APPENDIX

HERITAGE AND STABILISATION FUND (HSF)

QUARTERLY INVESTMENT REPORT

JULY TO SEPTEMBER 2021

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

EXECUTIVE SUMMARY

- The pace of the global economic recovery slowed during the fourth quarter of the financial year when compared to the pace of the recovery in the three months to June 2021. The expansion was constrained by the spread of the highly contagious Delta Covid-19 variant, labour shortages and pandemic-related supply-chain disruptions. Also, stronger and more persistent inflationary pressures increased the likelihood that major central banks would begin tightening monetary stimulus in the coming months, a lot sooner than expected.

- In the final quarter of the financial year, global equity markets delivered flat performances compared to the previous three quarters. In the first two months of the quarter equity markets were on track to deliver four successive quarters of solid positive returns until pockets of risk emerged in China, inflation expectation intensified and the Delta variant infectious rate increased to an uncomfortable level that required a policy response. As a consequence, equity markets fell in the final month of the quarter as investors reassessed their risk trades. The performance of the US fixed income market was largely affected by rising and persistent inflation and slowing growth, which pushed yields slightly higher during the quarter. Nonetheless, fixed income securities still managed to eke out modest gains with income earnings offsetting negative price returns from higher yields and wider corporate spreads.

- In the fourth quarter of the financial year, the HSF lost 0.31 per cent due mainly to its non-US equity exposure (see Table 1). The Non-US Core International Equity mandate contributed -0.37 per cent to the Fund's overall performance. The performances of the US Core Domestic Equity and the combined fixed income mandates were modest at 0.02 and 0.06 per cent, respectively (see Table 2).

- When compared to its strategic asset allocation (SAA) benchmark, which declined by 0.09 per cent, the HSF underperformed by 22 basis points (see Table 2 and Appendix I). The Fund's overweight exposure to non-US equities, relative to the SAA benchmark, and managers' strategies within the Non-US Core International Equity mandate were main contributors to the Fund's underperformance. This underperformance was only partially offset by the positive relative performance of managers in the US Core Domestic

Equity and fixed income mandates. These managers outperformed their respective benchmarks during the quarter (see Table 1).

- As at the end of September 2021, the total net asset value of the HSF was **US$5,463.9 million**; approximately US$119.3 million lower than the previous quarter's closing value of US$5,583.2 million. During the quarter, a total of US$100.0 million was withdrawn from the Fund in accordance with Section15a (1)(b) of the amended HSF Act.

Table 1
Absolute Quarterly Returns
For the period Jul – Sep 2021
/per cent/

	Absolute Return HSF	**Absolute Return Benchmark**
Composite Portfolio	**-0.31**	**-0.09**
US Short Duration Fixed Income	0.10	0.00
US Core Domestic Fixed Income	0.09	0.05
US Core Domestic Equity	0.10	-0.04
Non-US Core International Equity	-1.54	-0.75

Table 2
Contributions to Quarterly Returns
For the period Jul - Sep 2021
/per cent/

	3 Months Portfolio Weighted Return to 30-Sep-2021	
	HSF	**Benchmark**
Composite Portfolio	**-0.31**	**-0.09**
US Short Duration Fixed Income	0.02	0.00
US Core Domestic Fixed Income	0.04	0.02
US Core Domestic Equity	0.02	0.02
Non-US Core International Equity	-0.37	-0.12

NB: Differences in totals are due to rounding.

SECTION 1 – INTERNATIONAL ECONOMIC ENVIRONMENT

The global economic recovery continued during the quarter ending September 2021 but lost momentum from the strong rebound in the prior period. The spread of the highly contagious Delta Covid-19 variant, labour shortages and pandemic related supply-chain disruptions impeded business operations. Meanwhile, intensifying inflationary pressures in the United States (US) and the United Kingdom (UK) added to near-term headwinds and brought forward expectations for monetary policy tightening. Additional dangers emerged late in quarter, as surging gas prices in Europe and power outages in China underscored a global energy crisis that could potentially further detract from growth. With risks tilted to the downside, the International Monetary Fund's October 2021 World Economic Outlook revised downward 2021 growth projections for Advanced Economies from 5.6 per cent to 5.2 per cent.

The US economy surpassed pre-pandemic levels and likely reached peak growth during the three months to June. Following a burst of re-opening activity, the expansion continued at a more modest pace during the third calendar quarter. The Markit Composite Purchasing Managers' Index fell by 8.7 points to 55.0 points in September with declines across both manufacturing and services sectors. In the jobs market, openings outpaced the number of unemployed people, prompting companies to raise wages to attract workers. Average hourly earnings climbed to 5.5 per cent in September from 3.8 per cent in June, while the unemployment rate declined by 1.1 percentage points over the quarter to 4.8 per cent. Pricing pressures remained elevated with the consumer price index stabilising at 5.4 per cent in September. Meanwhile, stalled negotiations on the fiscal budget, debt ceiling and infrastructure bill compounded ongoing virus and inflation concerns and drove consumer confidence to a seven-month low at the end of the quarter.

Similarly, growth slowed in the UK as post-Brexit trade barriers magnified pandemic related shortages in raw materials and labour. In addition, rising infection rates during the quarter weakened demand and increased worker absenteeism. The Markit Composite Purchasing Managers' Index decreased by 7.3 points over the quarter to 54.9 points in September reflecting a decline across a broad cross-section of industries.

Nonetheless, the jobs market made solid advancements, pushing the unemployment rate down from 4.8 per cent in June to 4.5 per cent in August. On the inflation front, the consumer price index climbed from 2.5 per cent in June to 3.1 per cent in September and prices are expected to rise even further near quarter end given the spike in energy costs.

