



Government of the Republic
of Trinidad and Tobago
Ministry of Finance

The Trinidad and Tobago Heritage and Stabilisation Fund

Annual Report 2022

Confronting Global Turbulence



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Confronting Global Turbulence

Trinidad and Tobago Heritage and Stabilisation Fund

Chairman's Foreword

During the past three years, the Heritage and Stabilisation Fund (HSF or Fund) has confronted a series of challenges that have tested its resilience and threatened its sustainability.

The first major shock of the period was the COVID-19 pandemic which, at the beginning of 2020, unleashed major havoc in both advanced and developing countries, causing widespread loss of life, forcing lockdowns of production capacity in many countries, and threatening the livelihoods of large sections of the world's working population. In accordance with the recommendations of the World Health Organisation, the Government of Trinidad and Tobago declared the virus of unknown origin a Public Health Emergency of international concern and sought Parliament's approval for the amendment of the Heritage and Stabilisation Act (Amended Section 15A) to allow drawdowns from the Fund to finance the unbudgeted pandemic-related expenses. Over the last two financial years (2020 and 2021) a sum of US\$1,500 million was withdrawn from the HSF to meet budgetary expenditures related to COVID-19. Further, in accordance with Section 15 of the Act, the Fund provided US\$386.5 million in fiscal stabilisation support due to the shortfall in oil revenues as COVID-19 restrictions weighed heavily on the global commodities markets.

The availability of the fiscal space offered by the HSF during the pandemic years was instrumental to not only keeping public debt from exploding but also funding government's COVID-19 support policy. Withdrawals from

the HSF under Section 15A were used to provide income relief to vulnerable households and furloughed workers, financial assistance to productive enterprises that were forced to remain closed for a period, and to fund the purchase of vaccines and upgrades to existing health facilities.

After a sharp decline in the global economy in Financial Year (FY) 2020 and the subsequent rebound in FY 2021, FY 2022 started with great optimism for a robust recovery based on the removal of all remaining restrictions on the productive sectors, following the greater availability of COVID-19 vaccines. A creeping anxiety about the spread of a new COVID-19 variant (Omicron) quickly abated in the face of evidence that the new variant posed less serious health risks amid expanding vaccination programmes.

At the beginning of FY 2022, the S&P 500 Index began to advance strongly, reflecting a sharp pick-up in corporate earnings, due in part to the uptick in inflation. Global equity prices began to soften at the start of calendar 2022 as expectations on inflation became more entrenched and the US Federal Reserve (US Fed) and other major central Banks signalled the need a tighter monetary policy.

The Russian invasion of Ukraine in February 2022 led to soaring energy and food prices and quickly intensified global inflationary pressures. After more than a decade of low inflation, the major monetary authorities initially took a rather timid anti-inflation approach, increasing policy interest rates in a range of 0.25 to 0.5 percentage



Chairman's Foreword (continued)

points. Under these circumstances, inflationary pressures intensified, in part because of disruptions to supply chains deriving from China's anti-COVID lockdowns and the imposition of trade sanctions on Russia by some NATO allies.

With global inflation reaching levels not seen in over 40 years, 9.1 per cent in the US, 9.4 per cent in UK and 8.6 per cent in Euro area, the uncertain policy response generated heightened volatility in global financial markets. Thus, in the US, the S&P 500 index lost 8.3 per cent in the month of June and ended the first six months of 2022 down 20.6 per cent, the index's worst first-half-year performance since 1970. Similar performance was recorded in non-US developed equity markets, with the MSCI EAFE Index declining 9.3 per cent in June and 19.3 per cent since the start of 2022.

In response to the persistent inflationary pressures and with a view to slowing the growth of the US economy, in June the US Fed announced an increase of 75 basis points in its benchmark federal funds rate, the largest increase since 1994. At its policy meeting, the US Fed also signalled its intention to continue with this more aggressive policy stance if this was needed to combat inflation, now running at a 40-year high. As it turned out, two further 75 basis points adjustments were made by the US Fed in July and September 2022. Following its September policy meeting, the US Fed's policy interest rate stood in a range of 3.00 to 3.25 per cent, compared with zero to 0.5 per cent at the beginning of 2022. The other major central banks – the Bank of England (BOE) and the European Central Bank (ECB) – also pivoted to a more aggressive monetary stance in the third quarter, involving at least one 75 basis points increase in policy interest rate.

At its monthly meeting in December 2022, the US Fed announced, with satisfaction, that the 12-month inflation rate for November had declined to 7.1 per cent, compared with the high of 9.1 per cent in June. There was a further decline in US inflation rate in December to 6.5 per cent. Financial markets welcomed the two consecutive monthly declines in US inflation rate, which many analysts interpreted as the downward trajectory in inflation rate the US Fed was hoping for to ease its aggressive monetary policy in 2023.

Global fixed income and equity markets suffered significant losses in FY 2022. The US fixed income market, represented by the Bloomberg Barclays US Aggregate, declined by 14.60 per cent in FY 2022, its steepest annual loss in over 45 years. Its equity market, represented by the Russell 3000 Index, fell by 17.65 per cent, the market's worst annual loss since the global financial crisis of 2008. The broad non-US equity market, represented by the MSCI EAFE Index, was down 24.80 per cent in FY 2022. As all markets invested by the HSF suffered large losses, the Fund returned negative 16.52 per cent for FY 2022, its first annual negative return. In FY 2021, the Fund returned 11.75 per cent, its largest annual gain. The big swing in the Fund's performance from FY 2021 to FY 2022 highlights how volatile global markets have been in the last two years with a lingering pandemic, geo-political tensions and conflicts, high inflationary pressures and tighter financial conditions.

A welcomed windfall from the sharp increase in global oil and gas prices was the sizable increase in Government revenues, compared with budget estimates for FY 2022. For the fiscal year as a whole, energy revenues exceeded budget estimates by approximately TT\$3,902.8 million (US\$582.5 million). As required by Section 14 of the HSF Act, the Government transferred a minimum 60 per cent of the excess revenues to the HSF. The transfer of roughly US\$346.2 million was made in two tranches, in September and December. This was the first transfer to the HSF since July 2013, which helped to off-set the loss in market value of the Fund.

In August 2022, the Board took the decision to rebalance the Strategic Asset Allocation (SAA) of the HSF in order to improve the Fund's performance or, at minimum, preserve its capital through a period of high market uncertainty. The rebalancing exercise re-allocated funds from the riskier equity mandates to safer high quality short duration fixed income securities.

