Government of the Republic of Trinidad and Tobago
Ministry of Finance

The Trinidad and Tobago Heritage and Stabilisation Fund

ANNUAL REPORT 2021

Ensuring HSF Sustainability

Contents

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Chairman's Foreword

Ensuring HSF Sustainability

At the end of fiscal 2020, after six months of the COVID-19 pandemic, Trinidad and Tobago was left with a small degree of optimism. As a result of the measures introduced to deal with the pandemic, our death toll and infection levels were relatively low; while the lockdowns and other restrictions precipitated economic dislocations, the Government was able to find enough fiscal space – through borrowing and withdrawals from the Heritage and Stabilisation Fund – to ease the hardships faced by the most affected sections of the population and by small and medium-sized businesses. Moreover, with the discovery of proven vaccines in the US and Europe, many people felt that the imminent arrival of these drugs meant a quick end to the pandemic and a return to normalcy in Trinidad and Tobago.

But our optimism was short-lived. First, from around April 2021, the early easing of restrictions combined with the delays in the country's access to a sufficient amount of vaccines began to be reflected in markedly higher death and infection rates. Even after an adequate supply of vaccines became available, apparent "COVID fatigue", an unexpected high level of vaccine hesitancy and the arrival of new virus variants produced a spike in the number of deaths and infections around mid-year. The elevated death and infection toll continued through the end of fiscal 2021.

From a macro-economic perspective, the impact of the pandemic on Trinidad and Tobago has been crippling. For example,

- Real GDP is estimated to have declined by more than 7 per cent in 2020 and while preliminary information suggests a decline of just around 1 per cent in 2021, there is clear evidence that a much anticipated economic recovery has been delayed.
- Largely reflecting declines in energy and non-energy tax receipts and pandemic-related expenditures, the fiscal deficit has widened from around 4 per cent of GDP in 2019 to over 10 per cent of GDP in each of the last two years.
- Notwithstanding withdrawals from the HSF totaling US$1,872.3 million, over the fiscal years 2020 and 2021 to help finance the fiscal deficit, the public debt has risen from 62 per cent of GDP in 2019 to 85 per cent of GDP over the last two years.

Projections made by the International Monetary Fund anticipate a strong recovery in economic activity in 2022, based on an expected increase in oil and gas production. Because of the downside risks inherent in energy sector projections, the likelihood of the expected recovery would be enhanced if the COVID-related uncertainties are reduced to help ease the impediments to non-energy sector investment and activity. Success in combating the high level of vaccine hesitancy will, thus, be critical to support the return to economic growth.

The reduction in COVID-related concerns and the resumption in economic growth will also provide the space for the Government to intensify focus on its fiscal reform programme, geared at re-establishing a sustainable public debt position. A successful fiscal reform could also be a necessary condition to ensure the sustainability of the Heritage and Stabilisation Fund.

Chairman's Foreword (continued)

To complement the fiscal reform, I would like to propose three initiatives that could enhance the sustainability of the HSF:

- **A return of budgetary transfers to the Fund**

  It is worth noting that the HSF has received no transfers from the Central Government budget since 2014. Moreover, with the current international agreement to reduce the use of fossil fuels, global oil and gas prices could be expected to trend downwards over the medium to long term making the current HSF savings formula less efficient than it was in the early years of the Fund. A new savings formula for the HSF is thus urgently needed. One possibility, which has the advantage of predictability and simplicity, is to establish a minimum budgetary contribution from oil and gas revenues and to transfer a certain predetermined share of the excess petroleum revenues to the HSF. With this approach, a return to budgetary contributions to the HSF may be feasible in the next two or three years when the measures currently being implemented to enhance tax administration, boost domestic revenues and reduce reliance on energy taxes, begin to yield tangible results.

- **Revision of the Fund's Strategic Asset Allocation (SAA)**

  The current SAA was conceived in 2007, at the establishment of the HSF, and fully implemented in January 2011. At that time, the only demands on the HSF were for stabilisation and savings. Also, energy prices and revenues were the highest they had ever been and budgetary transfers to the Fund were assumed to be the norm. The SAA was, therefore, deliberately established to be conservative with an allocation to fixed income assets of 65 per cent and global equities of 35 per cent.

  With the advent of the COVID-19 pandemic, the HSF Act was amended to include Section 15A, creating significant additional demands on the Fund, at a time when the Fund's only financing source is its investment returns. Increasing the Fund's financing is thus critical to its sustainability. The need for a return to budgetary transfers to the HSF has already been discussed. In addition, with the recent significant structural change in global capital market dynamics in favor of lower interest rates, a review of the SAA balance between fixed income and equities would seem to be long overdue.

- **Review of the Maximum Withdrawal Limits of Section 15A**

The Amendment to the HSF Act approved by Parliament in March 2020 allows Government withdrawals of up to US$1.5 billion during a financial year to help finance the COVID-19 pandemic. So far the Government has withdrawn US$900 million in FY 2020 and a further US$600 million in FY 2021. If the COVID pandemic continues for two or three years and the maximum available resources are withdrawn in each year, the HSF will be virtually exhausted by the end of the pandemic. Even the reduced rate of the actual drawings so far (an average of US$625 million per year) will cut the level of HSF holdings by about one-third over an assumed three-year period. If there is a simultaneous demand for withdrawals from either of the other two events covered by Section 15A (a natural disaster or a precipitous decline (actual or expected) in petroleum prices), resort to the maximum entitlement for one or two years would seriously reduce the HSF balance outstanding. These admittedly far-fetched examples are provided to underscore the need for a major revision of the approved funding scenarios under Section 15A.

One of the reasons for the introduction of the Heritage and Stabilisation Fund was the recognition that our oil and gas resources are wasting national assets from which our children and grandchildren are also entitled to benefit. This rationale gives tremendous importance to sharing the petroleum revenues with the HSF and ensuring the sustainability of the Fund.

Ewart Williams
Chairman

The Legal Framework of the Heritage and Stabilisation Fund

The Purpose of the HSF

The Heritage and Stabilisation Act, No. 6 of 2007 (hereinafter called "the Act") established the Heritage and Stabilisation Fund (hereinafter called "the Fund") with effect from March 15, 2007.

The Fund was established for the purpose of saving and investing surplus petroleum revenues derived from production business in order to:

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

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

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

The HSF Act, as amended by Act No. 9 of 2020 (hereinafter called "the Amended Act"), assented to on March 26, 2020, inserts Section 15A ("Withdrawals in exceptional circumstances") to the Act. This new section expanded the purpose of the Fund to include fiscal support for the following events:

(i) a disaster area is declared under the Disaster Measures Act;

(ii) a dangerous infectious disease is declared under the Public Health Ordinance; or

(iii) there is, or likely to be, a precipitous decline in budgeted revenues which are based on the production or price of crude oil or natural gas.

Governance

The Parliament of Trinidad and Tobago

Parliament passed the enabling legislations (the Act and the Amended Act) and continues to have ultimate oversight of the Fund, which is exercised through the review of the Act every five (5) years and annual reports and audited financial statements submitted by the Minister of Finance, no later than four (4) months following the end of the financial year.

The reporting and disclosure requirements of the Fund provide the citizens of Trinidad and Tobago an opportunity to assess the Fund's activity and performance. This fosters transparency and accountability, and ensure effective ownership of the Fund by all citizens of the country.

The Minister of Finance

The Minister of Finance (hereinafter referred to as "the Minister") advises the President on the appointment of the Board of Governors (hereinafter referred to as "the Board") in accordance with the Act, and is responsible for determining deposits to and requesting withdrawals from the Fund in accordance with the provisions of the Act and the Amended Act.

In the event a withdrawal is made under Section 15A of the Amended Act, the Minister is required under Section 15A (3) to lay before the House of Representatives a report within sixty (60) days of that withdrawal.

The Legal Framework of the Heritage and Stabilisation Fund (continued)

The Minister is also responsible to review the Act every five (5) years and report to Parliament.

The Board of Governors

The Act provides that the Fund be governed by a Board, who, under Section 9, has the responsibility for the management of the Fund. By way of Section 10, the Board delegates its management responsibility to the Central Bank of Trinidad and Tobago (hereinafter, "the Bank").

The Board decides on the investment objectives and approves the manner in which the funds are to be invested by the Central Bank. The Board is required under the Act to submit to the Minister quarterly and annual investment reports on the operation and performance of the Fund.

The Central Bank of Trinidad and Tobago

The Bank is responsible for the day-to-day management of the Fund in accordance with the Board's approved Operational and Investment Policy and reports quarterly and annually to the Board.

The Schedule to the Act and the Instrument of Delegation detail the responsibilities of the Bank.

Deposit and Withdrawal Rules

The Act and its amendment outline the deposit and withdrawal rules of the Fund, to which the Minister and the Board must adhere.

Deposits

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

Quantum

A minimum of sixty (60) per cent of the total excess (difference between estimated and actual) revenues must be deposited to the Fund during a financial year.

Section 2 of the Act defines petroleum revenues and Section 13(3) details the formula for determining estimated petroleum revenues.

Timing

Deposits are to be made quarterly, no later than one (1) month following ending quarter dates of December, March, June and September.

Withdrawals

Shortfall in Annual Petroleum Revenues

Section 15(1) of the Act states that withdrawals may be made from the Fund where petroleum revenues collected in any financial year fall below the budgeted petroleum revenues for that year by at least ten (10) per cent.

Quantum

(i) The withdrawal is limited to sixty (60) per cent of the amount of the shortfall of petroleum revenues for the relevant year; or
(ii) Twenty-five per cent of the balance of the Fund at the beginning of that year, whichever is the lesser amount.

Section 15(3) of Act states that no withdrawal may be made from the Fund in any financial year where the balance of the Fund would fall below US$1 billion if such withdrawal was to be made.

Exceptional Circumstances

Section 15A of the Amended Act allows for withdrawals to be made from the Fund for the following events:

(a) a disaster area is declared under the Disaster Measures Act;
(b) a dangerous infectious disease is declared under the Public Health Ordinance; 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.

Quantum

Section 15A (2) of the Amended Act limits withdrawals made under exceptional circumstances to US$1.5 billion at any time during the financial year.

Withdrawal to the Consolidated Fund

Section 15(2) of the Act (2007) states that the amount withdrawn from the Fund shall be deposited into the Consolidated Fund within forty-eight (48) hours of such withdrawal. With respect to withdrawals made under Section 15A (1) of the Amended Act (2020), the Board tries to ensure that the Consolidated Fund is credited within forty-eight (48) hours of the approval of the withdrawal request made by the Minister.