At the same time, the Eurozone region appeared to sustain its pace of expansion during the three months to September, following a return to growth during the quarter ending June. Vaccination levels surpassed the US, helping to restore consumer confidence, while fiscal stimulus also aided the recovery with the release of the first tranche of the €750 billion European recovery fund. With less lockdown measures in place, household spending rose sharply benefiting the consumer-driven segments of the economy. The tourism industry saw a rapid rise in demand for leisure and hospitality services as travel restrictions eased throughout Europe. Hiring improved with the re-opening of the economy and the unemployment rate declined to 7.5 per cent in September from 7.8 per cent in June. Inflationary pressures accelerated over the quarter with the Consumer Price Index increasing to 3.4 per cent in September from 1.9 per cent in June.

In Asia, waves of rising infection rates in Japan resulted in rolling state of emergency measures that eventually expanded to more than seventy per cent of the population. The Markit composite PMI contracted in September at 47.9 points as government restrictions curtailed consumer spending while supply chain disruptions hindered production and exports. In addition, the slowdown in China contributed to an overall decline in shipments. In contrast to other developed countries, prices in Japan fell for a 10th consecutive month in August, declining by 0.40 per cent. Criticisms surrounding the early management of the virus and the decision to hold the Tokyo Olympics lead to Japanese Prime Minister Suga's resignation. However, renewed efforts over the quarter drove immunisation levels sharply higher to around 60.0 per cent from 15.0 per cent in June. This helped to reduce the spread and eventually allowed the government to end an almost six-month long state of emergency on September 30, 2021.

Major central banks moved closer to reducing pandemic era support with growing evidence of stronger and more persistent inflation pressures. At its September Federal

Open Market Committee meeting, the Federal Reserve (Fed) assessed that it may be appropriate to begin tapering asset purchases as soon as November, but maintained that monetary policy would remain accommodative for some time. Similarly, the Bank of England (BOE) signaled that interest rate hikes may be imminent, underscoring the need to prevent high inflation expectations from becoming entrenched. Monetary Policy Committee members agreed that rates could rise before the expiration of the Bank's bond-buying programme around year-end. Elsewhere, the European Central Bank (ECB) pivoted towards a symmetric 2.0 per cent inflation goal and promised not to compromise the recovery by pre-maturely tightening monetary policy. The Bank maintained the overall size of the Pandemic Emergency Purchase Programme (PEPP) but reduced the pace of its monthly asset purchases. In contrast, the downbeat outlook for growth and inflation lead the Bank of Japan (BOJ) to maintain its extremely accommodative monetary policy stance.

SECTION 2 – CAPITAL AND MONEY MARKET REVIEW

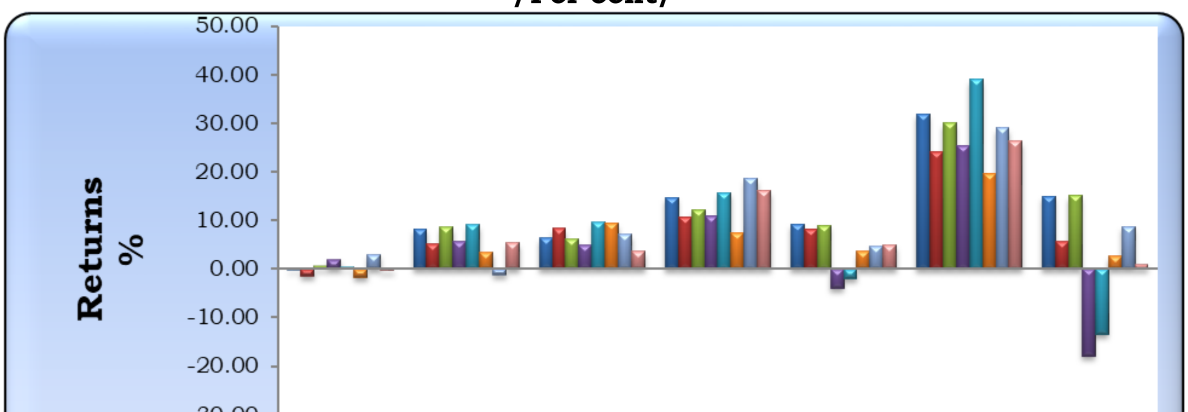
Ongoing pandemic risks, inflation concerns and heightened uncertainty on the political and monetary policy fronts all contributed to a broad risk-off environment for equity markets in the third quarter of 2021. Volatility rose modestly over the three months to September with the US Chicago Board Options Exchange Volatility Index (VIX) averaging 18.21 points compared to an average of 17.97 points during the prior quarter. Similarly, the Euro Stoxx 50 Volatility Index (VSTOXX) rose to a quarterly average of 19.62 points from 18.50 points.

In the US, equity markets built on strong gains during the previous quarter reaching all-time highs in July and August. A strong second quarter corporate earnings season and progress on the infrastructure bill outweighed concerns around an uptick in infection rates. However, investors grew more cautious in September amidst signs of slowing growth, sharply higher inflation and earlier than anticipated Fed tightening. Selling accelerated towards the end of the quarter as a credit crisis at one of China's largest real estate developers added to anxiety over the possibility of a partial US government shutdown and debt default.

Overall, the broad global equity market performance was flat in the third quarter when compared to the previous three quarters of the financial year. In the United States, the S&P 500 index rose a modest 0.58 per cent however, the Russell 3000 index declined by 0.10 per cent (see Figure 1) due to its exposure to smaller companies. Within the S&P 500 index, Financials and Utilities performed the best while, the more cyclically sensitive sectors such as Industrials and Materials suffered the largest declines.