At its October 2022 meeting, the Board of the HSF reviewed the outlook for global financial markets into 2023 as a basis for making a decision as to the allocation of the Government transfer. The Board noted the warning of the Chairman of the US Fed that the process of monetary tightening involving further increases in



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Chairman's Foreword (continued)

policy interest rates was likely to continue into 2023. In these circumstances, and after taking into account the possible continuation of the disruptive market effects of Russia-Ukraine war and the re-emergence of the spread COVID-19 virus as a concern, the HSF Board decided that the uncertain market outlook justified the maintenance of the tactical strategy, implemented in August, to achieve a better risk-return performance or, at the very least, minimise any capital loss to the Fund over the next six-month period. Accordingly, Board agreed to hold the contributions in short-term USD fixed deposits with high-quality money market counterparts.

The Board will review its decision at the end of March 2023 and if the market outlook begins to improve, the Board will gradually transition the HSF to appropriate risk exposures to enhance the risk-adjusted return of the Fund and judiciously use its current cash position to take advantage of any market opportunity that will benefit the Fund. Failing an improvement in outlook, the Board commits to continue its tactical strategy of holding higher positions in high quality short duration fixed income securities and deposits so as to protect the value 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, inserted Section 15A (“Withdrawals in exceptional circumstances”) in 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.

Deposit Rules

Sections 13 and 14 of the Act detail the conditions under which excess petroleum revenues must be deposited in the Fund. Section 14 states that 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. According to Section 13(4), deposits are to be made quarterly, no later than one (1) month following ending quarter dates of December, March, June and September.

Withdrawal Rules

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, subject to the following:

- (a) the withdrawal is limited to sixty (60) per cent of the amount of the shortfall of petroleum revenues for the relevant year; or



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

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

Governance Framework

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 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 shall be governed by a Board, who, under Section 9, has the responsibility for the management of the Fund.

The Board has pursuant to Section 10 of the Act delegated its management responsibility to the Central Bank of Trinidad and Tobago (hereinafter, "the Central Bank"), which is responsible for the day-to-day management of the Fund. 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 Central 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 Central Bank.



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



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The Board Report

Annual Review of Operations

The Annual Report 2021 and the Audited Financial Statements for the period ending September 30, 2022 were presented to the Parliament in January 2022.

Deposits/Withdrawals to the Fund

During the FY 2022, there were no withdrawals from the Fund. However, the sum of approximately US\$163.99 million was deposited in accordance with Section 13 of the Act.

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 FY 2022.

Re-appointment of Governors

The Governors, Dr. Alvin Hilaire, Dr. Dorian M. Noel and Mr. Bevan Narinesingh were re-appointed to the Board for another 3-year term.



Investment Report

Executive Summary

The vaccine-fuelled economic rebound in FY 2021 lasted into the first quarter of the financial year as the spread of COVID-19 Omicron variant turned out to pose less health risks than initially feared, easing market concerns and allowing the remaining COVID restrictions to be lifted. On the bright market outlook, global equity market gains in the quarter and inflation picked up as the release of COVID-19 savings increased consumer demand. In December 2021, major central banks viewed inflation as transitory, a result of global supply chains that were slow to recover from the pandemic, and hence, took no corrective monetary actions.

The market optimism in the first quarter quickly faded in second quarter of the FY as global markets became extreme volatile in response to heightened geo-political tensions and conflicts, strong sanctions placed on Russia, and China's zero-COVID policy which, collectively, disrupted global economic activity and further tightened global supply chains. As a result, the pace of inflation accelerated during the second quarter as energy and food prices surged and yields in global fixed income markets edged higher as investors began to view inflation as more durable, requiring more sizeable monetary actions. The monetary actions taken by major central banks in the second quarter failed to slow the rapid pace of inflation and by the summer months, 40-year high inflation rates were recorded in United States and Europe and inflation became much more broad-based as core inflation began to increase.

In the second half of the financial year, major central banks aggressively increased the both speed and size of monetary policy rate increases and hastened the pace of

withdrawal of COVID-19 era liquidity support to financial markets. The US Fed increased its policy rate by 75 basis points on three (3) separate occasions during the summer months. The US Fed fund rate ended September 2022 at 3.00 to 3.25 per cent, up come from 0 to 0.25 per cent at the start of October 2021. Similar monetary policy actions, although less aggressive, were taken by the Bank of England and European Central Bank. Monetary policy rates of the major central banks ended the financial year at levels not seen since the global financial crisis of 2008/2009. Throughout the period, the market was unconvinced whether the aggressive monetary policy responses by major central banks would achieve the objective of returning inflation rates to target levels in the near future without stoking a global recession.

Against the backdrop of the Russia-Ukraine war, the surge in inflation and interest rates and global markets gripped by recession fears, few asset classes performed well outside of commodities. The rising interest rate environment as well as concerns around credit fundamentals and corporate earnings in the event of prolonged downturn propelled bond and stock valuations lower in 2022. In FY 2022, the US S&P 500 and MSCI EAFE (non-US) equity indices fell by roughly 15.50 per cent and 26.27 per cent, respectively. Similarly, the US fixed income market, as represented by the Bloomberg Barclays US Aggregate Bond index, declined by approximately 14.60 per cent.

In light of the above-mentioned market conditions, the HSF lost 16.52 per cent in FY 2022, its first negative annual performance since inception. In comparison, the Fund returned 11.75 per cent in FY 2021, its largest annual gain to date. The Fund's performance in FY 2022 was driven by its



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Investment Report (continued)

exposure to US fixed income and global developed equity markets, with both assets incurring steep declines amid sharply higher interest rates and accelerating recession risks. In aggregate, the Fund's equity mandates lost 10.99 per cent, while the fixed income mandates contributed negative 6.17 per cent to the Fund's overall losses.

