APPENDIX

HERITAGE AND STABILISATION FUND (HSF)

QUARTERLY INVESTMENT REPORT

OCTOBER TO DECEMBER 2021

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[1] This section includes economic data available as at January 21, 2022.

EXECUTIVE SUMMARY

- The global economic recovery regained momentum early in the quarter before the highly contagious Omicron variant sparked another wave of infections. Covid-19 cases reached record highs in the United States (US) and Europe during December prompting some governments to re-introduce restrictions. Renewed virus disruptions exacerbated the ongoing supply chain bottlenecks and labour shortages facing companies and fuelled concerns around the growth outlook. In addition, stronger and more persistent inflationary pressures led several major central banks to pivot towards gradually reducing pandemic era support.

  In the US, real GDP growth in the fourth quarter of 2021 has been estimated at 1.7 per cent, capping a year of strong economic recovery after the sharp recession of 2020, the first year of the coronavirus pandemic. The strength of the recovery reflected the success of the private sector in adapting to the unprecedented challenges created by the pandemic. However, as noted above, late in the fourth quarter, new headwinds have begun to arise in the form of the Omicron variant. In the 12 months to December 2021, the consumer price index climbed to 7 per cent, the largest 12-month gained since June 1982.

  In the Eurozone, economic growth slowed to 0.3 per cent in the fourth quarter of 2021 from 2.3 per cent in the previous period. The slowdown was largely related to supply-chain disruptions and the reintroduction of restrictions to cope with the rapid spread of the new Omicron variant of the COVID 19 virus. Broadly in line with the pattern in the US, Eurozone 12-month inflation accelerated to 5.0 per cent in December 2021 for the first time since 1991. In the United Kingdom, real GDP growth in the fourth quarter of 2021 was 1 per cent, the same as in the previous quarter. Even with the slowdown in the final quarter, real GDP growth in the UK in calendar 2021 was 7.5 per cent, the largest since 1941, making Britain the fastest growing advanced economy in 2021. However, inflation in the UK also surged, to 5.4 per cent in December 2021, the highest rate for thirty years.

- With the UK facing strong economic growth and rising inflation, the Bank of England (BOE), at its December Monetary Policy Committee meeting, increased its key policy rate by 15 basis points to 0.25 per cent, becoming the first among its peers to raise rates since the start of the pandemic. Also in December 2021, the US Federal Reserve (Fed) announced plans to taper its monthly bond buying at an accelerated pace and to end the programme in March 2022, three months earlier than anticipated. The Fed's rate hiking cycle, also expected to start in December, was postponed to the Fed's March 2022 meeting.

- The European Central Bank (ECB) and Bank of Japan (BOJ) also scaled down their asset purchase and lending programmes introduced at the start of the pandemic. However, both the ECB and BOJ pledged to remain accommodative for some time citing the need to safeguard the consolidation of their economic recovery.

- Against this backdrop of increasing inflation and prospects for a major change in the global monetary environment, shorter-dated G-7 sovereign bond yields moved higher. The 2-year US Treasury yield added 45 basis points to close the fourth of 2021 at 0.73 per cent, while the longer-dated 10-year US Treasury yield was somewhat stable at 1.51 per cent. In global developed equity markets, solid fundamentals overshadowed fears around surging prices and the prospect of tighter financial conditions. Stocks advanced on strong corporate earnings and signs of economic resilience with the US S&P 500 index gaining 11.02 per cent for the quarter. However, international equities, as represented by the MSCI EAFE index, earned a modest 2.72 per cent.

- In the first quarter of the financial year, the HSF returned 2.97 per cent due primarily to its exposure to global developed equities (see Table 1). In the quarter, global equities maintained a solid performance as investors brushed-off increasing inflation and the expectation of imminent changes in the accommodating monetary policy stance and more favourably weighted the continuing strong growth performance and buoyant corporate earnings, particularly in the US. The US Core Domestic Equity mandate contributed 2.44 per cent to the HSF performance, while the Non-US International Equity mandate added 0.62 per cent (see Table 2). When combined, the fixed income mandates detracted 0.09 percent as spread widened and yields moved slightly higher during the quarter (see Table 2).

- When compared to its Strategic Asset Allocation (SAA) benchmark, which rose by 1.98 per cent, the HSF outperformed by 99 basis points (see Table 2 and Appendix I). The Fund's overweight exposure to equities, relative to the SAA benchmark, was the main factor driving excess returns. Also, collectively, asset managers' strategies incrementally added to relative performance. Positive contributions from managers in the US Core Domestic Equity and fixed income mandates offset the underperformance of managers in the Non-US Core International Equity mandate.

- As at the end of December 2021, the total net asset value of the HSF was **US$5,623.2 million,** approximately US$159.3 million higher than the previous quarter's closing value of US$5,463.9 million.

- The **Russian invasion of Ukraine** in late February 2022 combine with escalating sanctions and the steps that businesses are taking to reduce trade with Russia are likely to have far-reaching effects on the global economy. The increase in oil prices, which has already reached historic levels, could prolong inflation, raise inflationary expectations and complicate the implementation of anti-inflationary monetary policies. However, the prolongation of the war could postpone any near term improvement in Covid-19 and impact supply chains with negative consequences for inflation, global economic growth and financial risk-taking. The evolution of global financial markets, which is currently uncertain, depends heavily on the length of conflict. Markets will, no doubt, welcome a very early end to the conflict.