The broad non-US developed stock market index, as represented by the MSCI EAFE, fell by 0.37 per cent, when measured in US dollar terms (see Figure 1). Exposure to local currencies detracted from returns as the US dollar appreciated against all of the G-10 currencies. In local currency terms, the UK's FTSE 100 index and French CAC 40 index gained 1.94 per cent and 0.44 per cent, respectively. In contrast, increased political risk pushed Germany's DAX 30 index lower by 1.74 per cent. Asian markets ended the period on a solid note despite contagion risks stemming from China's real estate sector. In Japan, the Nikkei 225 index returned 2.94 per cent in local currency terms buoyed by hopes for additional stimulus and a further easing of Covid-19 restrictions.

Figure 1
Total Returns on Equity Indices
/Per cent/

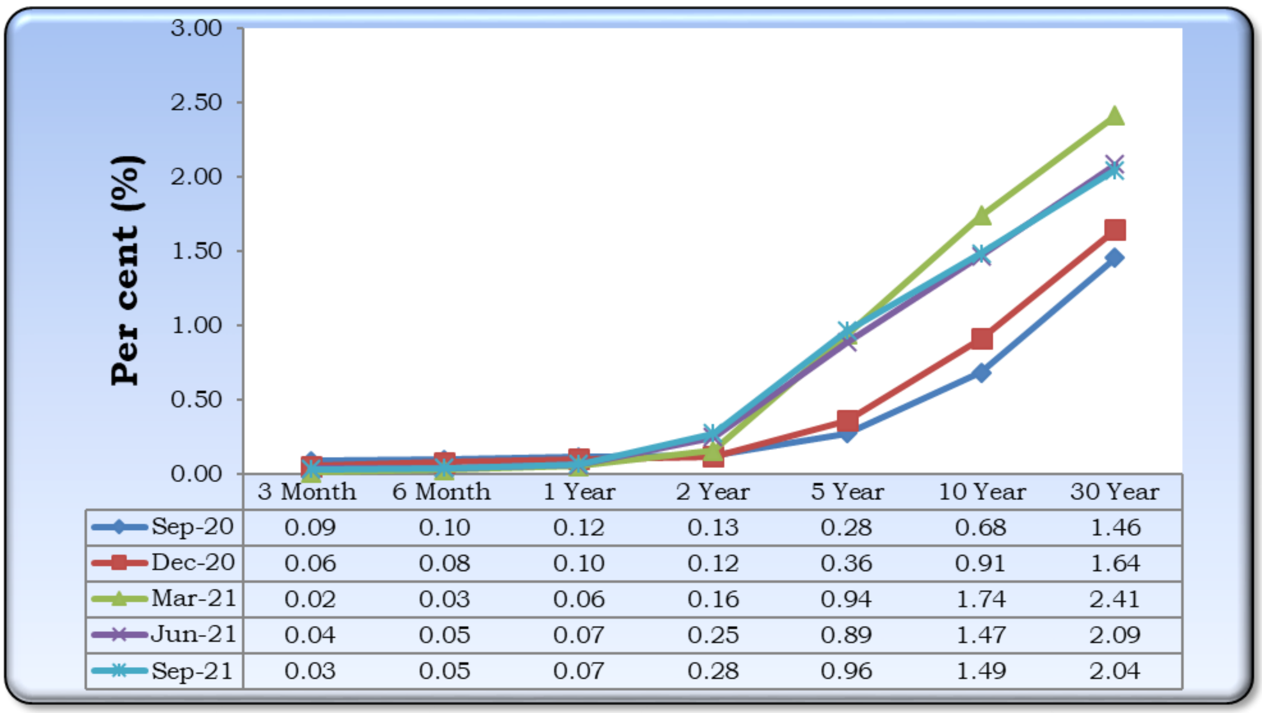


	QTR Ended Sep-21	QTR Ended Jun-21	QTR Ended Mar-21	QTR Ended Dec-20	QTR Ended Sep-20	FY 20/21	FY 19/20
Russell 3000	-0.10	8.24	6.34	14.68	9.21	31.86	14.99
Dow Jones	-1.46	5.08	8.29	10.73	8.22	24.15	5.70
S&P 500	0.58	8.55	6.17	12.14	8.93	29.98	15.13
FTSE 100 - UK	1.94	5.63	4.97	10.87	-4.02	25.31	-17.96
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	2.94	-1.23	7.07	18.52	4.75	29.03	8.69
MSCI EAFE	-0.37	5.34	3.62	16.08	4.90	26.23	0.95

Source: Bloomberg

In the US fixed income market, treasury yields edged higher as investors' balanced slowing growth and sharply higher inflation alongside the Fed's move towards reducing pandemic era support. The shorter-dated 2-year yield traded in a narrow range to close the quarter at 0.28 per cent, up three basis points from the previous quarter. Meanwhile, higher infection rates drove the longer-dated 10-year yield down to a low of 1.17 per cent early in the quarter, but it quickly recovered to close September at 1.49 per cent.

