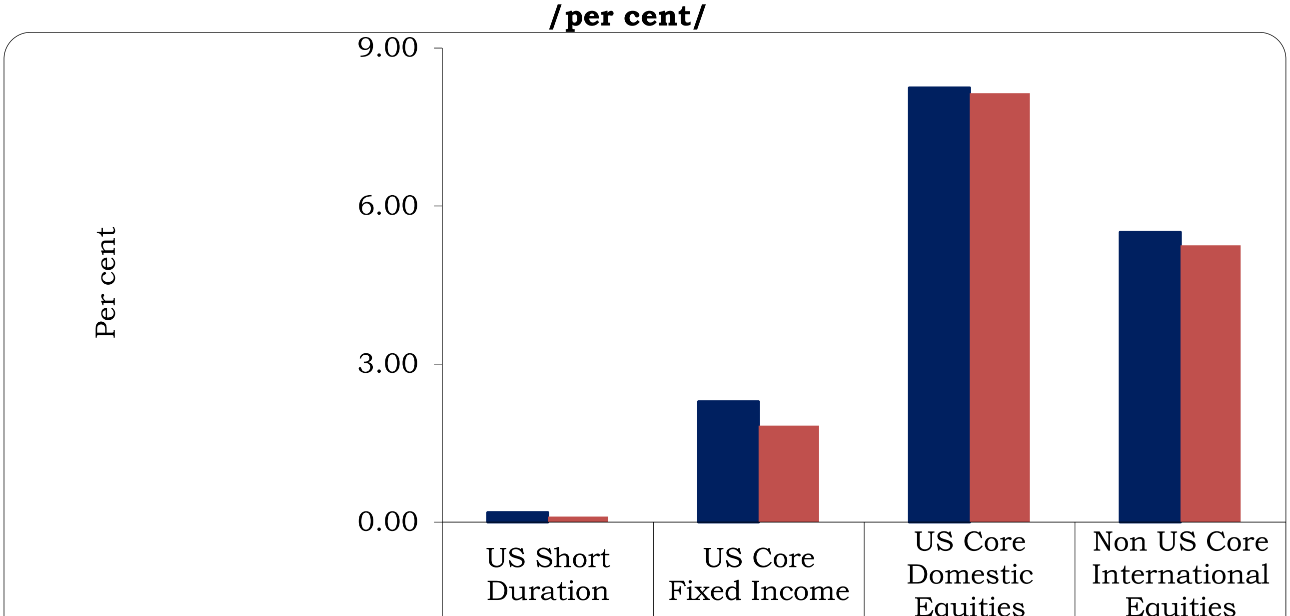
Following continuous reviews, the Board took a tactical decision not to rebalance the Fund and thus, allowed the Fund's asset allocation to deviate from the approved +/-5.0 per cent limit. The Board assessed that the overweight exposure to equity markets would continue to benefit the Fund's performance given expectations for equities to provide better risk-adjusted performance than fixed income over the near-term. The Board maintained that it would continue to conduct a monthly assessment of its decision.

The total net asset value of the Fund as at the end of June 2021 was **US$5,583.2 million**, compared to US$5,661.7 million at the end of the previous quarter. Of this total, the Investment Portfolio was valued at US$5,582.1 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 third fiscal quarter, the HSF's Investment Portfolio returned 4.00 per cent with positive performance across all mandates (see Figure 5).

Figure 5
Absolute Returns by Mandate
For the period April - June 2021
/per cent/



	US Short Duration	US Core Fixed Income	US Core Domestic Equities	Non US Core International Equities
Composite Portfolio Return	0.18	2.29	8.25	5.51
SAA Benchmark Return	0.11	1.83	8.15	5.25

When compared with its SAA benchmark[3], which returned 3.09 per cent, the HSF outperformed by 90 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 performances of asset managers, particularly within the US Core Fixed Income mandate.

The **US Core Domestic Equity** mandate returned 8.25 per cent for the quarter. The mandate outperformed its benchmark, the Russell 3000 ex Energy index by 10 basis points (see Figure 5). The mandate's outperformance was mainly due to strong stock selection. Exposures within the telecommunications, industrials, and financials sectors were the main contributors to excess returns. The mandate's net asset value as at June 30, 2021 was **US$1,340.3 million** compared with US$1,333.4 million three months earlier. The decrease in the net asset value was mainly due to a withdrawal of $100.0 million during the quarter, which was partially offset by market gains.

The **Non-US Core International Equity** mandate also produced positive returns, earning 5.51 per cent during the quarter. This compares to a benchmark return on the MSCI EAFE ex Energy index of 5.25 per cent. In aggregate, security selection in countries from the Asia-Pacific region added to performance, while Europe ex-UK stock positions detracted. Collectively, country allocation reduced the mandate's overall relative outperformance during the quarter. The mandate's net asset value was **US$1,366.7 million** at the end of June 2021 compared to US$1,296.6 million as at March 31, 2021.