Table 1
Absolute Quarterly Returns
For the period Oct – Dec 2021
/per cent/

	Absolute Return HSF	**Absolute Return Benchmark**
Composite Portfolio	**2.97**	**1.98**
US Short Duration Fixed Income	-0.56	-0.68
US Core Domestic Fixed Income	0.05	0.01
US Core Domestic Equity	9.91	9.36
Non-US Core International Equity	2.54	2.81

Table 2
Contributions to Quarterly Returns
For the period Oct – Dec 2021
/per cent/

	3 Months Portfolio Weighted Return to 31-Dec-2021	
	HSF	**Benchmark**
Composite Portfolio	**2.97**	**1.98**
US Short Duration Fixed Income	-0.10	-0.17
US Core Domestic Fixed Income	0.01	0.00
US Core Domestic Equity	2.44	1.62
Non-US Core International Equity	0.62	0.52

NB: Differences in totals are due to rounding.

SECTION 1 – INTERNATIONAL ECONOMIC ENVIRONMENT

Ongoing supply chain delays, sharply higher prices and the emergence of the Omicron Covid-19 variant threatened to undermine the global economic recovery during the quarter. In developed economies, activity improved early in the period as the impact from the Delta variant faded allowing for an upturn in consumer-facing sectors. However, a surge in infection rates in December led to the reintroduction of lockdown measures, which eroded consumer confidence and dampened demand. Despite the slower growth outlook, pervasive inflationary pressures compelled key central banks to bring forward expectations for monetary policy tightening.

US economic activity regained momentum during the quarter ending December 2021. Businesses remained open during the latest wave of infections as the government focused on ramping up testing and rolling out booster shots to limit the impact of the virus. The Markit Composite Purchasing Managers' Index (PMI) increased by two points to 57.0 points in December with service providers reporting an upturn in activity driven by new orders. Meanwhile, manufacturing production slowed due to a combination of easing demand as well as labour and raw material shortages. Job openings remained strong and the unemployment rate declined to 3.9 per cent in December from 4.7 per cent in September. Average hourly earnings edged modestly higher to 5.8 per cent in December and provided some relief to consumers as prices rose by 7.0 per cent in December, the fastest pace in decades. In Washington, President Biden's administration passed a $1.2 trillion infrastructure bill aimed at funding major transportation and utilities projects but additional fiscal support from the $1.75 trillion Build Back Better Act, which entails plans for social spending and climate policy, remained stalled in the senate.

In the UK, demand for services rebounded in October and November with strong gains in the travel, leisure and hospitality industries. However, the rapid rise in infections during December lead to the re-introduction of measured restrictions and a sharp drop in activity. Companies already contending with labour shortages faced increasing strain from higher employee absenteeism due to the virus. The Markit Services PMI rose to 58.5 points in November but closed December at 53.6 points, a decline of 1.8 points for the quarter. The government moved quickly to provide £1.0 billion additional support for businesses through grants and other programmes such as rebates for

Covid-19 related sick pay. Meanwhile, manufacturing production was stable over the three months to December, despite logistic challenges, post-Brexit trade barriers and material shortages. No longer supported by the government's furlough scheme, the jobs market remained relatively strong. The unemployment rate declined from 4.3 per cent in September to 4.1 per cent in November but wage growth slowed from 5.9 per cent in September to 4.2 per cent in November. On the inflation front, prices rose by 5.4 per cent in December from 3.1 per cent in September, with increases recorded across a wide cross-section of items.

Similarly, the Eurozone economy encountered setbacks due to the spread of the Omicron variant in the region. Several member states imposed strict Covid-19 measures including national lockdowns, travel restrictions and limits on social gatherings. Business sentiment weakened and the Markit Euro Area Composite PMI fell by 2.9 points over the quarter to 53.3 points largely due to a deterioration in service sector activity. The jobs market advanced with the unemployment rate moving down to 7.2 per cent in November from 7.4 per cent in September. However, virus risks and rising inflation eroded consumer confidence over the quarter. Gas shortages and other supply chain constraints pushed the Consumer Price Index (CPI) up to 5.0 per cent in December compared to 3.4 per cent in September.

In Asia, Japan's economic prospects improved with the lifting of state of emergency measures at the beginning of October. Unlike the US and Europe, total cases linked to the Omicron variant remained low over the quarter allowing the country to avoid another lockdown. The Markit Composite PMI expanded to 52.5 points in December from 47.9 points in September. Unencumbered by Covid-19 controls, the service sector returned to growth for the first time since the start of the pandemic as private consumption demand rose amid the country's late vaccine campaign success. Manufacturing production also increased with automakers reporting a modest recovery given incremental improvements in sourcing inputs. While producer inflation gauges surged, consumer prices were lower with the CPI excluding food and energy falling by 1.3 per cent in December when compared to a decline of 0.8 per cent in September. To help revive the economy, newly elected Prime Minister Kishida provided additional support through an extra ¥36.0 trillion yen spending bill and proposed a record high ¥107.6 trillion yen budget for fiscal year 2022-2023.