Figure 2
US Treasury Curve
/Per Cent/

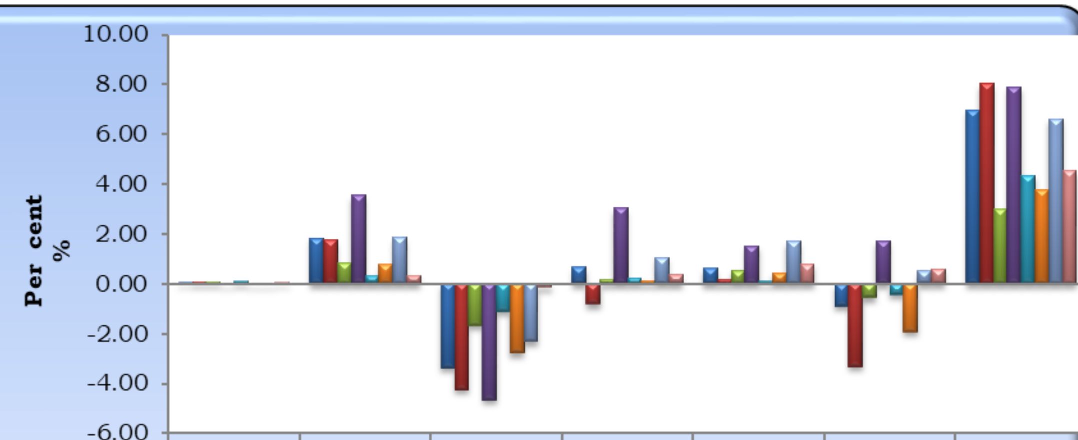


	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
Sep-20	0.09	0.10	0.12	0.13	0.28	0.68	1.46
Dec-20	0.06	0.08	0.10	0.12	0.36	0.91	1.64
Mar-21	0.02	0.03	0.06	0.16	0.94	1.74	2.41
Jun-21	0.04	0.05	0.07	0.25	0.89	1.47	2.09
Sep-21	0.03	0.05	0.07	0.28	0.96	1.49	2.04

Source: Bloomberg

The broader US fixed income market, as represented by the Bloomberg Barclays US Aggregate Bond Index, delivered a modest 0.05 per cent return (see Figure 3). Interest income broadly offset negative price returns from incremental spread widening and an uptick in yields. The US Corporate sector was flat for the quarter, while performance within the securitised sector varied. The US mortgage backed securities (MBS) sector rose by 0.10 per cent but commercial mortgage backed securities (CMBS) lost 0.03 per cent.

Figure 3
Returns on Fixed Income Indices
/Per Cent/

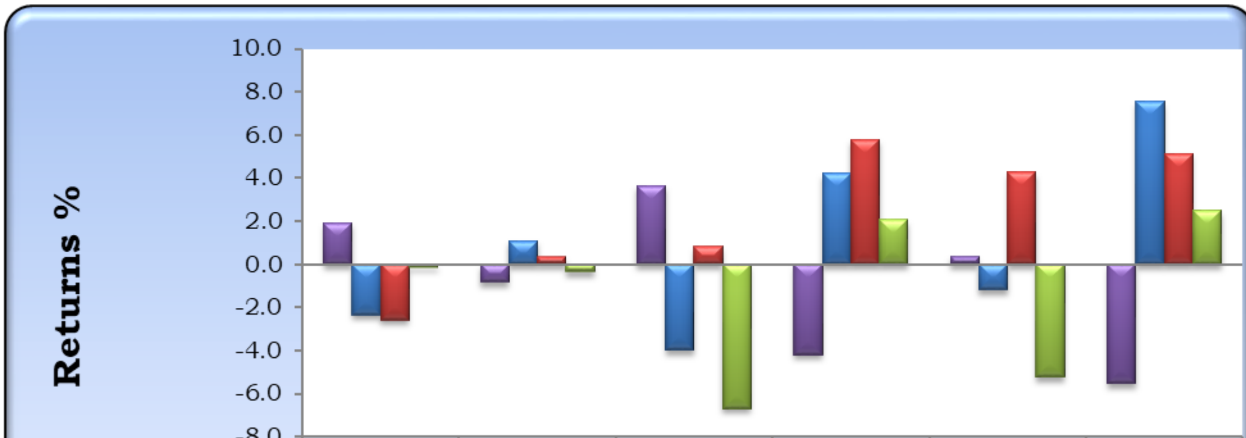


	QTR Ended Sep-21	QTR Ended Jun-21	QTR Ended Mar-21	QTR Ended Dec-20	QTR Ended Sep-20	FY 20/21	FY 19/20
Barclays US Aggregate	0.05	1.83	-3.37	0.67	0.62	-0.90	6.98
US Treasury	0.09	1.75	-4.25	-0.83	0.17	-3.30	8.04
Agencies	0.08	0.86	-1.66	0.18	0.55	-0.56	3.02
US Corporate	0.00	3.55	-4.65	3.05	1.54	1.74	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

The US Dollar, as measured by the Dollar Spot Index (DXY), strengthened 1.94 per cent. Expectations surrounding the Fed's tightening cycle as well as the relative strength of the US economy boosted demand for the US Dollar. In Japan, the Yen weakened a modest 0.14 per cent despite the country's series of virus setbacks and subdued growth outlook. Elsewhere, surging energy prices and gas shortages in Europe detracted from the both Euro and Pound, which depreciated by 2.34 per cent and 2.58 per cent, respectively.

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

SECTION 3 – PORTFOLIO PERFORMANCE

Strategic Asset Allocation

Table 3 reports the actual mandate weights of the HSF's Investment Portfolio relative to its approved SAA for the quarter ended September 2021 and the previous three (3) quarters.

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

	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
Portfolio Weights	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.

During the quarter ending September 2021, changes in mandate weights were a result of movements in the market values of the HSF's assets and withdrawal activity from the Fund. When combined, these events contributed to the HSF maintaining its overall underweight allocation to fixed income securities and corresponding overweight to

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

equities as at the end of the quarter. At the HSF's mandate level, the US Core Fixed Income mandate held the largest underweight position of 7.85 per cent, while the Non-US Core International Equity mandate had the largest overweight position of 7.10 per cent (see Table 3).