The **US Short Duration Fixed Income** mandate gained 0.18 per cent in the third quarter of the financial year. It outperformed the Bank of America Merrill Lynch US Treasury 1-5 year index's benchmark return of 0.11 per cent. The portfolio's allocation to credit spread products as well as its long inflation strategies contributed to excess returns. The net asset value of the mandate as at June 30, 2021 was **US$1,020.3**

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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%).

million compared to US$1,118.4 million at the end of March 2021. The decrease in the net asset value was due to a withdrawal of US$100.0 million during the quarter.

The longer duration **US Core Domestic Fixed Income** mandate advanced 2.29 per cent compared to a return of 1.83 per cent for its benchmark, the Barclays Capital US Aggregate Bond index. Cross-sector strategies including an overweight exposure to investment grade corporates and an underweight position in agency mortgage-backed securities were positive for outperformance. In addition, security selection within corporates and the commercial mortgage-backed sector further enhanced returns. The net asset value of this mandate at the end of June was **US$1,854.8 million** compared to US$1,911.9 million three months earlier. A withdrawal of US$100.0 million during the quarter was the main driver of the mandate's lower net asset value

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 stand below the performance objectives outlined in the investment guidelines. Additionally, one asset manager within the US Core Domestic Equity mandate exceeded its active risk target relative to its benchmark, as defined in the investment guidelines. The re-balancing of the benchmark index at the end of June contributed to this momentary deviation and the portfolio was brought back into compliance shortly thereafter.

Further, since the extreme market events in March 2020, the managers in the US Core Domestic Fixed Income mandate continue to operate above the risk target relative to the benchmark, as stated in their 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 coupled with market movements during the quarter increased the deviation of the mandate weights from the approved SAA. As at June 30, 2021, all the mandates exceeded the allowable +/- 5 per cent deviation (see Table 3). Based on the HSF Board's assessment, a decision was taken to defer the rebalancing of the Fund until a further assessment is undertaken at the quarter ending September 30, 2021. To support the review of its decision, the Board requested the Central Bank continue to provide monthly updates on the Fund's performance, asset class exposures as well as market outlook.

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 June 30, 2021.

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 June 30, 2021.

Table 5
Weighted Average Duration
/Years/

Mandate	Portfolio	Benchmark
US Short Duration	**2.28**	**2.60**
US Core Domestic Fixed Income	**6.67**	**6.58**

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 that 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 June 2021, 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.

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

Quarter End	Current Returns			Financial YTD			Annualised Return Since Inception		
	Portfolio	Benchmark	Excess	Portfolio	Benchmark	Excess	Portfolio	Benchmark	Excess
	%	%	bps	%	%	bps	%	%	bps
FY 2021									
December	6.43	5.50	93.52	6.43	5.50	93.52	6.02	5.51	51.10
March	1.28	0.08	119.45	7.79	5.58	220.73	6.00	5.41	59.10
June	4.00	3.09	90.18	12.10	8.85	324.76	6.19	5.54	64.60

Notes:

(1) Differences in totals are due to rounding.

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

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

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

Appendix II

Heritage and Stabilisation Fund

Portfolio Valuation (USD)

Valuation Date	Net Asset Value	Total Comprehensive Income	Accumulated Surplus & Unrealized Capital Gains/Losses	Contributions / (Withdrawals)
Annual Portfolio Valuation				
September 30,2007	1,766,200,701	41,966,361	41,966,361	321,706,043
September 30,2008	2,888,421,556	68,412,770	110,379,131	1,054,174,457
September 30,2009	2,964,686,478	76,248,691	186,755,766	-
September 30,2010	3,621,984,041	177,645,460	364,361,226	477,344,263
September 30,2011	4,084,016,158	9,715,841	374,074,067	451,400,519
September 30,2012	4,712,376,278	420,693,705	794,770,772	207,550,846
September 30,2013	5,154,027,747	399,007,950	1,193,778,722	42,414,251
September 30,2014	5,533,425,248	379,167,024	1,572,945,746	-
September 30,2015	5,655,143,565	120,639,605	1,693,585,351	-
September 30,2016	5,584,246,290	305,452,096	1,999,037,447	(375,050,860)
September 30, 2017	5,762,544,777	429,475,446	2,428,512,893	(252,548,048)
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)
March 31, 2021	5,661,689,420	67,788,202	3,801,345,814	(293,771,250)
June 30, 2021	5,583,193,276	238,205,801	4,039,551,615	(300,000,000)

Appendix III

Summary Characteristics of Composite Benchmarks

Fixed Income Benchmarks

Key Characteristics	Bloomberg Barclays US Aggregate Index	Merrill Lynch 1-5 Index
Total Holdings	12,200	151
Coupon (%)	2.55	1.53
Duration (Years)	6.58	2.60
Average Life (Years)	8.53	2.66
Yield to Maturity (%)	1.51	0.40
Option Adjusted Spread (bps)	32	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	2,880	810
Earnings Per Share (EPS Growth 3-5yr fwd.)	17.2	11.92
Price Earnings (P/E fwd.)	22.2	17.04
Price / Book (P/B)	4.4	1.88
Weighted Average Market Capitalisation* (Bn)	459.5	85.3