The Board of Governors

Mr. Ewart Williams – Chairman

Dr. Alvin Hilaire – Member

Mrs. Suzette Taylor Lee-Chee – Member

Mr. Bevan Narinesingh – Member

Dr. Dorian M. Noel – Member

Ms. Sharon Mohammed
Corporate Secretary to the Board

The Board Report

Annual Review of Operations

The 2020 Annual Report and the Audited Financial Statements for the period ending September 30, 2020 were presented to the Parliament in January 2021. In addition, five (5) reports on withdrawals made under Section 15A of the HSF Act were laid in Parliament.

Deposits/Withdrawals to the Fund

There were no deposits, however eight (8) withdrawals were made from the Fund during the 2020/21 financial year. Under Section 15 of the Act (2007), US$292.7 million was drawn in two tranches and under Section 15A (1)(b) of the Amended Act (2020), there were six (6) drawings which totalled US$600 million.

Governance

The Board of Governors of the HSF met all legal and statutory requirements in the discharge of its functions and maintained its governance oversight as required by law during the review period. As prescribed by legislation, the Board held eleven (11) Ordinary Meetings during the financial year 2020/21.

Investment Report

Executive Summary

For most of the financial year 2021, the global growth outlook in the major developed economies improved as acute public health risks were mitigated by the swift rollout of vaccines and the spread of the virus was largely contained. With some level of protection against the virus, countries gradually eased restrictions enabling the re-opening of most economic sectors. This positive development in addition to continued fiscal and monetary stimulus measures as well as soaring corporate earnings, increased investors' appetite for risk assets, which drove global financial markets higher. In the closing months of the financial year, however, volatility in global markets increased markedly as a sharp pickup in inflation and inflation expectations raised the prospect of an earlier than expected shift in monetary policy. This, together with the rapid surge of several variants of the COVID-19 virus, raised serious doubts about an early end to the pandemic and prompted a sudden cooling of market sentiment.

Despite the late sell-off of markets in the closing months of the financial year, global equity markets returned a solid performance, with the S&P 500 increasing by approximately 30 per cent and the indices in the major European and Japanese equity markets increasing by between 20 and 39 per cent. In contrast, global fixed income markets barely managed to eke out a positive return for the financial year as the low yields and policy support measures increased investor demand for risk assets relative to safer, but low yielding, fixed income securities.

During the financial year, management of the HSF faced several challenges arising from the exceptional buoyancy of the equity compared with the fixed income securities, the timing of government withdrawals and the Fund's Operational and Investment Policy Guidelines, which call for the quarterly rebalancing of the portfolio, whenever, in the Fund's actual holdings, the asset classes deviate from the approved policy weights by more than +/- 5 percentage points. In the second half of FY 2020 and into the first quarter of FY 2021, the contrasting performance between the Fund's equity and fixed income mandates, combined with the sizable government withdrawals under Section 15A, totalling US$900 million, raised the total weight of the equity mandates to roughly 40 per cent, compared with the policy weight of 35 per cent.

At the end of December 2020, this figure rose to approximately 44 per cent. Using the authority provided in the Operational and Investment Policy, the Board took the tactical decision to temporarily postpone the quarterly rebalancing of the Fund in December 2020, while maintaining a close monthly monitoring of market developments to see how the deviations evolve and to explore other policy options. The decision was influenced by the sharp increase in returns coming from the equity mandates and the transaction costs that could arise from the size of the needed rebalancing. The Board also determined that while the tactical decision could have increased the risk of the Fund, the additional risk would have been adequately compensated.

The Heritage and Stabilisation Fund (HSF) returned 11.75 per cent for the financial year 2021, its strongest annual performance to date, up from 8.20 per cent in the previous financial year. The Fund's performance was driven by its exposure to global equity markets. As a result of this, the Fund's equity mandates contributed 11.46 per

Investment Report (continued)

cent compared with 0.29 per cent for the fixed income mandates.

The Fund's return of 11.75 per cent exceeded its Strategic Asset Allocation (SAA) benchmark by 3.00 per cent (or 300 basis points), the largest excess return since inception. This outperformance was mainly due to the Fund's overweight allocation to global equities over the financial year, which arose in part from a tactical decision to defer rebalancing the Fund. The US Russell 3000 ex Energy index surged 30.78 per cent during the financial year while the MSCI EAFE ex Energy index gained 24.71 per cent. In comparison, the US fixed income market, proxied by the Bloomberg Barclays US Aggregate index, lost 0.90 per cent.

Collectively, external manager performance augmented returns. The largest outperformance was in the US Core Fixed Income mandate which returned 0.74 per cent, outpacing its benchmark, the Bloomberg Barclays US Aggregate index, by 164 basis points. Managers' outperformance was largely driven by their overweight allocations to corporates and spread products relative to the benchmark, which provided better yields than the US treasuries sector.

As at the end of September 2021, the Fund's Net Asset Value stood at US$5,463.9 million, down from US$5,731.8 million one year earlier. During the financial year, a total of US$892.7 million was withdrawn from the Fund. Of this amount, US$292.7 million was related to the petroleum revenue shortfall for the fiscal year ended September 2020 (Section 15 of the HSF Act), while the remaining US$600.0 million was withdrawn in accordance with Section 15A (1) (b) of the amended HSF Act, which allows for withdrawals from the Fund for a declared dangerous infectious disease declared under the Public Health Ordinance.

Fund Highlights

11.75 per cent
1 Year Return to 30/09/2021

US$5,463.9 million
Net Asset Value (as at 30/09/2021)

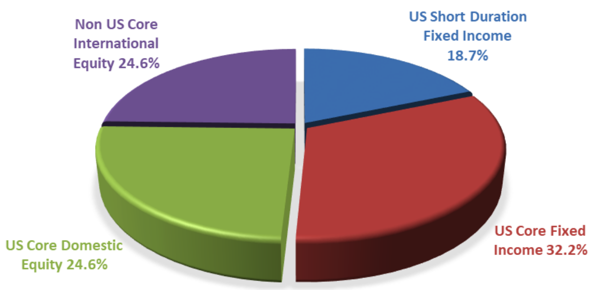
6.05 per cent
Return since Inception to September 30, 2021 (annualised)

US$2,554.6 million
Cumulative Contributions by the Government (as at 30/09/2021)

US$2,500.2 million
Cumulative Withdrawals by the Government (as at 30/09/2021)

Investment Report (continued)

Portfolio Composition as at September 30, 2021



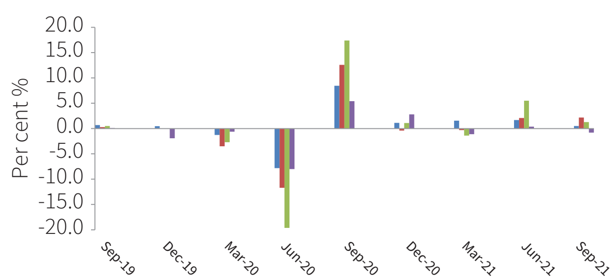
Macroeconomic Environment

For most of financial year 2021, market sentiment was largely bullish as the availability of multiple vaccines provided a clearer path out of the pandemic. The vaccine rollout facilitated the removal of lockdown measures in many countries, which boosted economic activity and freed pent-up demand (see Chart 1). Additionally, accommodative monetary policy and additional fiscal stimulus helped to sustain the economic resurgence from the pandemic. The favourable economic conditions helped many sectors to recover from losses sustained in the pandemic hit 2020 and pass on a sharp rise in prices as demand stayed ahead of supply.

In the last quarter of the financial year, vaccine hesitancy, the emergence of highly-transmittable virus variants and persistent inflationary pressures threatened to stall the pace of growth as monetary authorities began to reassess the timing of the withdrawal of financial market support measures and rate increases. The prospect of an earlier than expected removal of policy support measures and monetary rate adjustments altered market sentiment and the pace of recovery towards the end of the financial year. Despite the mounting headwinds to growth, the International Monetary Fund's (IMF) October 2021 World Economic Outlook forecasts that global output is projected to grow by 5.9 per cent in 2021 following a contraction of 3.1 per cent in 2020.

In the **United States**, gross domestic product (GDP) grew by 4.9 per cent over the financial year 2021, compared to the prior fiscal period, where output shrunk by 2.9 per cent. The expansion was driven by a swift rebound in demand and substantial fiscal stimulus measures. Joe Biden's victory in the November 2020 US Presidential elections enabled the commencement of the implementation of his "Build Back Better" agenda. As a follow up to a US$900 billion spending bill passed in December 2020, a US$1.9 trillion COVID-19 relief package in March 2021 delivered direct payments to households and extended unemployment benefits. Consumer and business confidence was further bolstered by anticipated outlays from proposals for the Infrastructure Investment and Jobs Act (US$1.0 trillion) and the American Families Plan (US$2.0 trillion). Hiring improved with the broader re-opening of the service sector and the unemployment rate declined to 4.8 per cent from 7.8 per cent, a year earlier. Meanwhile, rising demand and pandemic related supply-chain disruptions led to sharply higher prices. Despite inflation averaging above 5.0 per cent from April into the remainder of the year, the Fed kept the federal funds rate at 0.0 to 0.25 per cent (see Chart 2). Since then, the Fed has signalled a shift in its monetary stance noting that considerable economic progress made thus far and persistent inflationary pressures may warrant rate increases in 2022 and an end to its bond purchases by March 2022.

Chart 1:
GDP Growth: Selected Developed Economies (Quarter-on-Quarter)



	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
US	0.7	0.5	-1.3	-7.8	8.5	1.1	1.6	1.7	0.5
Eurozone	0.3	0.0	-3.5	-11.7	12.6	-0.4	-0.3	2.1	2.2
UK	0.5	0.0	-2.7	-19.6	17.4	1.1	-1.4	5.5	1.3
Japan	0.1	-1.9	-0.6	-8.0	5.4	2.8	-1.1	0.4	-0.8

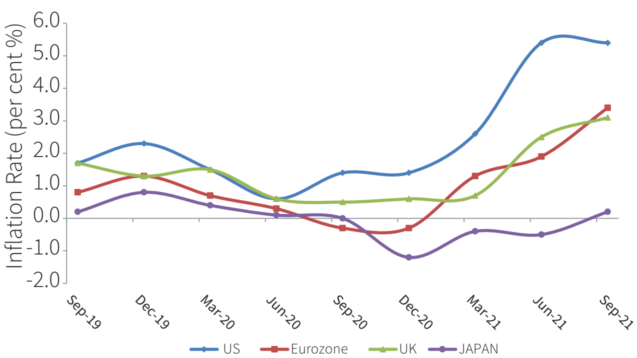
Source: Bloomberg. Data for September 2020 are preliminary and may be subject to revisions.