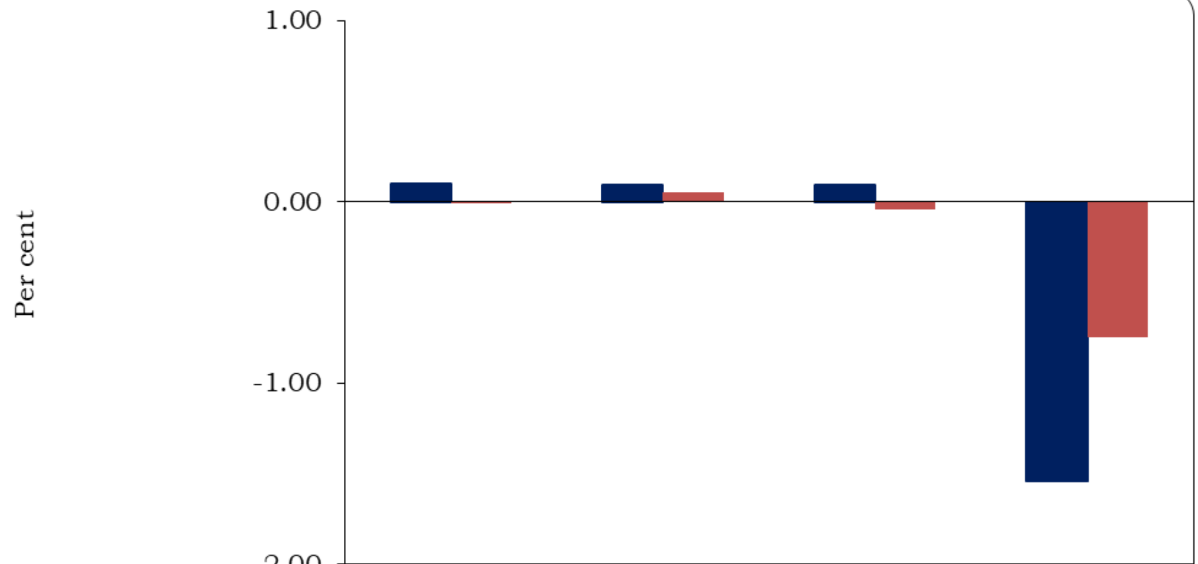
Following continuous reviews, the Board took a tactical decision not to rebalance the Fund and thus, allowed the Fund's asset allocation to deviate from the approved +/-5.0 per cent limit. The Board assessed that the overweight exposure to equity markets would continue to benefit the Fund's performance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

The total net asset value of the Fund as at the end of September 2021 was **US$5,463.9 million**, compared to US$5,583.2 million at the end of the previous quarter. Of this total, the Investment Portfolio was valued at US$5,463.0 million, while the remaining portion was held in operating cash accounts to meet the day-to-day expenses that arise from the management of the Fund.

Performance of the Investment Portfolio

During the fourth fiscal quarter of the financial year, the HSF's Investment Portfolio returned -0.31 per cent driven largely by the negative performance of the Non-US Core International Equity mandate (see Figure 5).

Figure 5
Absolute Returns by Mandate
For the period Jul - Sep 2021
/per cent/



	US Short Duration	US Core Fixed Income	US Core Domestic Equities	Non US Core International Equities
Composite Portfolio Return	0.10	0.09	0.10	-1.54
SAA Benchmark Return	0.00	0.05	-0.04	-0.75

When compared with its SAA benchmark[3], which lost 0.09 per cent, the HSF underperformed by 22 basis points. In aggregate, asset managers' strategies detracted over the period. Poor performance within the Non-US Core International Equity mandate outweighed the positive contributions from managers' performance in the other mandates. In addition, the HSF's overweight allocation to equities and corresponding underweight to fixed income relative to its SAA benchmark further detracted from the overall return performance of the Fund.

The **Non-US Core International Equity** mandate declined by 1.54 per cent during the quarter. This compares to a negative return of 0.75 per cent for its benchmark, the MSCI

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

EAFE ex Energy index. Stock selection drove underperformance over the quarter, while positive country allocation effects helped to offset some of the losses. Stock decisions were particularly poor in Australia and Hong Kong while, stock picks in Germany and the United Kingdom performed well. During the quarter, the mandate's net asset value decreased by $22.7 million to **US$1,344.0 million** as at the end of September 2021.

The **US Core Domestic Equity** mandate returned 0.10 per cent for the quarter. The mandate outperformed its benchmark, the Russell 3000 ex Energy index by 14 basis points (see Figure 5). The mandate's outperformance was driven by positive stock selection decisions. Relative positioning within the consumer discretionary, real estate and technology sectors were the top contributors to excess returns. The mandate's net asset value as at September 30, 2021 was **US$1,341.4 million** compared with US$1,340.3 million three months earlier.

The **US Short Duration Fixed Income** mandate gained 0.10 per cent in the fourth quarter of the financial year. The mandate outperformed the benchmark, Bank of America Merrill Lynch US Treasury 1-5 year index, by 10 basis points. The portfolio's short duration positioning, exposure to inflation sensitive securities and allocation to credit sectors all had a positive impact over the period. The net asset value of the mandate as at September 30, 2021 was **US$1,021.0 million** compared to US$1,020.3 million as at the end of June 2021.

The longer duration **US Core Domestic Fixed Income** mandate returned 0.09 per cent compared to 0.05 per cent for the benchmark, the Bloomberg Barclays US Aggregate Bond index. Cross-sector strategies and security selection drove the portfolio's outperformance. Overweight exposures to the investment grade corporate and commercial mortgage-backed securities sectors enhanced returns. This was augmented by security selection, particularly within the corporate sector. The net asset value of the mandate as at the end of September was **US$1,756.6 million** compared to US$1,854.8 million three months earlier. A withdrawal of US$100.0 million during the quarter was the main driver of the mandate's lower net asset value.