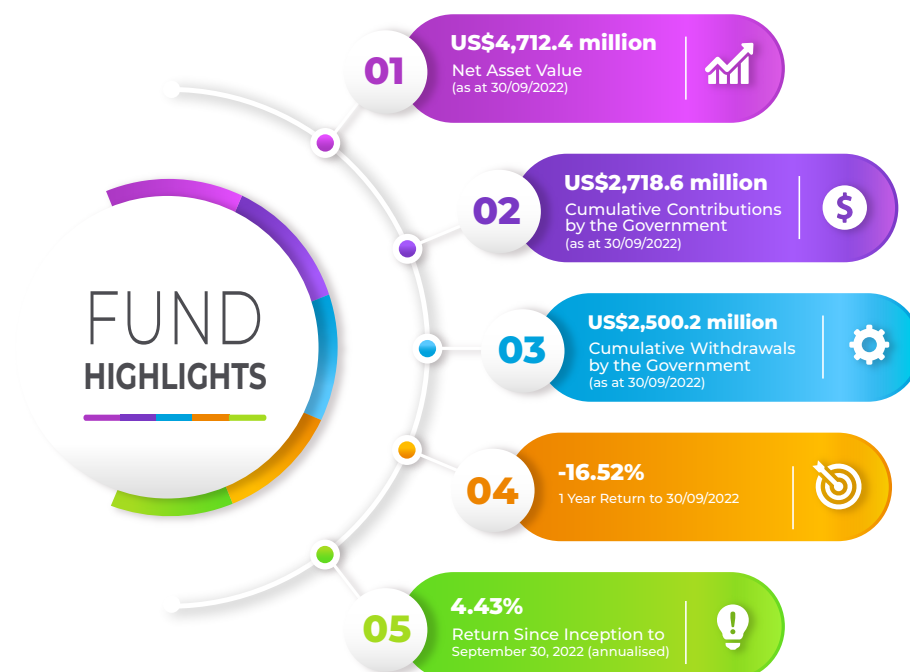
When compared to its SAA benchmark composite return of -15.49 per cent, the Fund underperformed by 1.03 per cent (or 103 basis points) for the financial year. The Fund's overweight allocation to equities relative to its SAA weight detracted from its return. Collectively, external manager performance enhanced returns. Positive contributions from managers in the US Short Duration Fixed Income and US Core Domestic Equity mandates outpaced the underperformance of manager strategies within the US Core Fixed Income and Non-US Core International Equity mandates. Rising US interest rates and credit spreads weighed more heavily on long duration fixed securities and the effects of the Russia-Ukraine war were more felt in elsewhere than the US.

In an effort to improve the Fund's risk-adjusted return or, at a minimum, preserve its capital value during a

period of heightened market uncertainty, the Board took the decision to rebalance the HSF. A US\$250 million rebalancing exercise was successfully completed in August, which achieved the main goal of reducing the Fund's allocation to risky equity investments in favour of safer and more liquidity short duration market positions in its fixed income mandates. In September, a contribution of approximately US\$163.99 million was made to the HSF in accordance with Section 13 of the Act. In keeping with the Board's stance to reduce the downside risks to the Fund, the contribution was not allocated to the existing HSF's mandates and was held in USD fixed deposits. The Board will determine the appropriate allocation of the contribution once there are improvements in market outlook. As at the end of September 2022, USD fixed deposits represented 3.46 per cent of the net value asset of the Fund.

As at the end of September 2022, the Fund's Net Asset Value stood at US\$4,712.4 million, down from US\$5,463.9 million one year earlier. The US\$163.99 million contribution helped to offset the market value loss experienced in the Fund in FY 2022.

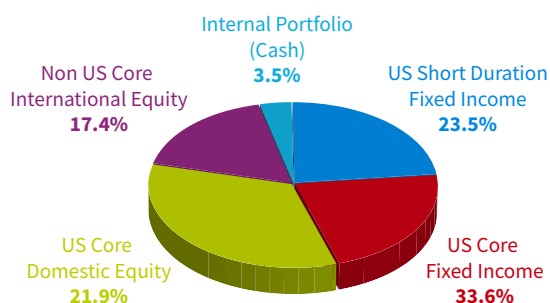
Fund Highlights





Investment Report (continued)

Portfolio Composition as at September 30, 2022



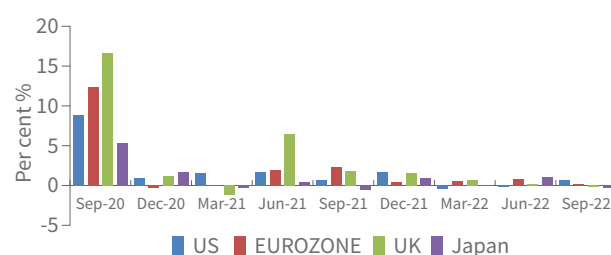
Macroeconomic Environment

Global economic growth prospects deteriorated rapidly over the financial year 2022 as acute headwinds from record high inflation levels, Russia's invasion of Ukraine and the energy crisis in Europe threatened to derail the ongoing recovery from the pandemic. Despite mounting recession risks, key central banks accelerated plans to tighten monetary policy in an effort to combat soaring price increases. During the year, disruptions from the virus largely abated in most major economies as population vaccination levels reduced the likelihood of severe illness. Further re-opening efforts in Europe and Japan lead to a brief uptick in demand, with notable improvements in sectors such as hospitality, leisure and travel. However, the growing burden of rising prices on the cost of living hampered consumer spending towards the end of the year. At the same time, in Europe, fears around fuel rationing and supply shortages ahead of winter as well as protracted COVID-19 lockdowns in China further weakened the outlook. According to the International Monetary Fund's (IMF) October 2022 World Economic Outlook, growth in advanced economies is projected to decelerate to 2.4 per cent in 2022 from 5.2 per cent in 2021. The slowdown is anticipated to extend into 2023 with output forecasted to increase by a modest 1.1 per cent.

In the **United States (US)**, gross domestic product (GDP) grew by 1.9 per cent over the financial year 2022, compared to the prior fiscal period, where output expanded by 5.0 per cent. The US entered a technical recession, declining for two consecutive quarters over the six months to June (see Chart 1). A decrease in residential and non-residential government spending and inventories contributed to the contraction. However, factors such as the strong labour market and solid corporate earnings suggested underlying fundamentals

remained resilient. As companies continued to add jobs, the employment rate declined to 3.5 per cent from 4.7 per cent a year earlier. Robust wage growth helped to partially offset the rising cost of living. The Consumer Price Index (CPI) made new forty-year highs over the period. The CPI peaked at 9.1 per cent year over year in June and ended the financial year at 8.2 per cent from 5.4 per cent twelve months earlier (see Chart 2). To combat surging price increases, the US Federal Reserve (Fed) raised its federal funds rate by 25 basis points in March from near zero. With inflation pressures continuing to build, the Fed accelerated the pace of rate hikes, raising by an additional 50 basis points in May, and further quickened the pace in June with a 75 basis point hike, which continued for the following two meetings. This brought the Fed funds rate to a range of 3.00 per cent to 3.25 per cent by the end of September 2022. In addition, the central bank ended net bond purchases in March and began to shrink its almost US\$9.0 trillion balance sheet in June, quickly doubling its efforts by September with plans to reduce US Treasury and agency mortgage-backed security holdings by \$95.0 billion per month.