*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/

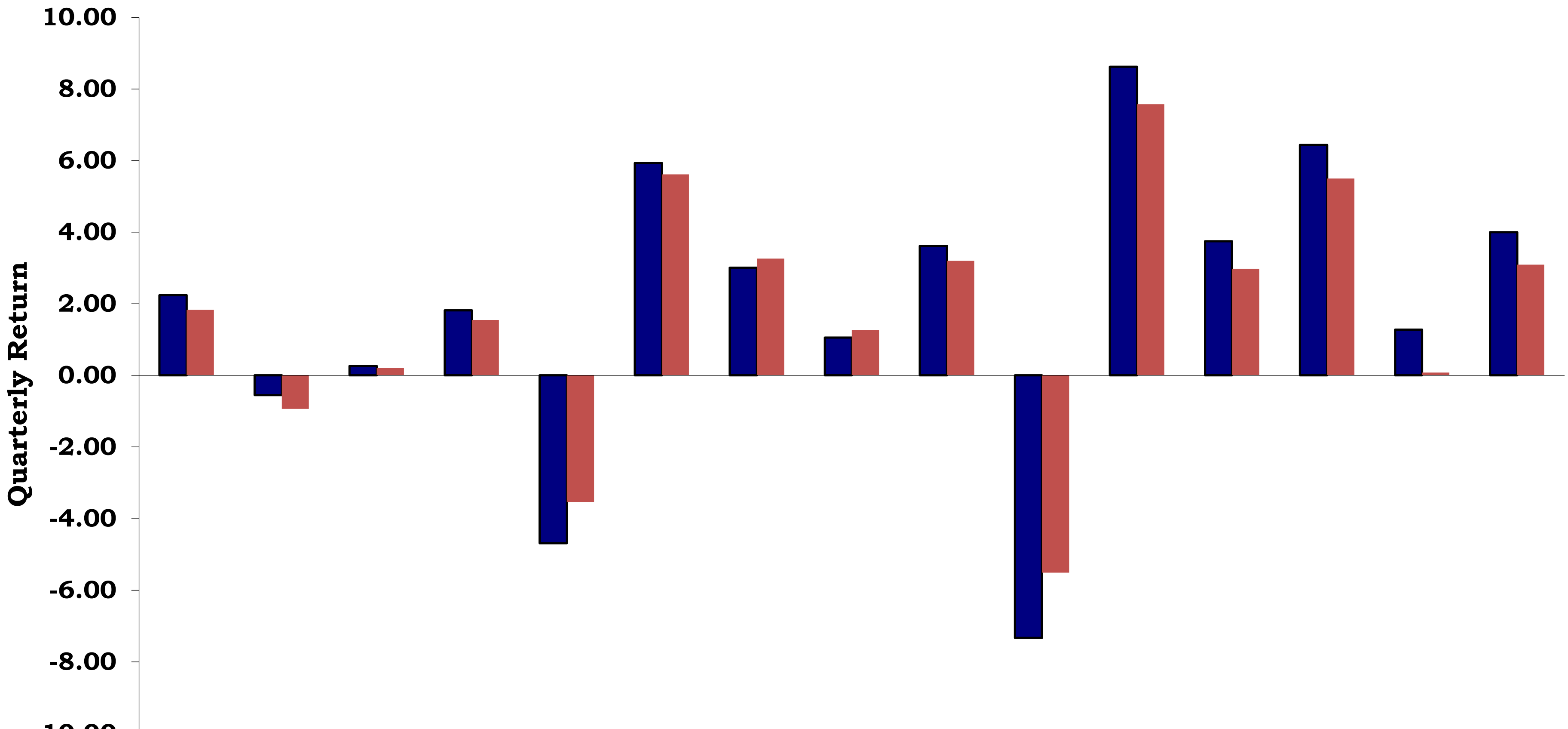
	Jun -20	Sep -20	Dec -20	Mar -21	Jun -21
Total Fund Value	**5,817**	**5,732**	**5,888**	**5,662**	**5,583.2**
Total Value of Equity	**2,283**	**2,263**	**2,584**	**2,630**	**2,707**
US Core Domestic Equity	1,256	1,181	1,347	1,333	1,340
Non-US Core International Equity	1,026	1,083	1,238	1,297	1,367
Total Value of Fixed Income	**3,532**	**3,467**	**3,301**	**3,030**	**2,875**
US Short Duration Fixed Income	1,208	1,211	1,153	1,118	1,020
US Core Domestic Fixed Income	2,324	2,256	2,148	1,912	1,855
Total Value of Cash or Cash Equivalents	**2**	**1**	**2**	**1**	**1**

NB: Differences in totals are due to rounding.

Appendix V

HSF Portfolio and SAA Benchmark Quarterly Returns

/per cent/



	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	FY2021 Q2	FY2021 Q3
HSF Portfolio	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	1.28	4.00
Benchmark	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	0.08	3.09