SECTION 4 – COMPLIANCE AND PORTFOLIO RISKS

Compliance

As at the end of the quarter, one asset manager within the Non-US Core International equity mandate continued to not meet the performance objectives outlined in the investment guidelines. In addition, there was one bond held in the US Core Fixed Income mandate that lost its eligibility due to a credit rating downgrade on September 30, 2021. The position was sold within a reasonable timeframe to bring the portfolio back in compliance with the minimum credit quality requirement.

Following the extreme market events that transpired in March 2020, the managers in the US Core Domestic Fixed Income mandate continue to operate above the risk target relative to the benchmark, as stated in their investment guidelines. The Central Bank, as manager of the Fund, aims to bring the managers back in compliance with the investment guidelines as soon as feasible. These managers continue to be closely monitored by the Central Bank and frequent discussions are held regarding the market environment and portfolio positioning.

The withdrawal from the HSF coupled with market movements during the quarter increased the deviation of the mandate weights from the approved SAA. As at September 30, 2021, all the mandates exceeded the allowable +/- 5 per cent deviation limit (see Table 3). Based on the HSF Board's assessment of market conditions, a decision was taken not to rebalance the Fund at quarter end. The Board will continue to monitor its decision on a monthly basis. To support the review of its decision, the Board requested the Central Bank continue to provide monthly updates on the Fund's performance, asset class exposures as well as market outlook.

Portfolio Risks

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

Credit Risk

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

For **fixed income instruments**, credit risk is mitigated by the use of credit concentration limits as well as minimum credit quality ratings. Bonds must have an investment grade rating as defined by Standard and Poor's, Moody's Investors Services or Fitch Ratings Incorporated. Should the required ratings on an existing fixed income security fall below the minimum standards, the security must be sold within an agreed upon timeframe. Table 4 below shows the average credit quality of the US Short Duration and US Core Fixed Income Portfolios as at September 30, 2021.

Table 4
Average Credit Rating

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

Concentration Risk

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

The portfolio is currently invested across four asset groupings as follows: US Short Duration Fixed Income; US Core Domestic Fixed Income; US Core Domestic Equity; and Non-US Core International Equity. In addition, concentration risk is minimised within asset groups by approved market exposure and issuer holding limits. For the **equity portfolios**, this risk is managed by imposing a maximum percentage holding of 3.0 per cent of any security's outstanding shares, as well as a maximum sector deviation relative to the benchmark of 5.0 per cent.

Interest Rate Risk

Interest rate risk is managed using a weighted average effective duration limit on the respective portfolios. For the US Short Duration Fixed Income mandate, the allowable range is six months longer or shorter than the weighted average duration of its respective benchmark. While the US Core Domestic Fixed Income mandate has an allowable range of 12 months longer or shorter than the weighted average duration of its respective benchmark. Table 5 shows the weighted average duration for the US Short Duration and US Core Domestic Fixed Income portfolios as at September 30, 2021.

Table 5
Weighted Average Duration
/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 markets countries, excluding the US and Canada. Where benchmark securities are quoted in currencies other than the US dollar, the Fund accepts the currency risk. For this mandate, however, managers can hedge up to 15 per cent of the market value of their currency exposure into the US dollar, the base reporting currency for the HSF. At the end of September 2021, the currency exposure for this portfolio was 98 per cent of its market value. During the quarter, all the portfolios were within their respective limits.

Appendix I

HSF Portfolio - Historical Performance

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

Quarter End	Current Returns			Financial YTD			Annualised Return Since Inception		
	Portfolio	Benchmark	Excess	Portfolio	Benchmark	Excess	Portfolio	Benchmark	Excess
	%	%	bps	%	%	bps	%	%	bps
FY 2016									
December	1.68	1.67	0.22	1.68	1.67	0.22	5.36	4.79	56.52
March	0.80	1.26	-46.14	2.48	2.95	-46.70	5.30	4.80	49.64
June	0.80	1.11	-30.92	3.30	4.09	-78.90	5.24	4.79	44.83
September	2.45	2.12	32.85	5.83	6.29	-45.72	5.37	4.89	47.33
FY 2017									
December	-0.46	-0.98	51.92	-0.46	-0.98	51.92	5.17	4.66	51.64
March	3.17	2.92	24.41	2.69	1.91	77.74	5.37	4.84	52.92
June	2.74	2.44	30.00	5.50	4.40	110.45	5.51	4.97	54.69
September	2.61	2.06	54.78	8.25	6.55	170.48	5.64	5.05	58.79
FY 2018									
December	2.24	1.83	40.22	2.24	1.83	40.22	5.72	5.11	61.32
March	-0.55	-0.94	38.21	1.67	0.88	78.91	5.53	4.90	63.49
June	0.26	0.21	5.36	1.94	1.09	84.52	5.43	4.81	62.52
September	1.81	1.54	27.02	3.79	2.65	113.37	5.47	4.84	63.61
FY 2019									
December	-4.69	-3.54	-114.99	-4.69	-3.54	-114.99	4.93	4.41	51.33
March	5.93	5.61	31.25	0.96	1.88	-91.66	5.33	4.79	53.03
June	3.01	3.26	-25.10	4.00	5.20	-119.99	5.47	4.97	49.95
September	1.05	1.27	-21.70	5.10	6.54	-144.08	5.44	4.97	47.15
FY 2020									
December	3.62	3.20	41.90	3.62	3.20	41.90	5.63	5.13	49.64
March	-7.33	-5.51	-182.43	-3.98	-2.48	-149.43	4.90	4.58	32.73
June	8.62	7.57	104.53	4.30	4.90	-60.38	5.46	5.06	39.94
September	3.74	2.98	76.36	8.20	8.03	17.42	5.65	5.20	45.01