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



Source: Bloomberg

The **United Kingdom (UK)** economy expanded by a modest 2.4 per cent, following a post-pandemic rebound of 8.5 per cent during the prior twelve-month period. The rapid spread of the Omicron variant led to a new wave of restrictions at the beginning of the financial year. However, most of these COVID-19 measures were removed by January given the less severe health risks posed by the virus. This helped to boost spending into March, before the full impact of the war and the surge in commodity prices eroded sentiment. Higher food and energy costs drove inflation to 10.1 per cent by the end of the year, placing a larger financial strain on households.

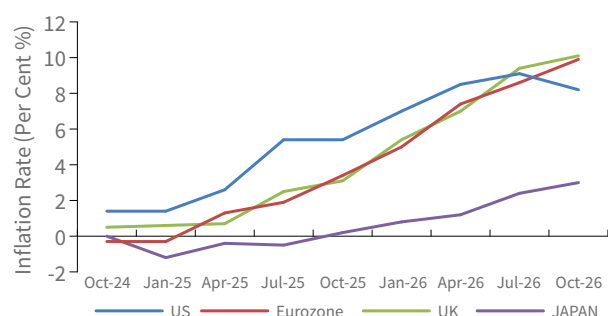


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Trinidad and Tobago Heritage and Stabilisation Fund

Investment Report (continued)

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



Source: Bloomberg

To curb persistent price pressures, the Bank of England (BoE) began raising rates in December 2021. For the year, the central bank increased rates seven times to bring its Bank Rate to 2.25 per cent from 0.10 per cent. In the final quarter of the financial year, political uncertainty further detracted from the economic outlook. Prime Minister Johnson stepped down as leader of the ruling Conservative Party in July following a series of ethics scandals. His successor Prime Minister Liz Truss resigned after just six weeks amid an economic plan that sparked significant market turmoil given fears around the implications of proposed unfunded tax cuts on the country's debt burden. By October, the UK appointed its fifth Prime Minister in six years with incoming Prime Minister Rishi Sunak widely expected to restore order and promote fiscal sustainability.

The **Eurozone** economy grew by 2.1 per cent over the financial year 2022, compared to an expansion of 3.9 per cent during the prior period. Businesses benefitted from the further easing of pandemic restrictions and strong consumer demand helped to boost service sector activity. While virus disruptions abated, Russia's invasion of Ukraine in late February threatened to undermine the nascent recovery. Western countries quickly responded by delivering aid to Ukraine and imposing sanctions against Russia. Tensions between the West and Russia escalated during the year and culminated in the closure of Russia's largest gas pipeline to Europe (Nord Stream 1). The intensifying energy crisis drove inflation even higher. The CPI rose to 9.9 per cent from 3.4 per cent. The impact of soaring food and fuel costs became more pronounced over the year, leading growth to slow during the final quarter. In July, the ECB raised interest rates for

the first time in eleven years, ending its negative interest rate policy that had been in place since mid-2014. The central bank hiked by 50 basis points, followed by an additional 75 basis points increase in September, bringing its marginal lending rate to 1.50 per cent. The Bank also concluded net purchases under its asset-buying programmes and signalled it would commence reducing its almost €5 trillion in bond holdings during 2023. The Governing Council pledged their commitment to stabilising inflation at 2.0 per cent over the medium-term, while acknowledging the increasing likelihood of a recession.

Japan's economic recovery from the pandemic remained underway with GDP increasing by 1.8 per cent, following a modest expansion of 1.2 per cent in the prior period. Concerns over elevated infection levels delayed reopening efforts for most of financial year 2021 into 2022. However, the gradual lifting of restrictions in March bolstered activity and drove broad-based improvements in fixed investment, exports and private consumption. Dining out, leisure and travel rebounded given strong pent-up demand, while the manufacturing sector benefitted from the easing of supply chain delays. Export growth was also robust as weaker demand from China was overshadowed by increased shipments to the US and Europe. Another surge in COVID-19 cases during the final quarter hampered the country's economic progress once again and led to a contraction. Consumer spending slowed and the net trade balance weakened, due in part to the sharp decline in the value of the Japanese Yen. Inflation rose over the financial year, but at a more measured pace when compared to its G7 peers. Consumer prices increased by 3.0 per cent in September from 0.20 per cent twelve months earlier. While inflation moved above the Bank of Japan's (BoJ) 2.0 per cent target, Governor Kuroda indicated that an ultra-accommodative monetary policy stance was still necessary to further strengthen the economy and sustain pricing pressures. The BoJ maintained its short-term interest rate at -0.10 per cent and the 10-year Japanese government bond yield target at zero per cent.

Financial Market Review

Over the financial year, the economic recovery from the pandemic stalled as persistently high inflation prompted most major central banks to tighten monetary policy more forcefully than initially anticipated. Russia's invasion of Ukraine in early February exacerbated pricing

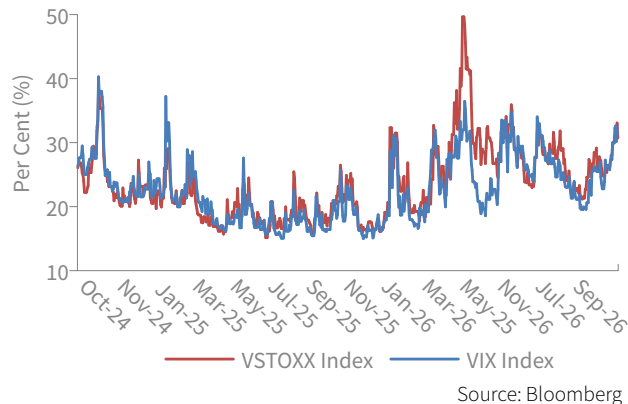


Investment Report (continued)

pressures and further hindered ongoing supply chain delays stemming from COVID-19 disruptions. The sharp rise in interest rates led to steep losses in both bond and equity markets. Asset prices fell further as fears around an imminent recession fuelled concerns around credit fundamentals and dampened the outlook for corporate earnings.