The recovery in the **United Kingdom (UK)** was delayed as the spread of the highly infectious COVID-19 delta strain resulted in protracted lockdowns during the first half of the financial year. However, the outlook improved as a successful immunisation campaign allowed for the easing of restrictions starting in March. For the financial year, GDP rose by 6.6 per cent, following a downturn of 8.1 per cent during the prior period. Despite virus and Brexit

Investment Report (continued)

headwinds, the UK economy remained resilient, buoyed in part by government initiatives aimed at assisting businesses and individuals affected by the pandemic. The UK exited the single market and customs union with a trade deal on December 31, 2020. Nonetheless, without European Union (EU) membership, the country encountered additional trade barriers as new cross-border requirements and customs procedures exacerbated pandemic related supply chain problems. In addition, labour and gas shortages added to inflationary pressures and the Consumer Price Index (CPI) surged to 3.1 per cent from 0.5 per cent, one year earlier. The Bank of England (BOE) left its key rate at a low of 0.1 per cent but signalled that interest rate hikes may be imminent underscoring inflation concerns at its September meeting.

Chart 2:
Inflation Rates of Selected Developed Economies (Year-on-Year)



Source: Bloomberg

The **Eurozone** suffered a double-dip recession as the economy contracted during the first two quarters of the financial year 2021 (see Chart 1). Early vaccination campaign setbacks and surging infection rates resulted in the re-introduction of lockdown measures. As immunisations gathered pace and proved effective in containing the virus, countries relaxed restrictions on movements, gatherings and non-essential activities. Service sector business activity flourished and consumer-driven segments of the economy benefitted from an uptick in household spending. Fiscal stimulus, through the release of the first tranche of the €750 billion European recovery fund, also supported the recovery. Eurozone GDP increased by 3.7 per cent over the financial year 2021 compared to a decline of 4.0 per cent during the prior period. Similar to the US and UK, inflation moved sharply higher; however, the European Central Bank (ECB) provided assurances to not pre-maturely tighten policy.

In **Japan**, the economy modestly expanded by 1.4 per cent during the financial year, following a contraction of 5.5 per cent in the prior year. Progress was hampered by elevated infection rates and the slow pace of immunisations which led to state of emergency measures that endured throughout most of the year. Economic benefits from hosting the Summer Olympic Games were muted as restrictions, such as a ban on spectators, and limited commercial opportunities were instituted. Meanwhile, lacklustre domestic demand was partially offset by a boost in exports to Asia, with strong demand from trading partners such as China. To help combat the effects of the pandemic, the Japanese government approved a third fiscal stimulus package that added ¥21.8 trillion in spending and the Bank of Japan (BOJ) maintained its extremely accommodative monetary policies. Despite these efforts, inflation remained weak (refer to Chart 2) and the economy contracted once again during the final quarter of the fiscal year (refer to Chart 1). Prime Minister Yoshihide Suga resigned in September 2021 under criticism surrounding the early management of the health crisis. However, renewed vaccination drives helped push Japan's immunisation levels near those of its developed peers, enabling the government to remove restrictions at the close of the financial year.

Financial Market Review

During the financial year, volatility in developed markets declined on average as risks from virus disruptions eased with the widespread distribution of vaccines in many major economies. Early in the period, the approval of the first COVID-19 vaccines drove overwhelming investor optimism. The signing of a post-Brexit trade agreement and Joe Biden's win in the US presidential election also bolstered sentiment. As the year progressed, rising immunisation levels led to the lifting of restrictions and evidence of a sharp rebound in economic activity helped to sustain the upbeat outlook.

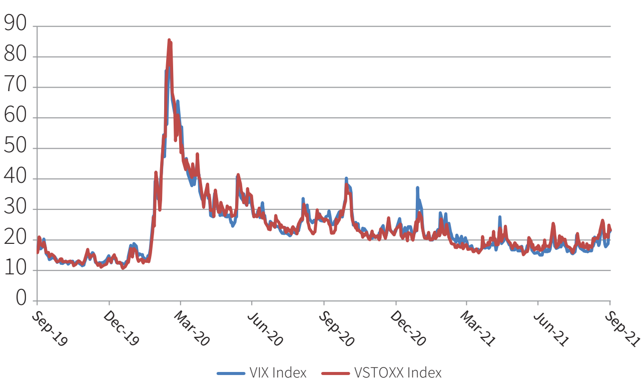
Nonetheless, there were bouts of heightened risk aversion in the market driven by fears around COVID-19 variants, sharply higher inflation and potentially tighter financial conditions. Overall, the US Chicago Board Options Exchange Volatility Index (VIX), a proxy of investor anxiety, averaged 21.22 points for the financial year, down

Investment Report (continued)

5.01 points from the prior period. Similarly, Europe's Euro Stoxx 50 Volatility Index (VSTOXX) decreased by 5.26 points to average 21.04 points for the twelve months ending September 30, 2021 (see Chart 3).

Developed equity markets rallied as access to vaccines fuelled hopes for a sustained re-opening of economies. Additional fiscal stimulus and signs of a robust recovery overshadowed concerns around inflation and virus variants. No longer encumbered by lockdown measures, consumer demand surged and boosted company profits. Altogether, positive sentiment propelled stocks higher for most of the fiscal year. However, markets stalled in September as investors contended with moderating growth, supply-chain disruptions, persistent pricing pressures and potential policy tightening. Additionally, news of a credit crisis at one of China's largest real estate developers and the possibility of a partial US government shutdown and debt default accelerated the sell-off into fiscal year-end.

Chart 3:
Implied Financial Market Volatility
(in Points)

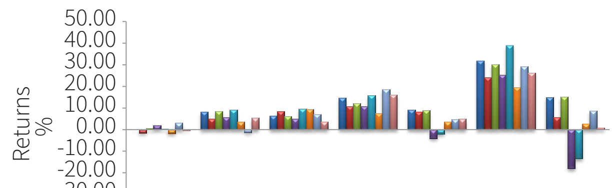


Source: Bloomberg

In the US, the S&P 500 index surged 29.98 per cent for the financial year ending September 2021 (see Chart 4). Investors rotated out of defensive non-cyclical sectors in anticipation of improving growth prospects. Energy was the best performing sector as oil prices rose 86.5 per cent to close the year at $75.03 per barrel (West Texas Intermediate Oil). Financials also led the market higher given the positive impact of a steepening yield curve on earnings. Meanwhile, consumer discretionary, materials and information technology sectors all benefitted from robust demand for goods and services.

Non-US developed equity markets, as measured by the MSCI EAFE index, returned 26.27 per cent when measured in US dollars (refer to Chart 4). Similar to US stocks, performance was driven by positive virus developments and corporate earnings results that continued to exceed expectations. In the UK, the early success of the country's immunisation programme drove the FTSE 100 index to gain 25.31 per cent, while companies in the Eurozone profited from strong global demand. The French CAC 40 index grew by 38.96 per cent and the German DAX 30 index advanced 19.59 per cent. Notwithstanding a slow vaccine rollout and political headwinds, Japan's Nikkei 225 index returned 29.14 per cent due mainly to the strong performance of its export sector aided by a weaker Yen.

Chart 4:
Total Returns on Selected Equity Indices
(in Per Cent)



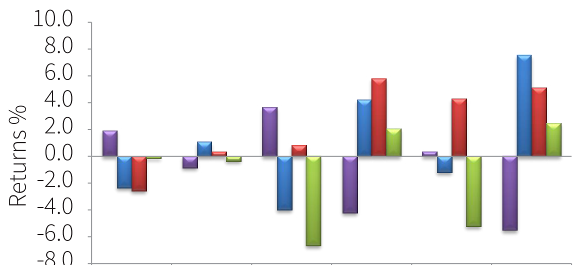
	QTR Ended Sep-21	QTR Ended Jun-21	QTR Ended Mar-21	QTR Ended Dec-20	QTR Ended Sep-20	FY 20/21	FY 19/20
Russell 3000	-0.10	8.24	6.34	14.68	9.21	31.86	14.99
Dow Jones	-1.46	5.08	8.29	10.73	8.22	24.15	5.70
S&P 500	0.58	8.55	6.17	12.14	8.93	29.98	15.13
FTSE 100 - UK	1.94	5.63	4.97	10.87	-4.02	25.31	-17.96
CAC 40 - France	0.44	9.07	9.59	15.76	-2.03	38.96	-13.41
DAX 30 - Germany	-1.74	3.48	9.40	7.51	3.65	19.59	2.68
Nikkei 225 - Japan	3.02	-1.23	7.07	18.52	4.75	29.14	8.69
MSCI EAFE	-0.34	5.34	3.62	16.08	4.90	26.27	0.95

Source: Bloomberg

As measured by the Dollar Spot Index (DXY), the US dollar appreciated 0.37 per cent against major currencies during the financial year ended September 2021 (see Chart 5). Political uncertainty around the US general election and the significant increase in fiscal stimulus detracted from the US dollar early on. However, the currency later recovered as the Fed's shift towards tapering its bond purchase programme brought into focus the potential timing of the first interest rate hike. Priced against the US dollar, the Japanese Yen depreciated 5.23 per cent as the country struggled to contain the virus due to vaccination setbacks. Immunisation delays also detracted from the Euro, which depreciated 1.20 per cent vis-à-vis the dollar. In contrast, the UK's improved economic and inflation outlook as well as the greater likelihood of a BOE rate increase before the end of 2021, led the Pound Sterling to strengthen 4.29 per cent against the US dollar.

Investment Report (continued)

Chart 5:
Foreign Exchange Returns for Major Currency Pairs (in Per Cent)

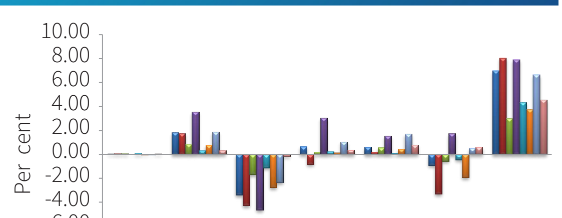


	QTR Ended Sep-21	QTR Ended Jun-21	QTR Ended Mar-21	QTR Ended Dec-20	FY 20/21	FY 19/20
DXY CURNCY	1.94	-0.85	3.66	-4.21	0.37	-5.53
EURUSD CURNCY	-2.34	1.09	-3.98	4.22	-1.20	7.54
GBPUSD CURNCY	-2.58	0.35	0.83	5.80	4.29	5.13
JPYUSD CURNCY	-0.14	-0.35	-6.68	2.07	-5.23	2.49

Source: Bloomberg

In the US fixed income market, the Barclays US Aggregate index, declined by 0.90 per cent as the rising rate environment negatively impacted bond returns. Within the Barclays US Aggregate index, relatively lower credit risk sectors underperformed the broader index, given the positive risk sentiment throughout most of the financial year. The US Treasury sector lost 3.30 per cent while G7 Bonds fell by 1.92 per cent (see Chart 6). Meanwhile, the turnaround in business and consumer activity and improving fundamentals led to narrower credit spreads. The US Investment Grade Corporate Bond and the US Asset Backed Securities (ABS) sectors rose by 1.74 per cent and 0.59 per cent, respectively.