Quarter End	Current Returns			Financial YTD			Annualised Return Since Inception		
	Portfolio	Benchmark	Excess	Portfolio	Benchmark	Excess	Portfolio	Benchmark	Excess
	%	%	bps	%	%	bps	%	%	bps
FY 2021									
December	6.43	5.50	93.52	6.43	5.50	93.52	6.02	5.51	51.10
March	1.28	0.08	119.45	7.79	5.58	220.73	6.00	5.41	59.10
June	4.00	3.09	90.18	12.10	8.85	324.76	6.19	5.54	64.60
September	-0.31	-0.09	-22.00	11.75	8.75	299.80	6.05	5.44	61.82

Notes:

(1) Differences in totals are due to rounding.
(2) In August 2009, International Equities and Fixed Income Securities were added to the HSF portfolio. The performance benchmark for the HSF portfolio became a blended benchmark which comprise, Bank of America/Merrill Lynch US Treasury 1-5 Years Index, US One-month LIBID Index, Barclays US Aggregate, Russell 3000 ex Energy, and MSCI EAFE ex Energy.
(3) In January 2011, the HSF Portfolio achieved its Strategic Asset Allocation where the portfolio was invested in four assets classes. US Short Duration Fixed Income (25), US Core Fixed Income (40), US Equity (17.5) and Non-US International Equity (17.5).
(4) With effect from the quarter ended December 2012, the Annualised Returns Since Inception were computed using a geometric average and not the previously used arithmetic average. For comparative purposes, prior period annualized returns since inception shown above were computing using a geometric average.

Appendix II

Heritage and Stabilisation Fund

Portfolio Valuation (USD)

Valuation Date	Net Asset Value	Total Comprehensive Income	Accumulated Surplus & Unrealized Capital Gains/Losses	Contributions / (Withdrawals)
Annual Portfolio Valuation				
September 30,2007	1,766,200,701	41,966,361	41,966,361	321,706,043
September 30,2008	2,888,421,556	68,412,770	110,379,131	1,054,174,457
September 30,2009	2,964,686,478	76,248,691	186,755,766	-
September 30,2010	3,621,984,041	177,645,460	364,361,226	477,344,263
September 30,2011	4,084,016,158	9,715,841	374,074,067	451,400,519
September 30,2012	4,712,376,278	420,693,705	794,770,772	207,550,846
September 30,2013	5,154,027,747	399,007,950	1,193,778,722	42,414,251
September 30,2014	5,533,425,248	379,167,024	1,572,945,746	-
September 30,2015	5,655,143,565	120,639,605	1,693,585,351	-
September 30,2016	5,584,246,290	305,452,096	1,999,037,447	(375,050,860)
September 30, 2017	5,762,544,777	429,475,446	2,428,512,893	(252,548,048)
September 30, 2018	5,965,847,092	203,717,910	2,632,230,803	-
September 30, 2019	6,255,349,599	288,837,111	2,921,067,914	-
September 30, 2020	5,731,799,397	457,090,777	3,378,158,691	(979,853,158)
Quarterly Portfolio Valuation				
December 31, 2014	5,653,895,156	120,509,077	1,693,454,823	-
March 31, 2015	5,779,420,631	125,471,133	1,818,925,956	-
June 30, 2015	5,774,951,169	(4,765,278)	1,814,160,678	-
September 30, 2015	5,655,143,565	(120,575,327)	1,693,585,351	-
December 31, 2015	5,744,963,957	90,833,573	1,784,418,924	-
March 31, 2016	5,787,343,363	42,134,260	1,826,553,184	-
June 30, 2016	5,454,568,405	42,838,704	1,869,391,888	(375,050,860)
September 30, 2016	5,584,246,290	129,645,559	1,999,037,447	-
December 31, 2016	5,555,039,859	(29,605,256)	1,969,432,191	-
March 31, 2017	5,473,047,983	170,609,885	2,140,042,076	(252,548,048)
June 30, 2017	5,619,311,033	146,006,897	2,286,048,973	-

Appendix II

Heritage and Stabilisation Fund

Portfolio Valuation (USD)

Valuation Date	Net Asset Value	Total Comprehensive Income	Accumulated Surplus & Unrealized Capital Gains/Losses	Contributions / (Withdrawals)
Quarterly Portfolio Valuation				
September 30, 2017	5,762,544,777	142,463,920	2,428,512,893	-
December 31, 2017	5,888,599,170	124,900,387	2,553,413,280	-
March 31, 2018	5,852,789,288	(36,468,342)	2,516,944,938	-
June 30, 2018	5,863,070,206	12,336,541	2,529,281,479	-
September 30,2018	5,965,847,092	102,949,324	2,632,230,803	-
December 31,2018	5,683,219,683	(486,810,763)	2,349,137,950	-
March 31, 2019	6,016,429,263	333,123,750	2,682,261,700	-
June 30, 2019	6,194,328,757	177,424,921	2,859,686,621	-
September 30, 2019	6,255,349,599	61,381,293	2,921,067,914	-
December 31, 2019	6,478,340,872	222,180,512	3,143,248,426	-
March 31, 2020	5,925,283,653	(473,394,404)	2,669,854,022	(79,853,158)
June 30, 2020	5,817,072,795	493,393,358	3,163,247,380	(600,000,000)
September 30, 2020	5,731,799,397	214,911,311	3,378,158,691	(300,000,000)
December 31, 2020	5,888,114,410	355,398,920	3,733,557,611	(198,943,283)
March 31, 2021	5,661,689,420	67,788,202	3,801,345,814	(293,771,250)
June 30, 2021	5,583,193,276	238,205,801	4,039,551,615	(300,000,000)
September 30, 2021	5,463,893,835	(37,214,475)	4,002,337,140	(100,000,000)