Volatility spiked higher amid heightened geopolitical tensions and remained elevated given the highly uncertain outlook. Overall, the US Chicago Board Options Exchange Volatility Index (VIX), a proxy of investor anxiety, peaked at 36.45 points in March with the initial shock of the war (see Chart 3). For the financial year, the VIX averaged 24.08 points up 3.00 points from the prior period. Similarly, Europe's Euro Stoxx 50 Volatility Index (VSTOXX) increased by 5.23 points to average 26.21 points for the twelve months ending September 30, 2022.

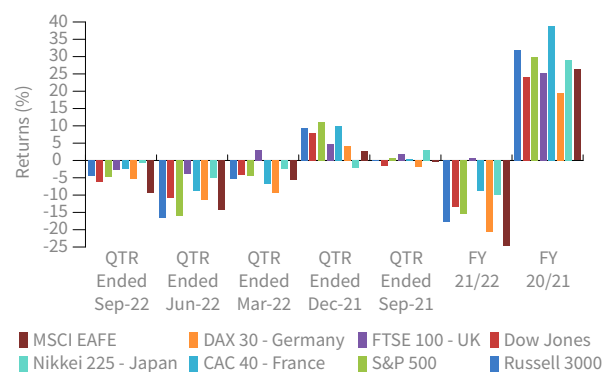
Chart 3:
Implied Financial Market Volatility
(in Points)



Developed equity markets continued to move higher during the first quarter of financial year 2022 as optimism over the robust recovery and positive corporate earnings results outweighed inflation fears. Anxiety related to the rapid spread of a new COVID-19 variant (Omicron) quickly abated with the virus posing less severe health risks amid successful vaccination programmes. However, equity valuations began to fall alongside the surge in yields as central banks signalled the need for more aggressive rate hikes amid mounting pricing pressures. The Russia-Ukraine conflict and China's zero-COVID policy further dampened global growth prospects and helped to drive risk assets even lower.

In the US, the S&P 500 index plummeted 15.50 per cent for the financial year, ending September 2022 (refer to Chart 4). With price increases continuing to surprise to the upside, the Fed quickly shifted towards a restrictive monetary policy stance. The Russia-Ukraine war and the growing likelihood of a recession further hindered risk sentiment. Corporate profits were somewhat resilient early in the period, however, a growing number of firms began to report weaker earnings and guidance during the final quarter, citing rising costs and slower demand. Apart from the energy sector, defensive non-cyclical sectors such as utilities and consumer staples outperformed higher growth industries with greater sensitivity to the economic cycle. Soaring oil and gas prices boosted energy company profits. West Texas Intermediate Oil peaked at \$127.52 per barrel in March and averaged \$93.21 per barrel for the year when compared to an average of \$59.43 during the prior period.

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



Non-US developed equity markets, as measured by the MSCI EAFE index, lost 24.79 per cent when measured in US dollars (see Chart 4). Local currency exposures would have materially weakened returns as the US dollar appreciated against its G7 peers. In the UK, the FTSE 100 index edged higher by 0.78 per cent, supported by its greater exposure to commodities and defensive sectors. Fears of gas shortages and a prolonged downturn drove European stocks lower, with Germany's DAX index and France's CAC 40 index falling by 20.62 per cent and 8.95 per cent, respectively. In Asia, Japan's Nikkei 225 index retreated by 10.00 per cent as investors balanced the



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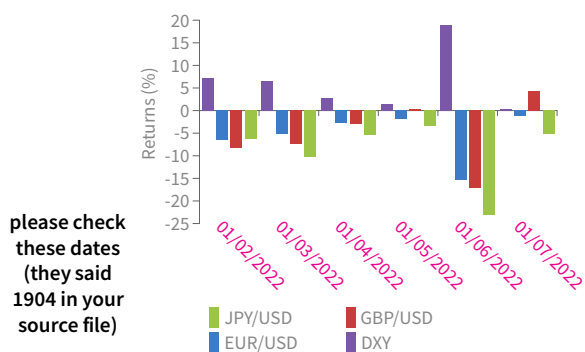
Trinidad and Tobago Heritage and Stabilisation Fund

Investment Report (continued)

positive impact of the weaker currency on exports against expectations for slower global demand.

Relatively more attractive interest rates in the US, better economic fundamentals as well as safe haven demand contributed to the US dollar's considerable appreciation, with the Dollar Spot Index (DXY) gaining 18.98 per cent during the financial year (refer to Chart 5). The Japanese Yen depreciated by 23.12 per cent and reached a 24-year low versus the US dollar, given the widening policy divergence between the BoJ and the Fed. The rapid decline prompted the government to intervene in the foreign exchange market in an effort to support the yen. Meanwhile, the direct impact of the Russia-Ukraine war and the worsening energy crisis in Europe further detracted from the Euro. The currency fell below parity against the US dollar for the first time in almost 20 years and ended the year down 15.35 per cent. In the UK, heightened political uncertainty added to the British Pound's decline, with the currency weakening 17.10 per cent when compared to the US dollar.

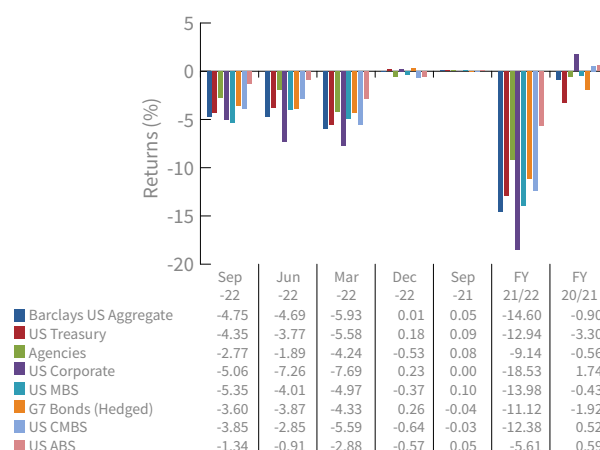
Chart 5:
Foreign Exchange Returns for Major Currency Pairs
(in Per Cent)



Source: Bloomberg

The broader US fixed income market, as represented by the Bloomberg Barclays US Aggregate Bond index, decreased by 14.60 per cent (refer to Chart 6). The steep rise in interest rates along with widening credit spreads pushed bond prices lower. At the sub-sector level, US Corporate Bonds retreated 18.53 per cent due to its relatively longer duration and greater sensitivity to the economic cycle. In the securitised sector, Mortgage Backed Securities (MBS) lost 13.98 per cent as the Fed began to reduce its balance

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



Source: Bloomberg

sheet holdings. At the same time, Asset Backed Securities performed relatively better returning -5.61 per cent due to its lower interest rate risk.