Chart 6:
Returns on Selected Fixed Income Indices (in Per Cent)

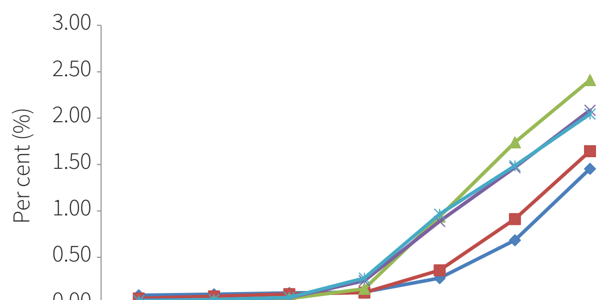


	QTR Ended Sep-21	QTR Ended Jun-21	QTR Ended Mar-21	QTR Ended Dec-20	QTR Ended Sep-20	FY 20/21	FY 19/20
Barclays US Aggregate	0.05	1.83	-3.37	0.67	0.62	-0.90	6.98
US Treasury	0.09	1.75	-4.25	-0.83	0.17	-3.30	8.04
Agencies	0.08	0.86	-1.66	0.18	0.55	-0.56	3.02
US Corporate	0.00	3.55	-4.65	3.05	1.54	1.74	7.90
US MBS	0.10	0.33	-1.10	0.25	0.11	-0.43	4.36
G7 Bonds (Hedged)	-0.04	0.78	-2.77	0.14	0.45	-1.92	3.77
US CMBS	-0.03	1.87	-2.32	1.05	1.71	0.52	6.63
US ABS	0.05	0.34	-0.16	0.36	0.80	0.59	4.55

Source: Bloomberg

US treasury yield movements over the year were somewhat volatile due to shifting expectations for growth, inflation and monetary policy adjustments (see Chart 7). Overall, yields rose along the curve and the curve steepened, with the spread between the 2-year and 10-year increasing by 66 basis points to 121 basis points during the financial year. The Fed's accommodative tone and patient approach during the first half of the year kept shorter-dated yields relatively unchanged. However, the 2-year yield trended higher during the second half of the year as the Fed pivoted towards potential policy tightening. For the year, the 2-year yield added 15 basis points to close at 0.28 per cent. Meanwhile, longer-dated yields peaked in March buoyed by stronger growth and inflation projections. The 10-year yield reached a high of 1.74 per cent but retreated as markets priced in more modest expectations. For the year, the 10-year yield rose 58 basis points to close at 1.49 per cent.

Chart 7:
US Treasury Yield Curve (in Per Cent)



	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
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
Sep-21	0.03	0.05	0.07	0.28	0.96	1.49	2.04

Source: Bloomberg

Similarly, in other developed economies, longer-term sovereign bond yields were driven higher by stronger global growth and inflation expectations (see Table 1). Despite virus variant concerns and several bouts of elevated infection rates, safe haven demand subsided as the availability of vaccines lowered virus risks when compared to the beginning of the pandemic. The Canadian 10-year sovereign yield and the UK 10-year gilt increased by 95 basis points and 79 basis points, respectively. Meanwhile, Japan's relatively slower recovery kept yields at low levels with the 10-year government bond yield rising a modest 5 basis points over the financial year.

Investment Report (continued)

Table 1:
G-7 Government 10-Year Yields

Country	Government 10-Year Yields (in Per Cent)		Change (Basis Points)
	Sep 30, 2020	Sep 30, 2021	
US	0.68	1.49	80.33
UK	0.23	1.02	79.25
France	-0.24	0.15	39.70
Germany	-0.52	-0.20	32.30
Italy	0.87	0.86	-0.80
Canada	0.56	1.51	94.90
Japan	0.01	0.07	5.50

Source: Bloomberg.

Strategic Asset Allocation of the HSF

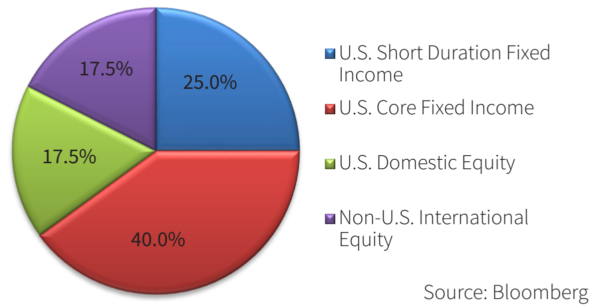
- *Approved Strategic Asset Allocation*

Chart 8 below shows the strategic asset allocation (SAA) of the HSF, approved by the HSF's Board in 2007. Since January 2011, the Bank has fully invested the funds of the HSF's Investment Portfolio in the four (4) approved asset classes shown in the Chart 8 below.[1]

- *Portfolio Composition*

The Fund's portfolio composition over the financial year 2021 is shown in Table 2 and Chart 9 below. During the financial year, the asset classes of the Fund deviated from its SAA. Changes to the Fund's overweight and

Chart 8:
The Fund's Strategic Asset Allocation



Source: Bloomberg

underweight allocation year-on-year were mainly due to the combined effects of strong equity market returns, increased withdrawal activity and the tactical decision of the Board not to rebalance during the period.

At the end of the first quarter of the financial year, the Board took a tactical decision not to rebalance the Fund and thus, allowed the Fund's asset allocation to deviate from the approved limit of +/-5.0 per cent. 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 returns when compared to fixed income over the near-term. The Fund would have been adequately compensated for risk taken and the extra risk taken would have not materially increase its overall risk tolerance. Also, the volatile market conditions towards the end of December 2020 would have increased the cost of rebalancing and selling the Fund's better performing equity assets to buy lower yielding fixed income assets would have likely reduced the future performance of the HSF.

Table 2:
Portfolio Composition Relative to the Approved SAA
(in Per Cent)

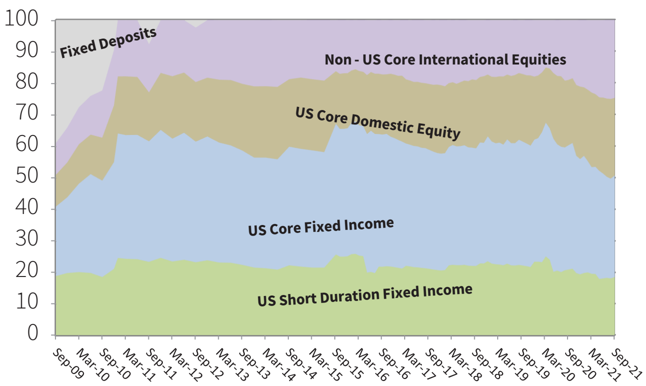
Portfolio Weights	Asset Class	Target Weight SAA	Dec-20 Actual % of Fund	Mar-21 Actual % of Fund	Jun-21 Actual % of Fund	Sep-21 Actual % of Fund
	US Short Duration Fixed Income	25.00	19.59	19.76	18.28	18.69
	US Core Domestic Fixed Income	40.00	36.50	33.78	33.23	32.15
	US Core Domestic Equity	17.50	22.88	23.56	24.01	24.55
	Non-US Core International Equity	17.50	21.03	22.91	24.48	24.60

Totals may not sum to 100 due to rounding.

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

Investment Report (continued)

Chart 9:
Asset Class Composition of the HSF Portfolio (in Per Cent)



Source: Bloomberg

Over the remainder of the period, the Board conducted monthly assessments of its decision taking into account global market conditions, the likelihood of a withdrawal, which had become more frequent, and the risk-adjusted performance of the Fund. From the assessments, the Board determined that not rebalancing would have, tactically, enhanced the risk-adjusted return of the Fund without materially increasing its risk tolerance. The decision not to rebalance for tactical reasons combined with a strong performance of equity relative to fixed income and funding of withdrawals mainly from the fixed income mandates pushed the SAA weight deviation further away from the approved limit of +/- 5.0 per cent. The Fund ended the financial year with an asset allocation of 51 per cent fixed income and 49 per cent equity (see Table 2). The 2008 approved SAA is 65 per cent allocation to fixed income and 35 per cent to equity.

At the HSF's mandate level, the Fund's overweight allocation to the US Core Domestic Equity and Non-US Core International Equity mandates increased to 7.05 per cent and 7.10 per cent, respectively. Correspondingly, the Fixed Income mandates were below their target SAA weights. The US Short Duration Fixed Income and US Core Domestic Fixed Income mandates held underweight positions of 6.31 per cent and 7.85 per cent, respectively (see Table 2).

- *Fund Value*

The total net asset value of the Fund as at September 30, 2021 was US$5,463.9 million, compared with US$5,731.8 million at the end of September 2020. Of this total, the Investment Portfolio was valued at US$5,463.0 million, while the remaining portion (US$0.9 million) was held in an operating cash account to meet the day-to-day expenses that arise from the management of the Fund.

Portfolio Performance of the Investment Portfolio

The Fund's investment portfolio returned 11.75 per cent for the financial year 2021. This performance compares favourably to a gain of 8.20 per cent during the prior year. Exposure to equity investments was the primary driver of the Fund's total return. In aggregate, the equity mandates contributed approximately 11.46 per cent while the fixed income mandates added 0.29 per cent (see Table 3).

Table 3:
Contribution to Portfolio Return for the FY 2021 (in Per Cent)

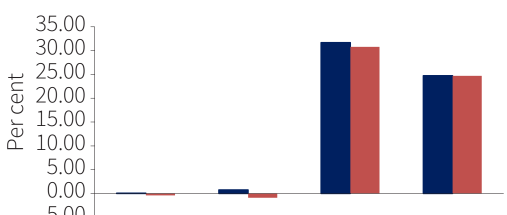
	Beginning Portfolio Weights 30-Sep-20	Portfolio Weighted Return	Benchmark
Composite Portfolio	**100.00**	**11.75**	**8.75**
US Short Duration Fixed Income	21.14	0.01	-0.10
US Core Fixed Income	39.36	0.28	-0.35
US Core Domestic Equity	20.61	6.56	4.99
Non US Core International Equity	18.89	4.90	4.55

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

Investment Report (continued)

The Fund outperformed the SAA benchmark composite return of 8.75 per cent by 3.00 per cent (or 300 basis points) for the financial year. The Fund's overweight allocation to equities, relative to its SAA weight, meaningfully enhanced the Fund's return. Stock markets had an exceptional year with the Russell 3000 ex Energy Index and MSCI EAFE ex Energy Index gaining 30.78 per cent and 24.71 per cent, respectively, while US fixed income markets, as represented by the Bloomberg Barclays US Aggregate Bond index, lost 0.90 per cent (see Chart 10). Collectively, external manager performance enhanced returns. The largest outperformance was in the US Core Fixed Income mandate which returned 0.74 per cent, outpacing its benchmark, the Bloomberg Barclays US Aggregate index, by 164 basis points.