Monetary policies at major central banks diverged as officials measured higher-than-expected inflation against economic progress and lingering virus risks. The BOE became the first among its peers to raise rates since the start of the pandemic. With inflation at more than double its target, the central bank increased its key policy rate from a low of 0.10 per cent to 0.25 per cent at its December Monetary Policy Committee meeting. The BOE also ended its asset purchase programme and indicated that it would begin reducing its existing holdings once policy rates reached 0.50 per cent. Meanwhile, persistent pricing pressures, labour market advancements and a robust economic outlook prompted the Fed to reduce its monthly asset purchases starting in November. However, at the December policy meeting, mounting inflation risks compelled the Federal Open Market Committee (FOMC) to accelerate its bond tapering plans and bring forward expectations for the first rate hike to March 2022. Policymakers also considered potentially decreasing the size of its balance sheet shortly thereafter. In comparison, the ECB and BOJ indicated that monetary policy would remain highly accommodative for some time. The ECB announced that it would reduce bond purchases under its Pandemic Emergency Purchase Programme while also increasing buying under its main asset purchase programme, to make for a more gradual transition. At its December policy meeting, the BOJ left its monetary policy unchanged but scaled back pandemic-era lending facilities for large companies.

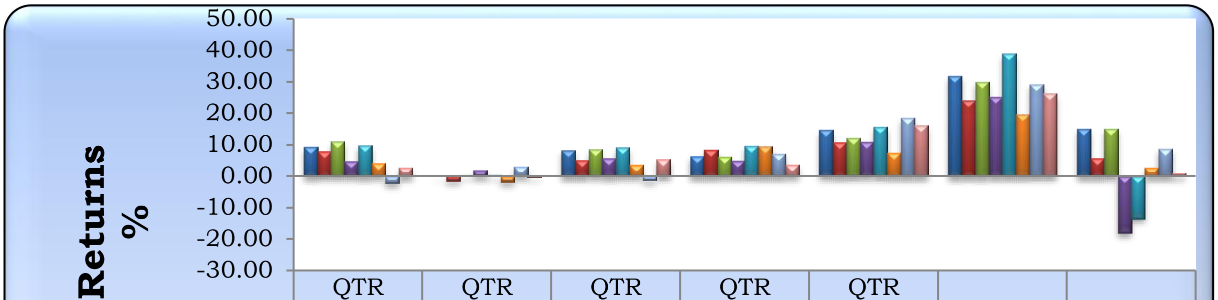
SECTION 2 – CAPITAL AND MONEY MARKET REVIEW

Markets were broadly buoyant early in the quarter as the credit crisis in China appeared to be somewhat contained while near-term risks from a partial US government shutdown and debt default abated. However, the emergence of the highly transmissible Omicron variant drove a spike in volatility towards the end of November into the beginning of December. Overall, financial market volatility was modestly higher. The US Chicago Board Options Exchange Volatility Index (VIX) averaged 19.24 points compared to an average of 18.21 points during the prior quarter. Similarly, the Euro Stoxx 50 Volatility Index (VSTOXX) rose to a quarterly average of 20.61 points from 19.62 points.

In the US, equity markets climbed to record highs on strong corporate profits, additional fiscal stimulus and solid economic data. Early in the period, fading Delta variant risks and positive earnings surprises bolstered sentiment and outweighed inflation and monetary policy concerns. While the new wave of infections sparked fears of widespread lockdowns that could potentially derail the recovery, investors' confidence grew as initial studies indicated the Omicron variant resulted in less severe illness. The S&P 500 index and the Russell 3000 index rallied by 11.02 per cent and 9.27 per cent, respectively (see Figure 1). Within the S&P 500 index, the Real Estate and Information Technology sectors performed the best while Communication Services lagged the broader market.

Non-US developed stock markets, as represented by the MSCI EAFE index, returned 2.72 per cent, when measured in US dollar terms (see Figure 1). Exposure to local currencies detracted from returns as the US dollar broadly appreciated over the quarter. European stocks performed well despite renewed virus risks from the rapid spread of the new Omicron variant. The UK's FTSE 100 index rose by 4.75 per cent while France's CAC 40 index gained 9.86 per cent. At the same time, Germany's DAX index returned 4.09 per cent with its tilt towards cyclical sectors such as autos and industrials detracting over the period. In contrast, Japan's Nikkei 225 index lost 2.14 per cent amid the prospect of higher taxes and potentially lower demand from trading partners, such as China.