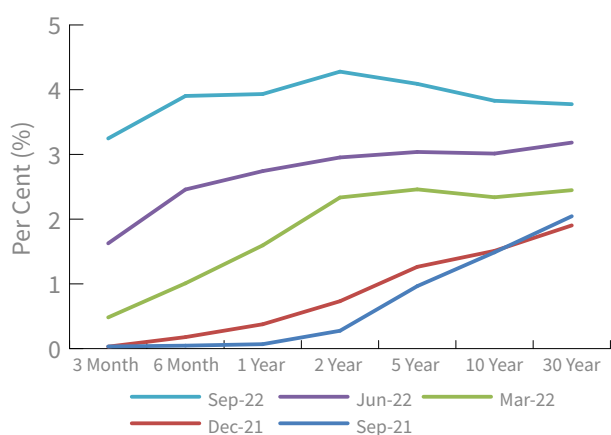
US treasury yield movements over the year were volatile due to shifting expectations for growth, inflation and monetary policy adjustments. Yields rose at a rapid pace as the US Fed moved aggressively to combat persistently high pricing pressures. For the year, the shorter-dated 2-year yield surged 4.0 per cent to end at 4.28 per cent (see Chart 7). Meanwhile, a combination of slow growth concerns, safe haven demand as well as the relative attractiveness of US treasury rates tempered the increase in longer-dated yields. The 10-year yield added 2.34 per cent to close at 3.83 per cent. The inversion between the 2-year to 10-year segment of the curve strengthened during the final three months of the year, fuelling speculation around an imminent recession given similar events have preceded downturns in the past.

Similarly, in other developed economies, sovereign bond yields soared higher, reflecting the outlook for policy rates to rise faster and remain at elevated levels for some time (see Table 1). However, concerns around the weaker macroeconomic backdrop tempered the overall size of the increase. Renewed political instability helped push the UK's 10-year gilt yield up by 306 basis points to 4.08 per cent. In the Eurozone, divergence in the cost of debt among member states grew as the ECB



Investment Report (continued)

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



Source: Bloomberg

concluded its net bond purchases under its various asset purchase programmes. Italy's 10-year yield soared to 4.51 per cent, widening its risk premium over German bonds. Meanwhile, Japan's 10-year government bond yield rose a modest 17 basis points over the financial year as the BoJ maintained its highly accommodative monetary policy stance to help encourage economic growth.

Table 1:
G-7 Government 10-Year Yields

Country	Government 10-Year Yields (in Per Cent)		Change (Basis Points)
	Sep 30, 2021	Sep 30, 2022	
US	1.49	3.83	234
UK	1.02	4.08	306
France	0.15	2.72	256
Germany	-0.20	2.11	231
Italy	0.86	4.51	365
Canada	1.51	3.17	166
Japan	0.07	0.24	17

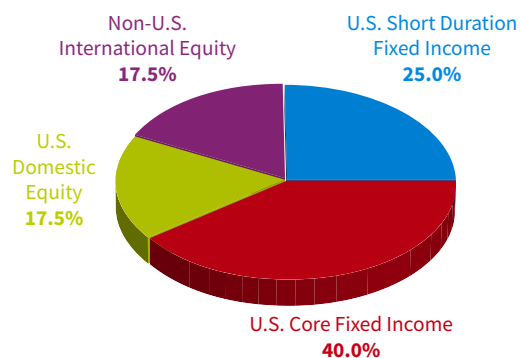
Source: Bloomberg.

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 Chart 8.¹

Chart 8:
The Fund's Strategic Asset Allocation



Source: Bloomberg

- Portfolio Composition

The Fund's portfolio composition over the financial year 2022 is shown in Table 2 and Chart 9. During the financial year ended September 2022, fluctuations in the market values of the HSF's assets, the rebalancing of the Fund as well as the tactical allocation to cash, contributed to the changes in the mandate weights. When combined, these factors reduced the size of the overall underweight to fixed income securities and corresponding overweight to equities as at the end of the financial year. At the mandate level, the US Core Domestic Equity mandate had the largest overweight position of 4.44 per cent, while the US Core Domestic Fixed Income mandate held the largest underweight position of 6.38 per cent (see Table 2).

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.



Confronting Global Turbulence

Trinidad and Tobago Heritage and Stabilisation Fund

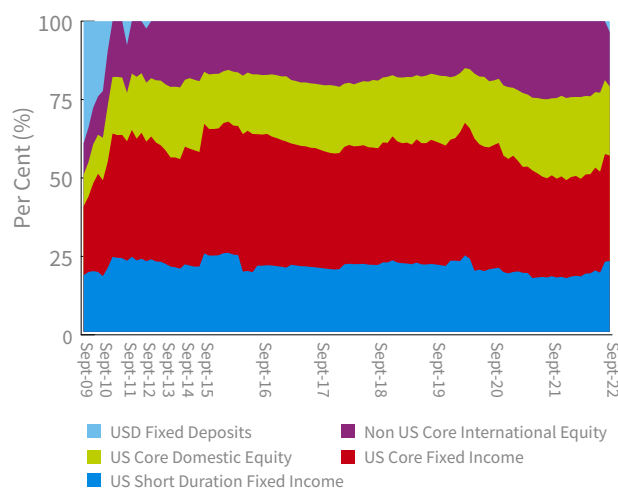
Investment Report (continued)

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

Portfolio Weights	Asset Class	Target Weight SAA	Dec-21	Mar-22	Jun-22	Sep-22
			Actual % of Fund	Actual % of Fund	Actual % of Fund	Actual % of Fund
	US Short Duration Fixed Income	25.00	18.05	18.63	20.54	23.54
	US Core Domestic Fixed Income	40.00	31.25	31.10	32.76	33.62
	US Core Domestic Equity	17.50	26.21	26.08	24.07	21.94
	Non-US Core International Equity	17.50	21.03	22.91	24.48	24.60
	USD Fixed Deposits	0.00	0.00	0.00	0.00	3.46

Totals may not sum to 100 due to rounding.