Chart 10: Absolute Returns by Investment Mandate for the FY 2021 (in Per Cent)



	US Short Duration	US Core Fixed Income	US Core Domestic Equities	Non US Core International Equities
Composite Portfolio Return	0.06	0.74	31.67	24.73
SAA Benchmark Return	-0.40	-0.90	30.78	24.71

Source: Bloomberg

On an absolute basis, the **Equity** portion of the Fund generated robust returns during the financial year, with the largest contribution from the US Core Domestic Equity mandate. The strong performance of global equity markets helped to recoup withdrawals totalling US$194.0 million from the US Core Domestic Equity mandate. As at the end of September 2021, the value of the equity mandates increased to US$2,685.40 million from US$2,263.4 million one year earlier.

The **US Core Domestic Equity** portfolio had the best absolute performance of all the mandates, returning 31.67 per cent. This compares with a return of 30.78 per cent for its benchmark, the Russell 3000 ex Energy Index. The mandate's outperformance was mainly due to strategies that tilted the portfolio towards value and momentum stocks. Within the sectors, this resulted in positive contributions from security selection in Technology and Industrials.

The **Non US International Equity** portfolio returned 24.73 per cent, closely matching its benchmark, the MSCI EAFE ex Energy index, which gained 24.71 per cent. Collectively, country allocation and stock selection strategies were modestly positive. Strong stock selection in Japan and the UK was offset by poor security choices in Australia and Europe ex-UK.

The **Fixed Income** portion of the Fund also incrementally added to total return. External manager performance within the US Short Duration Fixed Income and US Core Domestic Fixed Income mandates helped to marginally offset withdrawals totalling US$701.0 million during the period. As at the end of September 2021, the combined net asset value of the fixed income mandates was US$2,777.6 million, down from US$3,467.3 million at the end of the previous financial year.

The **US Core Domestic Fixed Income** mandate returned 0.74 per cent, compared with a loss of 0.90 per cent for its benchmark, the Bloomberg Barclays US Aggregate Bond index. This outperformance of 1.64 per cent was driven by cross-sector strategies and security selection. Overweight exposures to and credit selection within the investment grade corporate bond and commercial mortgage backed securities sectors benefitted the portfolio.

The **US Short Duration Fixed Income** mandate returned a modest 0.06 per cent over the financial year. The mandate outperformed its benchmark, the Bank of America Merrill Lynch 1-5 year US Treasury Index, by 46 basis points. Exposure to inflation-protected securities as well as high-quality Non-U.S. government and agency bonds accounted for most of the outperformance, while interest rate strategies further augmented returns.

Table 4 below provides summary information for the HSF from its inception to the end of September 2021.

Investment Report (continued)

Table 4:
HSF Key Performance Statistics (Inception to 30 September 2021)

	Fiscal Years						
	2008/15	2016	2017	2018	2019	2020	2021
Opening Balance ($Mn.)	**1,402**	**5,655**	**5,584**	**5,763**	**5,966**	**6,255**	**5,732**
Budget Transfers ($Mn.)	2,555	-	-	-	-	-	-
Investment Income ($Mn.)	1,694	305	429	204	289	457	624
Withdrawals ($Mn.)	-	375	253	0	0	980	893
Section 15 ($Mn.)	-	375	253	-	-	80	293
Section 15A ($Mn.)	-	-	-	-	-	900	600
Fund Balance (period end, $Mn.)	**5,655**	**5,584**	**5,763**	**5,966**	**6,255**	**5,732**	**5,464**
Memorandum Items							
HSF Return (annualised, %)	5.3	5.3	5.6	5.5	5.4	5.7	6.1
Fixed Income (annualised, %)	3.0	3.2	2.8	2.3	3.1	3.4	0.3
Equities (annualised, %)	9.7	9.7	11.5	11.3	10.0	10.0	11.5

Notes: (1) "HSF Return" refers to annualised return since inception to period end; (2) "Fixed Income" and "Equities" returns relate to annualised return from January 2011 (full implementation of the SAA) to period end.

Risk Exposures of the Investment Portfolio

The main risks for the Fund are credit, concentration, interest rate, and currency risks. The paragraphs below indicate 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. Over the financial year, the average credit quality was "AA+" and "AA-" for the US Short Duration and US Core Fixed Income Portfolios, respectively.

- *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.

Investment Report (continued)

- *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 September 30, 2021.

Table 5: Weighted Average Duration (in Years)

Mandate	Portfolio	Benchmark
US Short Duration	2.29	2.65
US Core Domestic Fixed Income	6.35	6.71

- *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 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. Table 6 reports the financial year's end currency exposure of the Fund.

Table 6: Portfolio Currency Exposure (in Per Cent)

United States Dollar	76.01
Euro	8.31
Japanese Yen	6.57
British Pound	2.70
Swiss Franc	2.05
Australian Dollar	1.05
Hong Kong Dollar	0.99
Danish Krone	0.81
Swedish Krona	0.76
Singapore Dollar	0.33
Canadian Dollar	0.26
Israeli Shekel	0.10
Norwegian Krone	0.08
New Zealand Dollar	-
Total	100.0

Appendix I

Heritage and Stabilisation Fund
Financial Year end Portfolio Valuation (in USD)

Valuation Date	Net Asset Value	Financial Year Total Comprehensive Income	Accumulated Surplus & Unrealised Capital Gains/Losses	Contributions (Withdrawals)
September 30, 2007	1,766,200,701	41,966,361	41,966,361	321,706,043
September 30, 2008	2,888,421,556	68,412,770	110,379,131	1,054,174,457
September 30, 2009	2,964,686,478	76,248,691	186,755,766	-
September 30, 2010	3,621,984,041	177,645,460	364,361,226	477,344,263
September 30, 2011	4,084,016,158	9,715,841	374,074,067	451,400,519
September 30, 2012	4,712,376,278	420,693,705	794,770,772	207,550,846
September 30, 2013	5,154,027,747	399,007,950	1,193,778,722	42,519,782
September 30, 2014	5,533,425,248	379,167,024	1,572,945,746	-
September 30, 2015	5,655,143,565	120,639,605	1,693,585,351	-
September 30, 2016	5,584,246,290	305,452,096	1,999,037,447	(375,050,860)
September 30, 2017	5,762,544,777	429,475,446	2,428,512,893	(252,548,048)
September 30, 2018	5,965,847,092	203,717,910	2,632,230,803	-
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)
September 30, 2021	5,463,893,835	624,178,449	4,002,337,140	(892,714,533)

Appendix II

HSF Portfolio
Historical Performance Since Inception

Financial Year End	Financial Year Return			Annualised Return Since Inception		
	Portfolio (%)	Benchmark (%)	Excess (bps)	Portfolio (%)	Benchmark (%)	Excess (bps)
September 2007*	2.97	2.95	1.89	5.48	5.44	3.50
September 2008	3.62	3.50	12.12	4.34	4.25	9.37
September 2009	2.80	3.18	-37.81	3.81	3.91	-10.01
September 2010	6.07	5.75	31.93	4.61	4.59	2.29
September 2011	0.79	1.14	-34.89	3.80	3.87	-7.13
September 2012	10.73	10.18	55.01	5.38	5.33	5.20
September 2013	8.63	7.26	137.06	5.40	5.16	24.01
September 2014	7.65	5.60	204.51	5.69	5.22	47.69
September 2015	2.47	1.13	134.06	5.31	4.73	58.12
September 2016	5.83	6.29	-45.72	5.34	4.87	47.12
September 2017	8.25	6.55	170.48	5.64	5.05	58.79
September 2018	3.79	2.65	113.37	5.47	4.84	63.61
September 2019	5.10	6.54	-144.08	5.44	4.97	47.15
September 2020	8.20	8.03	17.42	5.65	5.20	45.01
September 2021	11.75	8.75	299.80	6.05	5.44	61.82

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

Notes:

1. In May 2008, US Treasury instruments were added to the HSF portfolio. As a result, the performance benchmark for the HSF portfolio became a blended benchmark which comprised of 2.5% Merrill Lynch US Treasury 1-5 Years Index and 97.5% US One-month LIBID Index.
2. In August 2009, International Equities and Fixed Income Securities were added to the HSF portfolio. The performance benchmark for the HSF portfolio became a blended benchmark which comprise, Bank of America/Merrill Lynch US Treasury 1-5 Years Index, US One-month LIBID Index, Barclays US Aggregate, Russell 3000 ex Energy, and MSCI EAFE ex Energy.
3. In January 2011, the HSF Portfolio achieved its Strategic Asset Allocation where the portfolio was invested in four assets classes. US Short Duration Fixed Income (25%), US Core Fixed Income (40%), US Equity (17.5%) and Non-US International Equity (17.5%).

Government of the Republic of Trinidad and Tobago
Ministry of Finance

HERITAGE AND STABILISATION FUND OF THE REPUBLIC OF TRINIDAD AND TOBAGO

FINANCIAL STATEMENTS

for the year ended 30 September 2021

Ensuring HSF Sustainability

Financial Statements

HERITAGE AND STABILISATION FUND

REPUBLIC OF
TRINIDAD AND TOBAGO
AUDITOR GENERAL'S
DEPARTMENT

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE HERITAGE AND STABILISATION FUND OF THE REPUBLIC OF TRINIDAD AND TOBAGO

FOR THE YEAR ENDED
30 September, 2021

REPORT OF THE AUDITOR GENERAL OF THE REPUBLIC OF TRINIDAD AND TOBAGO ON THE FINANCIAL STATEMENTS OF THE HERITAGE AND STABILISATION FUND OF THE REPUBLIC OF TRINIDAD AND TOBAGO FOR THE YEAR ENDED 30 SEPTEMBER 2021

OPINION

The financial statements of the Heritage and Stabilisation Fund (the Fund) for the year ended 30 September 2021 have been audited. The statements as set out on pages 1 to 33 comprise a Statement of Financial Position as at 30 September 2021, a Statement of Comprehensive Income, a Statement of Changes in Equity and a Statement of Cash Flows for the year ended 30 September 2021 and Notes to the financial statements numbered 1 to 15, including a summary of significant accounting policies.

2. In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 30 September 2021 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BASIS FOR OPINION

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

OTHER MATTER

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

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

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

(a) exceed the estimated petroleum revenues for that quarter of the financial year by more than ten per cent, the currency of the United States of America equivalent of the excess revenue shall be withdrawn from the Consolidated Fund and deposited to the Fund in accordance with section 14(1); or

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

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

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

9. The Auditor General's objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes his opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions or users taken on the basis of these financial statements.