Figure 1
Total Returns on Equity Indices
/Per cent/

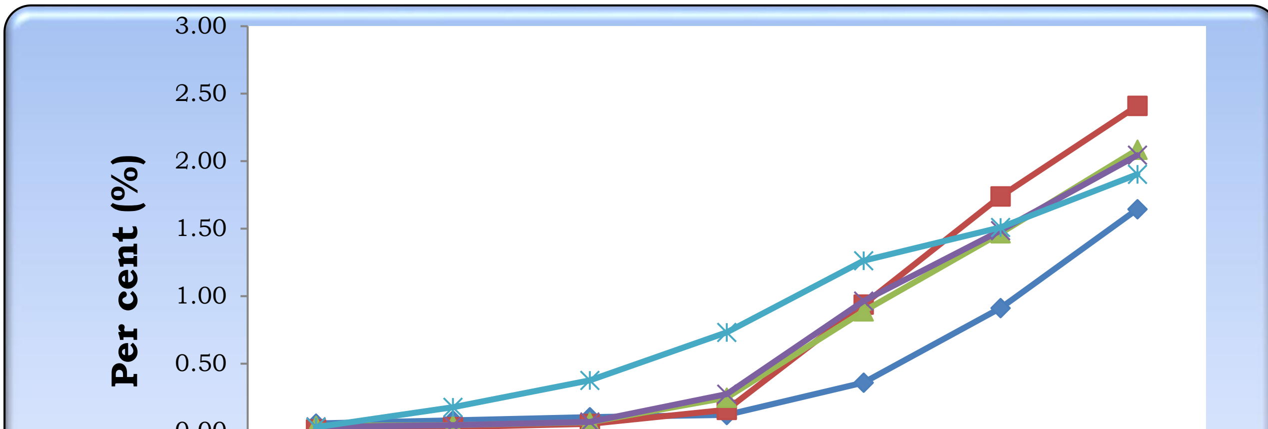


	QTR Ended Dec-21	QTR Ended Sep-21	QTR Ended Jun-21	QTR Ended Mar-21	QTR Ended Dec-20	FY 20/21	FY 19/20
Russell 3000	9.27	-0.10	8.24	6.34	14.68	31.86	14.99
Dow Jones	7.87	-1.46	5.08	8.29	10.73	24.15	5.70
S&P 500	11.02	0.58	8.55	6.17	12.14	29.99	15.13
FTSE 100 - UK	4.75	1.94	5.63	4.97	10.87	25.31	-17.96
CAC 40 - France	9.86	0.44	9.07	9.59	15.76	38.96	-13.41
DAX 30 - Germany	4.09	-1.74	3.48	9.40	7.51	19.59	2.68
Nikkei 225 - Japan	-2.14	3.02	-1.23	7.07	18.52	29.14	8.69
MSCI EAFE	2.72	-0.34	5.34	3.62	16.08	26.27	0.95

Source: Bloomberg

In the US fixed income market, surging inflation and the outlook for Fed tightening pushed US treasury yields higher, particularly on the shorter-end of the curve. The Fed's accelerated pace of bond tapering announced at the December FOMC meeting fuelled speculation around earlier and faster rate hikes over the next year. The shorter-dated 2-year yield added 45 basis points to close the quarter at 0.73 per cent. Meanwhile, weaker growth expectations coupled with safe haven demand towards the end of November into December placed downward pressure on longer-dated yields. The 30-year yield fell by 14 basis points to 1.90 per cent while the 10-year yield rose a modest two basis points to 1.51 per cent.

Figure 2
US Treasury Curve
/Per Cent/

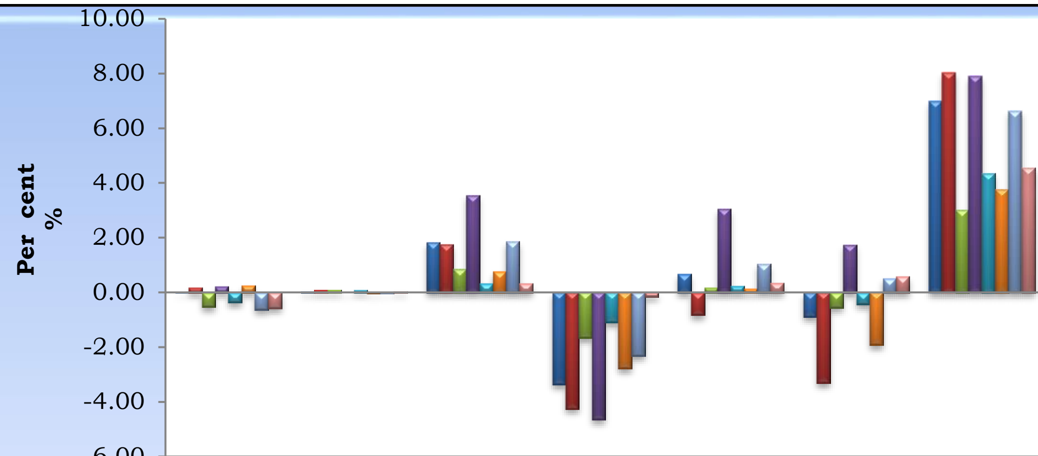


	3 Month	6 Month	1 Year	2 Year	5 Year	10 Year	30 Year
Dec-20	0.06	0.08	0.10	0.12	0.36	0.91	1.64
Mar-21	0.02	0.03	0.06	0.16	0.94	1.74	2.41
Jun-21	0.04	0.05	0.07	0.25	0.89	1.47	2.09
Sep-21	0.03	0.05	0.07	0.28	0.96	1.49	2.04
Dec-21	0.03	0.18	0.38	0.73	1.26	1.51	1.90