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



Source: Bloomberg

Following continuous reviews, the Board concluded that extreme financial market volatility would likely persist given the high uncertain outlook. Against this backdrop, the Board determined that it would be appropriate to rebalance the HSF to help mitigate potential downside risks to the Fund. A US\$250 million rebalancing exercise was successfully completed in August, which achieved the main goal of reducing the Fund's allocation to risky equity investments in favour of safer and more liquidity short duration market positions in the fixed income mandates. To support the goal of the rebalancing exercise, the mandate weights were allowed to deviate from the approved SAA deviation limit of +/- 5.0 per cent.

A contribution of approximately US\$163.99 million was made to the HSF in September 2022. In keeping with the Board's stance to reduce the downside risks to the Fund, the contribution was not allocated to the existing HSF's mandates and was held in USD fixed deposits. The Board will determine the appropriate allocation of the contribution once market outlook improves. As at the end of September, USD fixed deposits represented 3.46 per cent of the net value asset of the Fund.

• Fund Value

The total net asset value of the Fund as at September 30, 2022 was US\$4,712.4 million, compared with US\$5,463.9 million at the end of September 2021. Of this total, the Investment Portfolio was valued at US\$4,711.2 million, while the remaining portion (US\$1.3 million) was held in an operating cash account to meet the day-to-day expenses that arise from the management of the Fund. A deposit of US\$163,994,498.86 was made on September 23, 2022 in accordance with Section 13 of the HSF Act (2007).

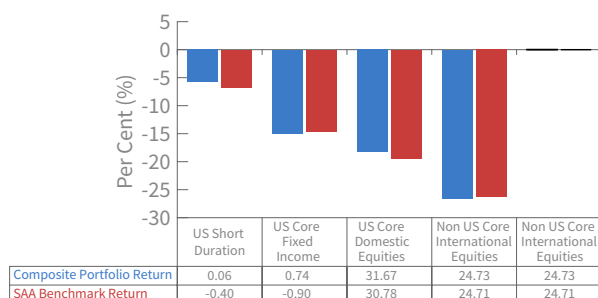
Portfolio Performance of the Investment Portfolio

The Fund's Investment Portfolio fell by 16.52 per cent for the financial year 2022, a sharp decline from a gain of 11.75 per cent during the prior year. Steep losses across both fixed income and equity investments were the primary driver of the Fund's negative performance. Stock markets tumbled, dropping in excess of 20 per cent peak to trough during the period. For the year, the Russell 3000 ex Energy



Investment Report (continued)

**Chart 10:
Absolute Returns by Investment Mandate
for the FY 2022
(in Per Cent)**



Source: Bloomberg

Index and MSCI EAFE ex Energy Index fell by 19.41 per cent and 26.25 per cent, respectively, while the US fixed income markets, as represented by the Bloomberg Barclays US Aggregate Bond index, lost 14.60 per cent (see Chart 10).

When compared to its SAA benchmark composite return of -15.49 per cent, the Fund underperformed 1.03 per cent (or 103 basis points) for the financial year (see Table 3). The Fund's overweight allocation to equities relative to its SAA weight detracted from the Fund's return. Collectively, external manager performance enhanced returns. Positive contributions from managers in the US Short Duration Fixed Income and US Core Domestic Equity mandates surpassed the underperformance within the US Core Fixed Income and Non-US Core International Equity mandates.

On an absolute basis, the **Equity** portion of the Fund generated material losses during the financial year, with both the US Core Domestic Equity and Non-US Core International Equity mandates delivering double-digit declines. As at the end of September 2022, the value of the equity mandates sunk to US\$1,855.07 million from US\$2,685.40 million one year earlier. This decrease reflects in part the transfer of US\$250.0 million to the fixed income portion of the Fund during the period.

The **US Core Domestic Equity** portfolio fell by 18.25 per cent. This compares with a return of -19.41 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 stocks with quality earnings yield. Within the sectors, this resulted in positive contributions from security selection in Healthcare, Industrials and Financials.

The **Non-US International Equity** portfolio lost 26.59 per cent, modestly underperforming its benchmark, the MSCI EAFE ex Energy index, which decreased by 26.25 per cent. Collectively, country and stock selection strategies modestly detracted. Strong stock selection in Canada and the UK was offset by poor security choices in the UK, Australia and Denmark.

The **Fixed Income** portion also contributed to the Fund's negative total return, with losses in the US Core Fixed Income mandate exceeding those of the US Short Duration Fixed Income mandate. As at the end of September 2022, the combined net asset value of the fixed income mandates was US\$2,693.05 million, down from US\$2,777.59 million at the end of the previous

**Table 3:
Contribution to Portfolio Return for the FY 2022
(in Per Cent)**

	Beginning Portfolio Weights 30-Sep-21	Portfolio Weighted Return	Benchmark Weighted Return
Composite Portfolio	100.00	-16.52	-15.49
US Short Duration Fixed Income	18.69	-1.16	-1.73
US Core Fixed Income	32.15	-5.01	-6.04
US Core Domestic Equity	24.55	-4.60	-3.38
Non-US Core International Equity	24.60	-6.39	-4.93
US Fixed Deposits	0.00	0.00	0.00

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



Confronting Global Turbulence

Trinidad and Tobago Heritage and Stabilisation Fund

Investment Report (continued)

financial year. A transfer of US\$250.0 million from the equity mandates during the financial year helped to partially mitigate the move lower.

The **US Core Domestic Fixed Income** mandate returned -14.96 per cent, compared with a decline of 14.60 per cent for its benchmark, the Bloomberg Barclays US Aggregate Bond index. This underperformance of 36 basis points was driven by cross-sector strategies and security selection. Overweight exposure to the investment grade corporate bond sector negatively impacted returns and was partially offset by an underweight to agency mortgage-backed securities, which was accretive to the portfolio. Credit selection within the investment grade corporate bond sector further detracted from performance over the period.

The **US Short Duration Fixed Income** mandate retreated 5.77 per cent over the financial year. The mandate outperformed its benchmark, the Bank of America Merrill Lynch 1-5 year US Treasury Index, by 101 basis points. The portfolio's short duration position was the primary driver of excess returns while credit spread widening hampered positions in high-quality Non-US government and agency bonds.