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

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

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

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

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

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

29TH NOVEMBER, 2021	**LORELLY PUJADAS**
PORT OF SPAIN	**AUDITOR GENERAL**

Statement of Financial Position

As at 30 September, 2021 (expressed in United States Dollars)

	Notes	Sep-21 $	Sep-20 $
ASSETS			
Current assets			
Cash and cash equivalents	4	155,526,692	322,330,495
Financial assets	5,6	5,390,981,317	5,736,076,491
Receivables and prepayments	7	103,262,637	193,184,093
TOTAL ASSETS		**5,649,770,646**	**6,251,591,079**
LIABILITIES			
Current liabilities			
Other payables	8	190,726,038	523,743,774
Financial liabilities	9	-	266,613
TOTAL LIABILITIES		**190,726,038**	**524,010,387**
NET ASSETS		**5,459,044,608**	**5,727,580,692**
PUBLIC EQUITY			
Contributed capital		1,456,707,468	2,349,422,001
Accumulated surplus		4,002,337,140	3,378,158,691
		5,459,044,608	**5,727,580,692**

MR. EWART WILLIAMS
(Chairman)

DR. ALVIN HILAIRE

MRS. SUZETTE TAYLOR-LEE CHEE

MR. BEVAN NARINESINGH

DR. DORIAN NOEL

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

Statement of Comprehensive Income

For the Year ended 30 September, 2020 (expressed in United States Dollars)

	Notes	Sep-21 $	Sep-20 $
Income			
Investment income	10	345,825,748	233,298,540
Investment expenses	11	(31,286,035)	(20,678,254)
Gain on sale of financial assets		587,388,769	475,256,225
Loss on sale of financial assets		(270,194,990)	(225,907,364)
Income from investments		**631,733,492**	**461,969,147**
Other income		1,225,235	842,079
Total income		**632,958,727**	**462,811,226**
Operating expenses			
Management fees	12	(1,699,652)	(1,833,641)
Subscription fees		(15,497)	(15,286)
Bank charges		(4,933)	-
Audit fees		(7,634)	(5,175)
Licence fees		(46,072)	(4,739)
Total operating expenses		**(1,773,788)**	**(1,858,841)**
Net profit for the year before tax		**631,184,939**	**460,952,385**
Withholding tax expense		(7,006,490)	(3,861,608)
Net profit for the year after tax		**624,178,449**	**457,090,777**
Total comprehensive income for the year		**624,178,449**	**457,090,777**

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

Statement of Changes in Equity

For the Year ended 30 September, 2020 (expressed in United States Dollars)

	Contributed Capital $	Accumulated Surplus $	Total $
Balance as at 1 October 2019	**3,329,275,159**	**2,921,067,914**	**6,250,343,073**
Withdrawals by Government for the year	(979,853,158)	-	(979,853,158)
Total comprehensive income for the year	-	457,090,777	457,090,777
Balance as at 30 September 2020	**2,349,422,001**	**3,378,158,691**	**5,727,580,692**
Balance as at 1 October 2020	**2,349,422,001**	**3,378,158,691**	**5,727,580,692**
Withdrawals by Government for the year	(892,714,533)	-	(892,714,533)
Total comprehensive income for the year	-	624,178,449	624,178,449
Balance as at 30 September 2021	**1,456,707,468**	**4,002,337,140**	**5,459,044,608**

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

Statement of Cash Flows

For the Year ended 30 September, 2020 (expressed in United States Dollars)

	Notes	Sep-21 $	Sep-20 $
Cash flows from operating activities			
Net profit for the period year before withholding tax		631,184,939	460,952,385
Adjustments			
Interest income		(77,133,581)	(103,567,347)
Dividend income		(70,590,171)	(52,511,631)
Fair value adjustment on financial assets and liabilities at fair value through profit or loss		(198,101,996)	(77,219,562)
Net realised gain from the sale of financial assets		(317,193,780)	(249,348,861)
Cash outflows before changes in operating assets and liabilities		**(31,834,589)**	**(21,695,016)**
Changes in operating assets and liabilities			
Decrease in receivables and prepayments		86,794,227	348,169,629
Decrease in other payables		(333,017,736)	(172,686,580)
Withholding tax paid		(7,006,490)	(3,861,608)
Net cash (used in)/from operating activities		**(285,064,588)**	**149,926,425**
Cash flows from investing activities			
Interest received		81,956,799	107,446,063
Dividend received		68,894,182	52,554,699
Net sale of financial assets		860,136,203	905,765,302
Net cash flows from investing activities		**1,010,987,184**	**1,065,766,064**
Cash flows from financing activities			
Withdrawal from contributed capital by government		(892,714,533)	(979,853,158)
Net cash flows used in financing activities		**(892,714,533)**	**(979,853,158)**
Effects of exchange rate changes on cash and cash equivalents		**(11,866)**	**(915)**
Net (decrease)/increase in cash and cash equivalents		(166,803,803)	235,838,416
Cash and cash equivalents at beginning of year		322,330,495	86,492,079
Cash and cash equivalents at end of the year	4	**155,526,692**	**322,330,495**

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

Notes to the Financial Statements

For the Year ended 30 September, 2020 (expressed in United States Dollars)

1. Corporate Information

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

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

a) the Central Bank; and

b) the Ministry of Finance.

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

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

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

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

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

The Act was amended in March 2020, to broaden the scope to allow withdrawals if certain emergency situations arose. Consequently, section 15A has been inserted into the amended Act. Further details of this amendment are included in Note 2 (p).

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

The resources of the Fund consist of: -

a) moneys transferred from the Interim Revenue Stabilisation Fund;

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

c) assets acquired and earned from investments.

2. Accounting Policies

a) Basis of preparation

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

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2021 (expressed in United States Dollars)

2. Accounting Policies (continued)

b) Changes in accounting policies and disclosures

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

There are new standards and amendments to standards and interpretations that are not yet effective for accounting periods beginning on or after January 1, 2020 and have not been early adopted by the Fund. The Fund intends to adopt these standards and interpretations, if applicable, when they become effective.

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

o IFRS 17 — Insurance Contracts *(effective January I, 2023)*

IFRS 17 replaces IFRS 4 on accounting for insurance contracts and has an effective date of 1 January 2023.

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

The impact of this standard is not applicable to the Fund.

c) Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand and at bank, bank overdraft, short term investment in money market funds and deposits with a tenor of three (3) months or less.

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

d) Foreign currency translation

i. Functional and presentation currency

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

ii. Transactions and balances

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

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2021 (expressed in United States Dollars)

2. Accounting Policies (continued)

e) Investment Securities

The classification of financial instruments at initial recognition depends on their contractual terms and the Fund's business model for managing the instruments. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities which are recorded at fair value through profit or loss.

The Fund classifies all of its financial assets based on the Fund's business model for managing the assets and the instruments' contractual cash flow characteristics, measured at either:

- Amortised Cost (AC); or
- Fair value through profit or loss (FVPL)

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income (FVOCI) only if it meets both of the following conditions and is not designated as at FVPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and by the sale of financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

The financial assets that are not measured at amortised cost or FVOCI are classified in the category FVPL, with gains and losses arising from changes in the fair value recognised in profit and loss. Management can also, on initial recognition, irrevocably designate a financial asset as measured at FVPL if doing so eliminates or significantly reduces an inconsistency in measurement or recognition that would otherwise result from the measurement of assets or liabilities, and their gains and losses, on different bases.

Impairment of financial assets

The adoption of IFRS 9 has fundamentally changed the Fund's accounting for impairment losses on financial assets by replacing IAS 39's incurred loss approach with the forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Fund to record ECLs on all financial assets measured at amortised cost or FVOCI.

IFRS 9 introduces a three-stage approach to impairment of financial assets. The ECL allowance is based on credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss.

The 12-month ECL is the portion of lifetime ECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both lifetime and 12-month expected credit losses are calculated on either an individual basis or a collective basis, depending on the size and nature of the underlying portfolio of financial instruments.

Based on the investment securities held by the Fund and the current business model, there are no financial assets held at amortised cost or FVOCI. The ECL model is therefore, not applicable to the Fund for this reporting period.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2021 (expressed in United States Dollars)

2. Accounting Policies (continued)

e) Investment Securities (continued)

Business model assessment

Business model assessment entails a determination of the way financial assets are managed in order to generate cash flows. There are three business models available under IFRS 9:

- Hold to collect: it is intended to hold the asset to maturity to earn interest, collecting repayments of principal and interest from the counterparty.
- Hold to collect and sell: this model is similar to the hold to collect model, except that the entity elects to sell some or all of the assets before maturity as circumstances change or to hold the assets for liquidity purposes.
- Other: all those models that do not meet the ‘hold to collect’ or ‘hold to collect and sell’ qualifying criteria.

The assessment of business model requires judgement based on facts and circumstances at the date of initial application. The business model is not assessed on an instrument by instrument basis, but at a higher level of aggregated portfolios per instrument type and is based on observable factors.

The Fund determines its business model at the portfolio level as this best reflects the way the Fund manages its financial assets to achieve its business objective. The Fund’s business model assessment considers the following qualitative and observable factors:

- Frequency, value and timing of sales in prior periods; the reasons for those sales; and expectations about future sales activity;
- Basis of management decision making: whether or not management focuses primarily on fair value information to make decisions;
- Performance evaluation (including compensation): how the Fund’s portfolio managers’ performance is evaluated and how it relates to compensation; and
- Relative significance of the various sources of income (for example, interest income relative to fair value gains and losses) as one objective determinant to assess how integral contractual cash flows are vis-à-vis fair value gains or losses.

Solely Payments of Principal and Interest (SPPI) Test

The Fund assesses the contractual terms of financial assets to determine whether they meet the SPPI test i.e. contractual cash flows that represent solely payments of principal and interest on the principal amount outstanding that are consistent with basic lending arrangements.

‘Principal’ for the purpose of this test is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as the consideration for the time value of money and the credit risk associated with the principal amount outstanding during a particular period of time.

If a financial asset is held in either a ‘Hold to Collect’ or a ‘Hold to Collect and Sell’ business model, then assessment to determine whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding at initial recognition is required to determine the classification. The SPPI test is performed on an individual instrument basis.

In assessing whether the contractual cash flows are SPPI, the Fund considers whether the contractual terms of the financial asset contain a term that could change the timing or amount of contractual cash flows arising over the life of the instrument which could affect whether the instrument is considered to meet the SPPI test. If the SPPI test is failed, such financial assets are measured at FVPL.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2021 (expressed in United States Dollars)

2. Accounting Policies (continued)

f) Collateral

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

g) Premium/Discount

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

A discount arises when a bond or treasury bill price is lower than its par value. This occurs when the interest rate rises; newly issued securities have higher coupon rates than existing securities issued when market rates were lower.

Thus, coupon rates of securities trading at a discount are generally lower than similar quality, newly issued securities.