Source: Bloomberg

The broader US fixed income market, as represented by the Bloomberg Barclays US Aggregate Bond Index, was relatively unchanged at 0.01 per cent (see Figure 3). Collectively, interest income earnings offset negative price returns from incremental spread widening and an uptick in yields. However, sector performance was mixed as bonds with shorter duration exposure generally underperformed. With the rise in interest rates concentrated in the 1-year to 5-year part of the US treasury curve, shorter-dated bonds generally underperformed. US commercial mortgage backed securities (CMBS) lost 0.64 per cent while Asset Backed Securities (ABS) fell by 0.57 per cent. Meanwhile, sectors comprised of assets with longer maturities, such as US Corporates and G7 Bonds (Hedged), gained 0.23 per cent and 0.26 per cent, respectively.

Figure 3
Returns on Fixed Income Indices
/Per Cent/

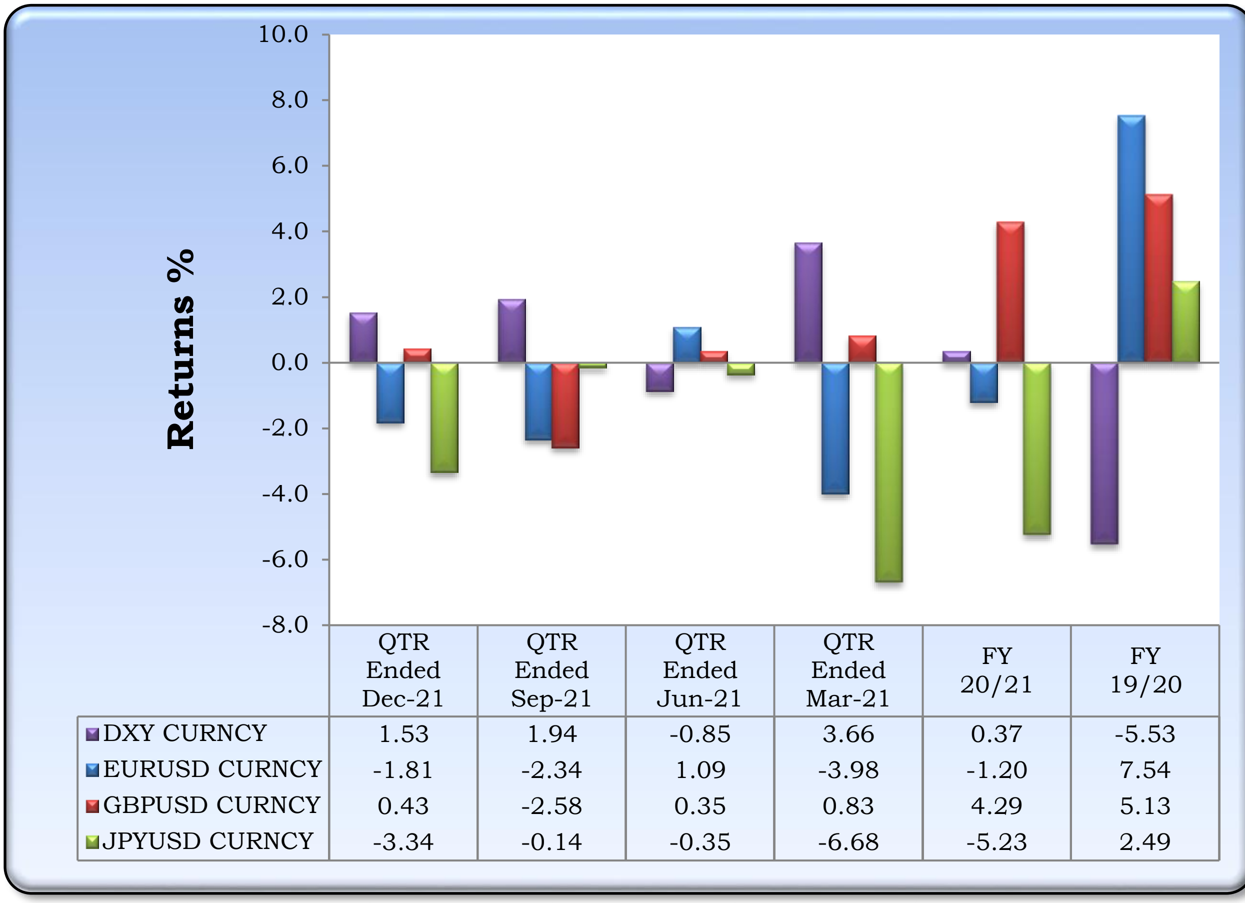


	QTR Ended Dec-21	QTR Ended Sep-21	QTR Ended Jun-21	QTR Ended Mar-21	QTR Ended Dec-20	FY 20/21	FY 19/20
Barclays US Aggregate	0.01	0.05	1.83	-3.37	0.67	-0.90	6.98
US Treasury	0.18	0.09	1.75	-4.25	-0.83	-3.30	8.04
Agencies	-0.53	0.08	0.86	-1.66	0.18	-0.56	3.02
US Corporate	0.23	0.00	3.55	-4.65	3.05	1.74	7.90
US MBS	-0.37	0.10	0.33	-1.10	0.25	-0.43	4.36
G7 Bonds (Hedged)	0.26	-0.04	0.78	-2.77	0.14	-1.92	3.77
US CMBS	-0.64	-0.03	1.87	-2.32	1.05	0.52	6.63
US ABS	-0.57	0.05	0.34	-0.16	0.36	0.59	4.55