Appendix III

Summary Characteristics of Composite Benchmarks

Fixed Income Benchmarks

Key Characteristics	Bloomberg Barclays US Aggregate Index	Merrill Lynch 1-5 Index
Total Holdings	12,226	152
Coupon (%)	2.48	1.42
Duration (Years)	6.71	2.65
Average Life (Years)	8.63	2.72
Yield to Maturity (%)	1.57	0.48
Option Adjusted Spread (bps)	33	0
Average Rating (S&P)	AA	AA+
Minimum Rating (S&P)	BBB	AA+

Equity Benchmarks

Key Characteristics	Russell 3000 (ex-Energy)	MSCI EAFE (ex-Energy)
Total Holdings	2,923	810
Earnings Per Share (EPS Growth 3-5yr fwd.)	16.4	14.14
Price Earnings (P/E fwd.)	20.9	16.09
Price / Book (P/B)	4.2	1.86
Weighted Average Market Capitalisation* (Bn)	480.7	84.5

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

Appendix IV

Summary of the Fund's Net Asset Value by Mandate

/US$ Million/

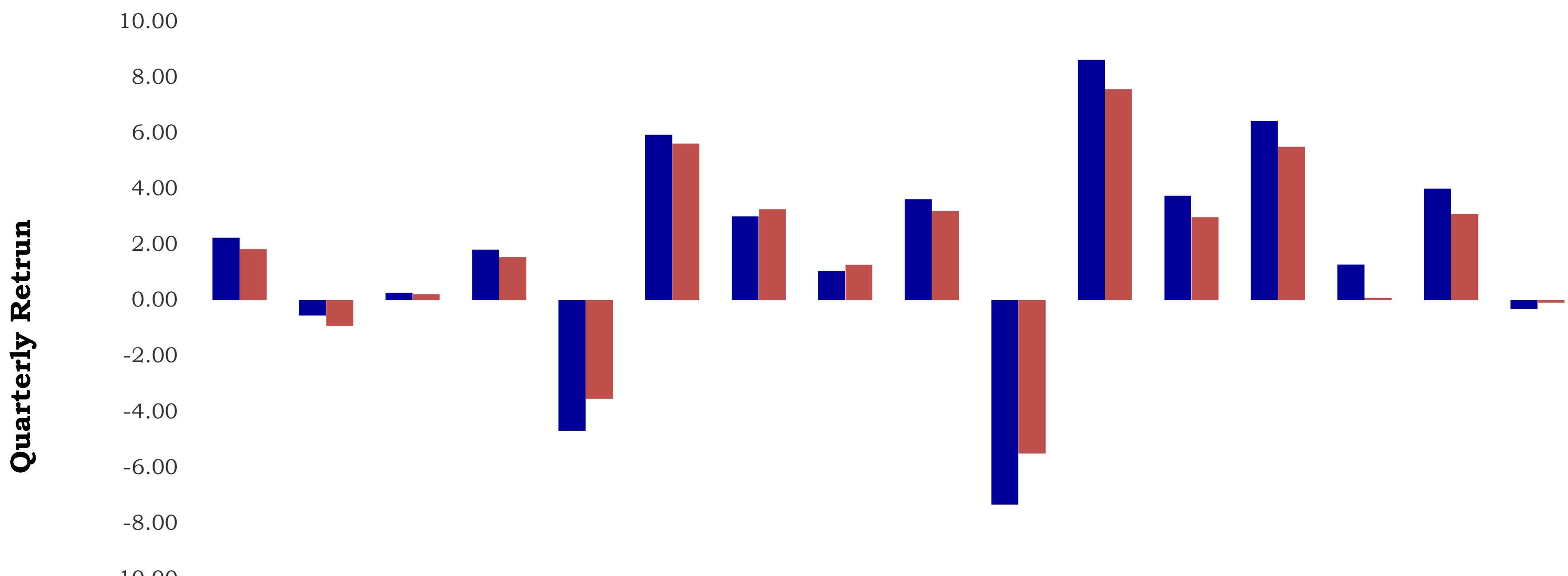
	Sep -20	Dec -20	Mar -21	Jun -21	Sep-21
Total Fund Value	**5,732**	**5,888**	**5,662**	**5,583.2**	**5,463.9**
Total Value of Equity	**2,263**	**2,584**	**2,630**	**2,707**	**2,685**
US Core Domestic Equity	1,181	1,347	1,333	1,340	1,341
Non-US Core International Equity	1,083	1,238	1,297	1,367	1,344
Total Value of Fixed Income	**3,467**	**3,301**	**3,030**	**2,875**	**2,778**
US Short Duration Fixed Income	1,211	1,153	1,118	1,020	1,021
US Core Domestic Fixed Income	2,256	2,148	1,912	1,855	1,757
Total Value of Cash or Cash Equivalents	**1**	**2**	**1**	**1**	**1**

NB: Differences in totals are due to rounding.

Appendix V

HSF Portfolio and SAA Benchmark Quarterly Returns

/per cent/



	FY2018 Q1	FY2018 Q2	FY2018 Q3	FY2018 Q4	FY2019 Q1	FY2019 Q2	FY2019 Q3	FY2019 Q4	FY2020 Q1	FY2020 Q2	FY2020 Q3	FY2020 Q4	FY2021 Q1	FY2021 Q2	FY2021 Q3	FY2021 Q4
HSF Portfolio	2.24	-0.55	0.26	1.81	-4.69	5.93	3.01	1.05	3.62	-7.33	8.62	3.74	6.43	1.28	4.00	-0.31
Benchmark	1.83	-0.94	0.21	1.54	-3.54	5.61	3.26	1.27	3.20	-5.51	7.57	2.98	5.50	0.08	3.09	-0.09