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

h) Income and Dividends

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

Interest income is accounted for on the accrual basis.

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

i) Expenses

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

j) Taxation

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

k) Receivables

Receivables are stated at their expected realisable value.

l) Other payables

Other payables are stated at their expected realisable amounts.

m) Comparative information

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

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2021 (expressed in United States Dollars)

2. Accounting Policies (continued)

n) Statement of cash flows

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

o) Capital contributions

In accordance with Section 14 of the Act:

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

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

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

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

p) Withdrawals

In accordance with Section 15 of the Act, subsection (1), subject to subsections (2) and (3), where the petroleum revenues collected in any financial year fall below the estimated petroleum revenues for that financial year by at least ten per cent, withdrawals may be made from the Fund as follows, whichever is the lesser amount:

i) Either sixty per cent of the amount of the shortfall of petroleum revenues for that year; or

ii) Twenty-five per cent of the balance outstanding to the credit of the Fund at the beginning of that year

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

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

Withdrawals are also made in accordance with the amendment to the Act of 2020, under Section 15A. Subsection (1) of the amendment states that notwithstanding section 15 and any other written law and subject to subsection (2), withdrawals may be made from the Fund where:

a) A disaster area is declared under the Disaster Measures Act;

b) A dangerous infectious disease is declared under the Public Health Ordinance; 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.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2021 (expressed in United States Dollars)

2. Accounting Policies (continued)

p) Withdrawals (continued)

Subsection (2) of the amendment states that withdrawals under subsection (1) may be made from the Fund not exceeding one and one half billion dollars at any time during the financial year.

Subsection (3) states that where a withdrawal has been made from the Fund under this section, the Minister shall cause a report to be laid in the House of Representatives, within sixty days of that withdrawal.

q) Critical accounting estimates and judgements

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

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

- ***Fair value of financial instruments***

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

- ***Business Model and SPPI***

  Determining the appropriate business model and assessing the SPPI requirements for financial assets may require significant accounting judgement and have a significant impact on the financial statements.

3. Financial Risk Management

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

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

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

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2021 (expressed in United States Dollars)

3. Financial Risk Management (continued)

a) The Strategic Benchmark

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

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

This SAA limits the allowable underperformance of the overall portfolio relative to the composite benchmark, to an annual budget of risk of 2.0% measured over rolling one-year periods.

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

Asset class	Performance Index	Risk Budget
U.S. Equities	Russell 3000 ex-energy Index comprised of the 3,000 largest market capitalisation stocks in the United States and accounts for roughly 97% of the total market capitalisation of that country.	0.70%
Non U.S. Equities	MSCI EAFE ex-energy Index, which comprises the following countries: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.	4.50%
U.S. Government Treasuries 1-5 Years	Merrill Lynch U.S. Treasuries 1-5 Years Index	0.50%
U.S. Core Domestic Fixed Income	Barclays Capital U.S. Aggregate Index	1.00%

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

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

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2021 (expressed in United States Dollars)

3. Financial Risk Management (continued)

b) Portfolio Performance

The portfolio performance for the twelve months ended 30 September, 2021 was as follows:

12 Month Performance			
Portfolio	**Fund**	**Benchmark Return**	**Benchmark Composition**
Composite	11.75%	8.75%	Merrill Lynch US Government Treasury 1-5 Years Index , US 1- month LIBID, Barclays Capital US Aggregate Bond Index, Russell 3000 (ex Energy), MSCI EAFE (Ex Energy)
US Short Duration Fixed Income	0.01%	-0.10%	Merrill Lynch US Government Treasury 1-5 Years Index
US Core Fixed Income	0.28%	-0.35%	Barclays Capital US Aggregate Bond Index
US Core Domestic Equity	6.45%	4.99%	Russell 3000 (Ex Energy)
Non-US Core International Equity	4.82%	4.15%	MSCI EAFE (Ex Energy)

c) Portfolio Risk

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

Credit Risk

This is the risk that a party will default on its obligation to the Fund, causing it to incur a loss. The main concentration of credit risk arises from the Fund's investments in debt securities. The Fund is also exposed to counterparty risk on cash and cash equivalents as well as over-the-counter (OTC) derivatives.

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

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2021 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk (continued)

Credit Risk (continued)

The table below summarises the credit quality of the Fund's debt securities as at September 30, 2021:

Credit Rating	2021	2020
AAA	13.5%	15.8%
AA	59.8%	56.7%
A	6.6%	6.4%
BBB	20.0%	20.4%
Not Rated*	-	0.7%

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

The table below illustrates the credit quality categories for the respective rating agencies:

Rating Category	Moody's	S&P
High-Quality Grade	Aaa	AAA
	Aa1	AA+
	Aa2	AA
	Aa3	AA-
Upper-Medium Grade	A1	A+
	A2	A
	A3	A-
Lower-Medium Grade	Baa1	BBB+
	Baa2	BBB
	Baa3	BBB-

Money-market counterparts should have a minimum credit rating of A1 from Standard & Poor's, or P1 from Moody's.

Counterparty Risk

The Fund is exposed to counterparty risk through its investments in cash and cash equivalents as well as over-the-counter (OTC) derivatives.

In addition to ensuring counterparties meet minimum credit rating requirements, counterparty risk is also managed by limiting the exposure to a single institution. In the case of money-market counterparts, exposure to any one counterparty is limited to 3% of the Fund. While in the case of OTC currency forwards, net exposure is limited to 10% of the market value of the portfolio per currency for any given counterparty.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2021 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk (continued)

Concentration Risk

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

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

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

Market Risk

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

i. Currency Risk

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

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

A 1% change in the US dollar relative to other currencies (see below) in which the Fund trades would have changed the net assets of the Fund as at 30 September 2021 and 30 September 2020 as follows:

	Sep-21 $	Sep-20 $
Change in net assets	**25,982,412**	**21,149,583**

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2021 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk (continued)

Market Risk (continued)

i. Currency Risk (continued)

The following table illustrates the currency concentration exposure of financial assets and liabilities held by the Fund as at 30 September 2021 and 2020:

Financial Assets	% of financial assets	
Currency	Sep-21	Sep-20
Australian dollar	1.05	0.85
Canadian dollar	0.26	0.00
Danish krone	0.81	0.49
Euro	8.31	5.59
Hong Kong dollar	0.99	0.57
Israeli shequel	0.10	0.00
Japanese yen	6.57	4.87
New Zealand dollar	0.00	0.03
Norwegian krone	0.08	0.03
Singapore dollar	0.33	0.26
Swedish krona	0.76	0.80
Swiss franc	2.05	1.98
British pound	2.70	1.99
United States dollar	75.99	82.54
Total	**100.00**	**100.00**

Financial Liabilities	% of financial liabilities	
Currency	Sep-21	Sep-20
United States dollar	0.00	100.00
Total	**0.00**	**100.00**

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2021 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk (continued)

Market Risk (continued)

ii. Interest Rate Risk

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

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

	2021		2020	
	Portfolio	Index	Portfolio	Index
US Short Duration Fixed Income	2.29	2.65	2.65	2.65
US Core Fixed Income	6.35	6.71	6.13	6.12

iii. Price Risk

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

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

In the tables below the 2020 risk disclosures were reclassified using the current sector classification methodology.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2021 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk (continued)

Market Risk (continued)

iii. Price Risk (continued)

The tables below summarise the sector concentrations within the Fund:

US Short Duration Fixed Income - Sector Concentrations

	2021		2020	
	US Short Duration Mandate	Merrill Lynch US Treasury 1-5 Year Index	US Short Duration Mandate	Merrill Lynch US Treasury 1-5 Year Index
US Treasuries	41.92%	100.00%	37.73%	100.00%
Agencies	27.10%		30.19%	
Supranational	16.90%		18.79%	
Local Authorities	7.22%		7.43%	
Sovereign	2.41%		1.57%	
CMBS	3.29%		2.97%	
MBS	0.97%		1.32%	
Corporates	0.19%		0.00%	
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Note: Methodology based on Bloomberg Global Sector Classification Scheme (BCLASS).

US Core Fixed Income - Sector Concentrations

	2021		2020	
	US Core Fixed Income Mandate	Barclays US Aggregate Bond Index	US Core Fixed Income Mandate	Barclays US Aggregate Bond Index
Corporates	37.00%	26.10%	36.85%	27.29%
US Treasuries	25.00%	38.52%	19.90%	37.13%
MBS	25.11%	27.42%	30.50%	26.77%
CMBS	5.20%	2.05%	4.50%	2.19%
ABS	5.00%	0.28%	6.20%	0.34%
Government Related	2.69%	5.63%	2.05%	6.28%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Note: Methodology based on Bloomberg Global Sector Classification Scheme (BCLASS).

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2021 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk (continued)

Market Risk (continued)

iii. Price Risk (continued)

US Core Domestic Equity - Sector Concentrations

	2021		2020	
	US Core Equity Mandate	Russell 3000 Ex-Energy Index	US Core Equity Mandate	Russell 3000 Ex-Energy Index
Technology	27.72%	28.5%	27.55%	29.29%
Consumer Discretionary	12.70%	16.5%	12.71%	16.81%
Industrials	9.20%	13.8%	9.08%	13.50%
Health Care	14.16%	13.5%	14.96%	13.16%
Financials	12.34%	11.8%	9.91%	11.88%
Consumer Staples	5.16%	4.8%	6.32%	4.58%
Real Estate	3.50%	3.6%	3.33%	3.63%
Telecommunications	10.36%	3.1%	10.42%	2.80%
Utilities	2.39%	2.7%	2.85%	2.68%
Basic Materials	2.47%	1.7%	2.87%	1.67%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Note: Methodology based on Russell Industry Classification Benchmark (ICB).

Non-US International Equity - Sector Concentrations

	2021		2020	
	Non-US International Equity Mandate	MSCI EAFE EX-Energy Index	Non-US International Equity Mandate	MSCI EAFE EX-Energy Index
Financials	14.90%	17.79%	13.80%	15.50%
Industrials	18.90%	16.36%	17.00%	15.60%
Consumer Staples	9.99%	10.59%	12.50%	12.30%
Consumer Discretionary	12.70%	13.20%	11.10%	12.20%
Health Care	12.25%	13.10%	15.50%	14.80%
Materials	9.52%	7.59%	9.50%	7.80%
Communication Services	5.67%	4.98%	4.10%	5.60%
Real Estate	3.40%	3.03%	2.30%	3.10%
Information Technology	9.52%	9.97%	9.40%	8.90%
Utilities	3.15%	3.38%	4.80%	4.20%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Note: Methodology based on Global Industry Classification Standard (GICS).