Source: Bloomberg

The US Dollar, as measured by the Dollar Spot Index (DXY), strengthened 1.53 per cent given expectations for interest rates to rise more rapidly in the US when compared to several of its largest trading partners. The growing divergence in monetary policy as well as fears around the economic impact of the new Omicron variant drove the Japanese Yen and Euro to weaken against the US dollar by 3.34 per cent and 1.81 per cent, respectively. In the UK, the pound appreciated by 0.43 per cent vis-à-vis the US dollar against the backdrop of the BOE's decision to raise rates in December.

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



	QTR Ended Dec-21	QTR Ended Sep-21	QTR Ended Jun-21	QTR Ended Mar-21	FY 20/21	FY 19/20
DXY CURNCY	1.53	1.94	-0.85	3.66	0.37	-5.53
EURUSD CURNCY	-1.81	-2.34	1.09	-3.98	-1.20	7.54
GBPUSD CURNCY	0.43	-2.58	0.35	0.83	4.29	5.13
JPYUSD CURNCY	-3.34	-0.14	-0.35	-6.68	-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 December 2021 and the previous three (3) quarters.

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

Portfolio Weights	Asset Class	Target Weight SAA	Mar-21 Actual % of Fund	Jun-21 Actual % of Fund	Sep-21 Actual % of Fund	Dec-21 Actual % of Fund
	US Short Duration Fixed Income	25.00	19.76	18.28	18.69	18.05
	US Core Domestic Fixed Income	40.00	33.78	33.23	32.15	31.25
	US Core Domestic Equity	17.50	23.56	24.01	24.55	26.21
	Non-US Core International Equity	17.50	22.91	24.48	24.60	24.49

Totals may not sum to 100 due to rounding.

During the quarter ended December 2021, changes in mandate weights were a result of movements in the market values of the HSF's assets. The HSF maintained its overall underweight allocation to fixed income securities and corresponding overweight to equities as at the end of the quarter. At the HSF's mandate level, the US Core Fixed Income mandate held the largest underweight position of 8.75 per cent, while the US Core Domestic Equity mandate had the largest overweight position of 8.71 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

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

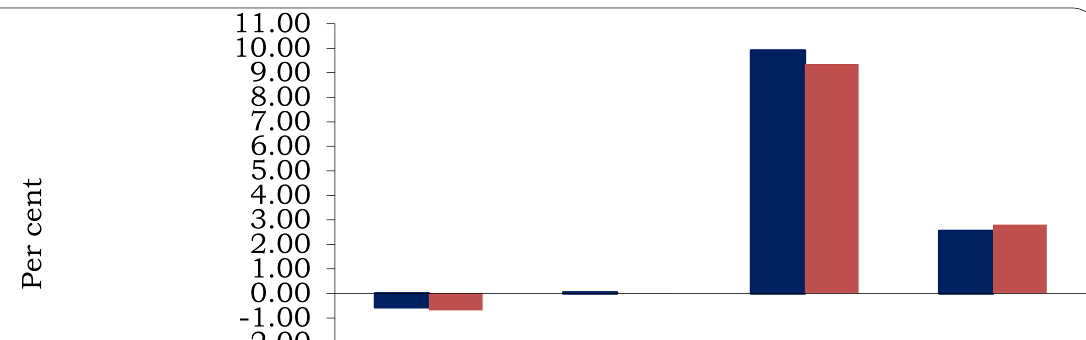
provide better risk-adjusted performance than fixed income over the near-term. The Board maintained that it would continue to conduct a monthly assessment of its decision.

The total net asset value of the Fund as at the end of December 2021 was **US$5,623.2 million**, compared to US$5,463.9 million at the end of the previous quarter. Of this total, the Investment Portfolio was valued at US$5,622.3 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 first fiscal quarter, the HSF's Investment Portfolio returned 2.97 per cent driven by the positive performance of the equity mandates, most notably the US Core Domestic Equity mandate (see Figure 5).

Figure 5
Absolute Returns by Mandate
For the period Oct - Dec 2021
/per cent/



	US Short Duration	US Core Fixed Income	US Core Domestic Equities	Non US Core International Equities
Composite Portfolio Return	-0.56	0.05	9.91	2.54
SAA Benchmark Return	-0.68	0.01	9.36	2.81

When compared with its SAA benchmark[3], which earned 1.98 per cent, the HSF outperformed by 0.99 per cent. The HSF's overweight allocation to equities and corresponding underweight to fixed income relative to its SAA benchmark was the main driver of positive excess returns while collectively, asset manager strategies incrementally augmented relative performance. Positive contributions from managers in the US Core Domestic Equity and fixed income mandates outweighed the underperformance of managers in the Non-US Core International Equity mandate.

The **US Core Domestic Equity** mandate rallied 9.91 per cent for the quarter. The mandate outperformed its benchmark, the Russell 3000 ex Energy index by 55 basis points (see Figure 5). The mandate's outperformance was driven by positive stock selection decisions. Relative positioning within the health care and consumer discretionary sectors added to performance. While stock choices in the telecommunications and utilities sectors modestly detracted. The mandate's net asset value as at December 31, 2021 was **US$1,473.5 million** compared with US$1,341.4 million three months earlier.

The **Non-US Core International Equity** mandate grew by 2.54 per cent during the quarter. This compares to a return of 2.81 per cent for its benchmark, the MSCI EAFE ex Energy index. In aggregate, both stock selection and country allocation contributed to the mandate's underperformance over the quarter. Poor stock decisions within the Japanese equity market offset positive relative positioning choices in Europe. Meanwhile, an underweight to Switzerland and an overweight to Japan also detracted from performance. During the quarter, the mandate's net asset value increased by $33.0 million to **US$1,377.0 million** as at the end of December 2021.

The **US Short Duration Fixed Income** mandate declined by 0.56 per cent in the first quarter of the financial year. The mandate outperformed the benchmark, Bank of America Merrill Lynch US Treasury 1-5 year index, by 12 basis points. The portfolio benefitted from managers' short duration positioning and exposure to inflation over the

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

period. The net asset value of the mandate as at December 31, 2021 was **US$1,015.1 million** compared to US$1,021.0 million as at the end of September 2021.

The longer duration **US Core Domestic Fixed Income** mandate returned 0.05 per cent compared to 0.01 per cent for the Bloomberg Barclays US Aggregate Bond benchmark index. Security selection in the investment grade corporate sector drove the portfolio's outperformance and outweighed negative contributions from cross-sector and interest rate strategies. The net asset value of the mandate was relatively stable ending December at **US$1,756.7 million** when compared to US$1,756.6 million three months earlier.

SECTION 4 – COMPLIANCE AND PORTFOLIO RISKS

Compliance

At the end of the first fiscal quarter, one asset manager within the Non-US Core International Equity mandate continued to stand below the performance objectives outlined in the investment guidelines. Additionally, following the extreme market events that transpired at the beginning of the pandemic in March 2020, the managers in the US Core Domestic Fixed Income mandate continued to operate above the risk target relative to the benchmark, as stated in the 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.

During the quarter, market movements increased the deviation of the mandate weights from the approved SAA. As at December 31, 2021, all the mandates exceeded the allowable +/- 5 per cent deviation (see Table 3). Based on the HSF Board's assessment, a decision was taken to defer the rebalancing of the Fund until a further examination is conducted at the quarter ending March 31, 2022. To support the review of its decision, the Board requested the Central Bank continue to provide monthly updates on the Fund's performance, asset class exposures as well as market outlook.

Portfolio Risks

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

Credit Risk

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

For **fixed income instruments**, credit risk is mitigated by the use of credit concentration limits as well as minimum credit quality ratings. Bonds must have an investment grade rating as defined by Standard and Poor's, Moody's Investors Services or Fitch Ratings Incorporated. Should the required ratings on an existing fixed income security fall below the minimum standards, the security must be sold within an agreed upon timeframe. Table 4 below shows the average credit quality of the US Short Duration and US Core Fixed Income Portfolios as at December 31, 2021.

Table 4
Average Credit Rating

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

Concentration Risk

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

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

Interest Rate Risk

Interest rate risk is managed using a weighted average effective duration limit on the respective portfolios. For the US Short Duration Fixed Income mandate, the allowable range is six months longer or shorter than the weighted average duration of its respective benchmark. While the US Core Domestic Fixed Income mandate has an allowable range of 12 months longer or shorter than the weighted average duration of its respective benchmark. Table 5 shows the weighted average duration for the US Short Duration and US Core Domestic Fixed Income portfolios as at December 31, 2021.

Table 5
Weighted Average Duration
/Years/

Mandate	Portfolio	Benchmark
US Short Duration	**2.42**	**2.64**
US Core Domestic Fixed Income	**6.64**	**6.78**

Currency Risk

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

For the US Core Domestic Equity mandate, no more than 5 per cent of the market value of the portfolio can be invested in securities, which are denominated in currencies other than the US Dollar. The performance benchmark for the Non-US Core International Equity portfolio is the custom MSCI EAFE ex-energy Index. The index comprises of equity securities of issuers domiciled in developed markets countries, excluding the US and Canada. Where benchmark securities are quoted in currencies other than the US dollar, the Fund accepts the currency risk. For this mandate, however, managers can hedge up to 15 per cent of the market value of their currency exposure into the US dollar, the base reporting currency for the HSF. At the end of December 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
FY 2022									
December	2.97	1.98	99.31	2.97	1.98	99.31	6.16	5.48	67.75

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)
December 31, 2021	5,623,159,544	158,986,912	4,161,324,052	-

Appendix III
Summary Characteristics of Composite Benchmarks
Fixed Income Benchmarks