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2021 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk (continued)

Market Risk (continued)

iii. Price Risk (continued)

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

	Sep-21 $	Sep-20 $
Effect on net assets attributable to redeemable shares of a 1% increase/decrease in the share price	26,552,192	22,419,117

The table below summarizes the sensitivity of the Fund's net assets attributable to fixed income securities to fixed income price movements as at 30 September. The analysis is based on the assumption that interest rates increased by 25 basis points and decreased by 25 basis points, with all other variables held constant, and that the fair value of the Fund's portfolio of fixed income securities moved according to their historic correlation with the price.

	Sep-21 $	Sep-20 $
Effect on net assets attributable to fixed income securities of a 25 basis points increase/decrease in interest rates	6,638,487	8,734,618

Liquidity Risk

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

One of the strategic objectives of the Fund is the maintenance of sufficient liquidity to cover its obligations at short notice and in accordance with the Act. In order to meet this stated objective, the Fund holds a combination of cash and short term assets such as U.S. Treasury and agencies bills and notes, certificates of deposits and money market funds managed by the custodian with an AAAm rating containing eligible asset classes in accordance with the investment policy.

The Fund's investments in aggregate of any fixed income security must not exceed 5% of that security's outstanding par value.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2021 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk (continued)

Liquidity Risk (continued)

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

	Less than 1 month $	1-12 months $	>12 months $	Total $
Sep-21				
Non-derivative financial liabilities				
Investment purchased	151,864,430	32,372,974	-	184,237,404
Foreign currency purchased	575,924	-	-	575,924
Interest payable	-	-	-	-
Due to money market	-	-	-	-
Due to brokers	163,503	-	-	163,503
Accrued expenses	1,357,578	3,509,115	-	4,866,693
Other Payables	882,514	-	-	882,514
	154,843,949	**35,882,089**	**-**	**190,726,038**
Sep-20				
Non-Derivative Financial Liabilities				
Investment purchased	371,346,585	109,527,754	-	480,874,339
Foreign currency purchased	284,943	-	-	284,943
Interest payable	2,833	-	-	2,833
Due to money market	540,094	-	-	540,094
Due to brokers	131	-	-	131
Accrued expenses	674,049	3,561,029	-	4,235,078
Other Payables	37,806,356	-	-	37,806,356
	410,652,158	**113,091,616**	**-**	**523,743,774**

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2021 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk (continued)

Liquidity Risk (continued)

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

	Less than 1 month $	1-12 months $	>12 months $	Total $
Sep-21				
Derivative Financial Liabilities				
Derivative financial liabilities	-	-	-	-
	-	**-**	**-**	**-**
Sep-20				
Derivative Financial Liabilities				
Credit default swap	212,578	54,035	-	266,613
	212,578	**54,035**	**-**	**266,613**

Operational risk

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

4. Cash and Cash Equivalents

	Sep-21 $	Sep-20 $
Cash at bank	149,710,443	1,718,165
Cash at broker	5,818,062	11,345,092
US Government Money Market	-	309,257,185
	155,528,505	**322,320,442**
Net effect of exchange rate changes	(1,813)	10,053
	155,526,692	**322,330,495**

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2021 (expressed in United States Dollars)

5. Financial Assets

	Sep-21 $	Sep-20 $
Fair value through profit or loss	5,390,981,317	5,736,076,491
	5,390,981,317	**5,736,076,491**
Financial Assets at fair value through profit or loss		
Fixed income investments		
Cost	2,582,623,619	3,163,425,338
Net (Diminution)/Appreciation in Market Value	55,441,651	126,921,004
	2,638,065,270	**3,290,346,342**
Equity		
Cost	1,917,893,119	1,771,820,812
Net Appreciation in Market Value	737,326,053	470,090,856
	2,655,219,172	**2,241,911,668**
Financial Derivatives		
Cost	141,486,997	203,951,424
Fair Value Adjustments	(43,790,122)	(132,943)
	97,696,875	**203,818,481**
Total Financial assets at fair value through profit or loss	**5,390,981,317**	**5,736,076,491**

Derivative assets for 2020 have been reclassified to maintain consistency in reporting as at the financial year ended September 30, 2021.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2021 (expressed in United States Dollars)

6. Fair Value of Financial Assets

a) Debt and equity securities

	Sep-21		Sep-20	
	Fair value $	% of net assets	Fair value $	% of net assets
Total debt securities	2,638,065,270	48.32	3,290,346,342	57.45
Total equity	2,655,219,172	48.64	2,241,911,668	39.14
Total derivatives	97,696,875	0.02	203,818,481	0.04
Total Financial Assets	**5,390,981,317**	**96.98**	**5,736,076,491**	**96.63**

b) Fair value hierarchy

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

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

	Sep-21			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial Assets				
Asset Backed Securities	-	89,515,637	-	89,515,637
Collateralised Mortgage -Backed Securities (CM0)	-	6,186,951	-	6,186,951
Corporate Bonds	-	884,676,089	-	884,676,089
Government Issues	-	1,125,974,449	-	1,125,974,449
Mortgage Backed Securities	-	460,987,306	-	460,987,306
Municipals	-	40,651,457	-	40,651,457
Real Estate Investment Trust	-	30,073,381	-	30,073,381
Fixed Income	**-**	**2,638,065,270**	**-**	**2,638,065,270**
Real Estate Investment Trust	47,937,734	-	-	47,937,734
Preferred Stock	3,876,560	-	-	3,876,560
Common Stock	2,602,657,284	-	-	2,602,657,284
Other Equity	747,594	-	-	747,594
Equity	**2,655,219,172**	**-**	**-**	**2,655,219,172**
Credit Default Swaps	-	348,177	-	348,177
Mortgage Back Securities- To Be Announced	-	99,007,270	-	99,007,270
Futures	(1,658,572)	-	-	(1,658,572)
Derivatives	**(1,658,572)**	**99,355,447**	**-**	**97,696,875**
Total Financial Assets	**2,653,560,600**	**2,737,420,717**	**-**	**5,390,981,317**

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2021 (expressed in United States Dollars)

6. Fair Value of Financial Assets (continued)

b) Fair value hierarchy (continued)

	Sep-20			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial Assets				
Asset Backed Securities	-	142,748,267	-	142,748,267
Collateralised Mortgage -Backed Securities (CMO)	-	166,437,673	-	166,437,673
Corporate Bonds	-	1,186,395,469	-	1,186,395,469
Government Issues	-	1,285,401,657	-	1,285,401,657
Mortgage Backed Securities	-	480,103,758	-	480,103,758
Municipals	-	29,259,518	-	29,259,518
Fixed Income	**-**	**3,290,346,342**	**-**	**3,290,346,342**
Common Stock	2,184,681,213	-	-	2,184,681,213
Depository Receipts	5,324,154	-	-	5,324,154
Preferred Stock	3,583,580	-	-	3,583,580
Rights	33,775	-	-	33,775
Real Estate Investment Trust	48,288,946	-	-	48,288,946
Equity	**2,241,911,668**	**-**	**-**	**2,241,911,668**
Credit Default Swaps	-	209,961	-	209,961
Mortgage Backed Securities - To Be Announced	-	203,500,770	-	203,500,770
Interest Rate Swaps	-	107,750	-	107,750
Derivatives	**-**	**203,818,481**	**-**	**203,818,481**
Total Financial Assets	**2,241,911,668**	**3,494,164,823**	**-**	**5,736,076,491**

Valuation techniques

IFRS 7 specifies a hierarchy of valuation techniques based on whether inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These types of inputs have created the following fair value hierarchy:

Investment Securities included in Level 1
Exchange listed price or a broker quote in an active market.

Investment Securities included in Level 2
Where a security has ceased trading the last trade price or a broker quote in a non-active market is used. Additionally, securities closely related (e.g. when issued, fungible shares) where the security held is not trading but related security is traded.

Investment Securities included in Level 3
Security in which no indications or comparables are available and the company's financials/information or other market indicators are used to calculate valuation.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2021 (expressed in United States Dollars)

6. Fair Value of Financial Assets (continued)

c) Transfers between fair value hierarchy levels

As at September 30, 2021, there were no transfers between the fair value valuation levels.

d) Collateral

Securities pledged as collateral were as follows:

	Sep-21 $	Sep-20 $
Fixed Income	300,000	860,000
	300,000	**860,000**

7. Receivables and Prepayments

	Sep-21 $	Sep-20 $
Pending Trades	75,815,779	168,599,838
Interest Receivable	10,104,704	14,927,922
Dividends Receivable	6,100,955	4,404,966
Other Receivables	11,241,199	5,251,367
	103,262,637	**193,184,093**

Accounts receivable as at 30 September, 2021 include Pending Trades – Investments, and Foreign Currency sold in the amounts of USD75,241,413 and USD574,366 respectively which will subsequently be settled during the period October – November 2021.

8. Other Payables

	Sep-21 $	Sep-20 $
Pending Trades	184,813,328	481,159,282
Accruals	4,866,693	4,235,077
Other Payables	1,046,017	38,349,415
	190,726,038	**523,743,774**

As at 30 September, 2021 there were Pending Trades – Investments and Foreign Currency purchased of USD184,237,404 and USD575,924 respectively. Subsequent settlement will occur during the period October – November 2021.

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2021 (expressed in United States Dollars)

9. Financial Liabilities

Financial liabilities at fair value through profit or loss

	Sep-21 $	Sep-20 $
Cost	-	294,183
Fair Value Adjustments	-	(27,570)
	-	**266,613**

10. Investment Income

	Sep-21 $	Sep-20 $
Interest Income		
Cash at bank	1,344	605
Financial assets at fair value through profit or loss	67,168,923	98,625,668
Amortisation of bond discount	9,956,386	4,297,185
Short term securities	6,928	643,889
	77,133,581	103,567,347
Dividend income	**70,590,171**	**52,511,631**
Fair value adjustments on financial assets and liabilities at fair value through profit or loss	198,101,996	77,219,562
Total	**345,825,748**	**233,298,540**

11. Investment Expenses

	Sep-21 $	Sep-20 $
Amortisation of bond premium	17,849,119	7,690,569
External managers' fees	12,239,017	11,919,779
Custodian's fees	757,998	999,555
External managers' expenses	439,901	68,351
Total	**31,286,035**	**20,678,254**

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2021 (expressed in United States Dollars)

12. Asset Management Agreements

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

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

13. Board and Other Expenses

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

14. Capital Contributions

Capital contributions are calculated based on criteria set out under Sections 13(1) and 14 of the Act, (see Note 2 (n)). There were no capital contributions for the financial year ended September 30, 2021.

15. Withdrawals

Withdrawals from the Fund are made in accordance with the criteria set out under Section 15 of the Act and 15A of the amended Act, (see note 2 (p)). For the financial year ended September 30, 2021, the amount of USD292,714,533 was withdrawn from the Fund under Section 15 and USD600,000,000 under Section 15A.

Notes