Key Characteristics	Bloomberg Barclays US Aggregate Index	Merrill Lynch 1-5 Index
Total Holdings	12,372	154
Coupon (%)	2.43	1.36
Duration (Years)	6.78	2.64
Average Life (Years)	8.71	2.71
Yield to Maturity (%)	1.76	0.87
Option Adjusted Spread (bps)	36	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	2,941	798
Earnings Per Share (EPS Growth 3-5yr fwd.)	18.1	13.34
Price Earnings (P/E fwd.)	22.2	16.30
Price / Book (P/B)	4.4	1.92
Weighted Average Market Capitalisation* (Bn)	582.8	92.5

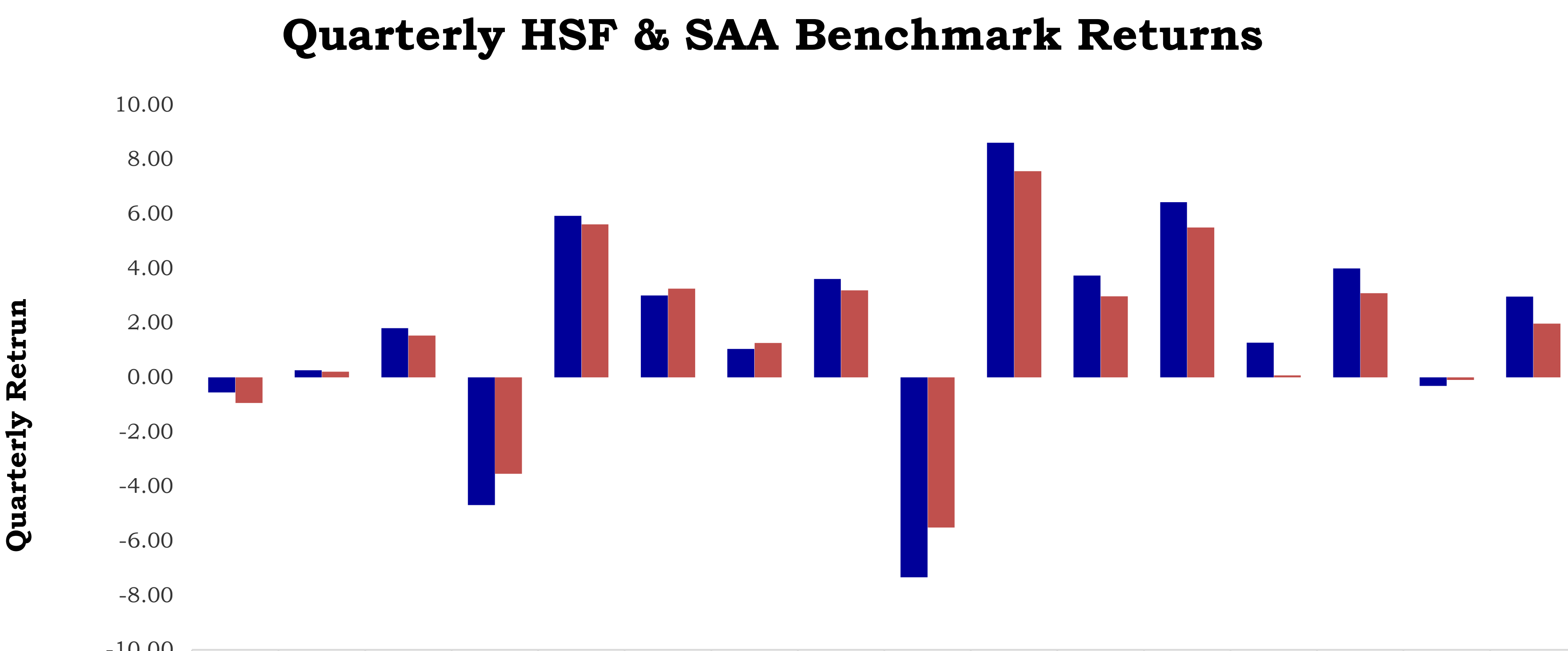
*Market capitalisation is a measurement of the size of a company (share price x the number of outstanding shares). The weighted average market capitalisation of a stock market index represents the average size of the firms comprising the index where each is weighted according to its market capitalisation.

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

	Dec -20	**Mar -21**	**Jun -21**	**Sep-21**	**Dec-21**
Total Fund Value	**5,888**	**5,662**	**5,583.2**	**5,463.9**	**5,623.2**
Total Value of Equity	**2,584**	**2,630**	**2,707**	**2,685**	**2,850**
US Core Domestic Equity	1,347	1,333	1,340	1,341	1,474
Non-US Core International Equity	1,238	1,297	1,367	1,344	1,377
Total Value of Fixed Income	**3,301**	**3,030**	**2,875**	**2,778**	**2,772**
US Short Duration Fixed Income	1,153	1,118	1,020	1,021	1,015
US Core Domestic Fixed Income	2,148	1,912	1,855	1,757	1,757
Total Value of Cash or Cash Equivalents	**2**	**1**	**1**	**1**	**1**

NB: Differences in totals are due to rounding.

Appendix V
HSF Portfolio and SAA Benchmark Quarterly Returns
/per cent/



	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	FY2022 Q1
HSF Portfolio	-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	2.97
Benchmark	-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	1.98