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.

(a) 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.

(b) 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.

(c) 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 4 shows the weighted average duration for the US Short Duration and US Core Domestic Fixed Income portfolios as at September 30, 2022.

Table 4:
Weighted Average Duration (in Years)

Mandate	Portfolio	Benchmark
US Short Duration	2.12	2.55
US Core Fixed Income	6.04	6.20



Investment Report (continued)

(d) 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 5 reports the financial year's end currency exposure of the Fund.

Table 5: Portfolio Currency Exposure (in Per Cent)	
Currency	As at 30 September 2022
United States Dollar	82.87
Euro	4.76
Japanese Yen	4.52
British Pound	2.78
Swiss Franc	1.53
Australian Dollar	1.34
Hong Kong Dollar	0.44
Danish Krone	0.48
Swedish Krona	0.16
Singapore Dollar	0.21
Canadian Dollar	0.40
Israeli Shekel	0.19
Norwegian Krone	0.32
New Zealand Dollar	-
Total	100.00

* Figures may not sum to 100 due to rounding.



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)
September 30, 2022	4,712,444,758	(913,456,918)	3,088,880,222	163,994,499



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
September 2022	-16.52	-15.49	-103.41	4.43	3.95	48.73

Note * these returns are for the period March 2007 to September 2007.

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%).



Confronting Global Turbulence

Trinidad and Tobago Heritage and Stabilisation Fund

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Government of the Republic
of Trinidad and Tobago
Ministry of Finance

The Trinidad and Tobago Heritage and Stabilisation Fund

**Financial Statements
for the Year ended 20 September, 2022**



Financial Statements

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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, 2022**

Report of the Auditor General



Confronting Global Turbulence

Trinidad and Tobago Heritage and Stabilisation Fund



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 2022

OPINION

The financial statements of the Heritage and Stabilisation Fund (the Fund) for the year ended 30 September 2022 have been audited. The statements as set out on pages 1 to 36 comprise a Statement of Financial Position as at 30 September 2022, a Statement of Comprehensive Income, a Statement of Changes in Equity and a Statement of Cash Flows for the year ended 30 September 2022 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 2022 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.



EMPHASIS OF MATTER

4.1 Without qualifying the above opinion, attention is drawn to Note 14 of the financial statements which states:

"Capital contributions are calculated based on criteria set out under Sections 13(1) and 14 of the Act, (see Note 2 (o)). During the current year ended September 30, 2022, capital contributions of USD163,994,499 were received."

4.2 Capital contributions deposited were based on calculations for the first three quarters of the financial year.

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.



Confronting Global Turbulence

Trinidad and Tobago Heritage and Stabilisation Fund

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.

Page 7 of 8

Approved by the Board on 10 November 2022



REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12.1 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.'

12.2 Section 13 (2) of the Act states:

"The deposits referred to in subsection (1) shall be made no later than the end of the month following the quarter in respect of which the deposit was calculated."

12.3 The above quoted section of the Act is also open to interpretation. It is recommended that suitable amendments be made to the Act to provide for greater clarity with regard to the timing of deposits to the Fund.

30TH NOVEMBER, 2022
PORT OF SPAIN




LORELLY PUJADAS
AUDITOR GENERAL



Confronting Global Turbulence

Trinidad and Tobago Heritage and Stabilisation Fund

Statement of Financial Position

As at 30 September, 2022 (expressed in United States Dollars)

	Notes	Sep-22 \$	Sep-21 \$
ASSETS			
Current assets			
Cash and cash equivalents	4	341,673,017	155,526,692
Financial assets	5,6	4,503,767,936	5,390,981,317
Receivables and prepayments	7	184,764,693	103,262,637
TOTAL ASSETS		5,030,205,646	5,649,770,646
LIABILITIES			
Current liabilities			
Other payables	8	296,949,447	190,726,038
Financial liabilities	9	23,674,010	-
TOTAL LIABILITIES		320,623,457	190,726,038
NET ASSETS		4,709,582,189	5,459,044,608
PUBLIC EQUITY			
Contributed capital		1,620,701,967	1,456,707,468
Accumulated surplus		3,088,880,222	4,002,337,140
		4,709,582,189	5,459,044,608

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

Ewart Williams

MR. EWART WILLIAMS
(Chairman)



Alvin Hilaire

DR. ALVIN HILAIRE

Suzette Taylor-Lee Chee

MRS. SUZETTE TAYLOR-LEE CHEE

Bevan Narinesingh

MR. BEVAN NARINESINGH

Dorian Noel

DR. DORIAN NOEL

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



Statement of Comprehensive Income

For the Year ended 30 September, 2022 (expressed in United States Dollars)

	Notes	Sep-22 \$	Sep-21 \$
Income			
Investment income	10	128,653,381	345,825,748
Investment expenses	11	(927,305,831)	(31,286,035)
Gain on sale of financial assets		259,420,936	587,388,769
Loss on sale of financial assets		(369,249,488)	(270,194,990)
(Loss)/income from investments		(908,481,002)	631,733,492
Other income		850,409	1,225,235
Total (loss)/income		(907,630,593)	632,958,727
Operating expenses			
Management fees	12	(1,549,224)	(1,699,652)
Subscription fees		(15,805)	(15,497)
Bank charges		(5,894)	(4,933)
Audit fees		(2,618)	(7,634)
Licence fees		(19,310)	(46,072)
Total operating expenses		(1,592,851)	(1,773,788)
Net (deficit)/profit for the year before tax		(909,223,444)	631,184,939
Withholding tax expense		(4,233,474)	(7,006,490)
Net (deficit)/profit for the year after tax		(913,456,918)	624,178,449
Total comprehensive (loss)/income for the year		(913,456,918)	624,178,449

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

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



Confronting Global Turbulence

Trinidad and Tobago Heritage and Stabilisation Fund

Statement of Changes in Equity

For the Year ended 30 September, 2022 (expressed in United States Dollars)

	Contributed Capital \$	Accumulated Surplus \$	Total \$
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 31 September 2021	1,456,707,468	4,002,337,140	5,459,044,608
Balance as at 1 October 2021	1,456,707,468	4,002,337,140	5,459,044,608
Contributions by Government for the year	163,994,499	-	163,994,499
Total comprehensive loss for the year	-	(913,456,918)	(913,456,918)
Balance as at 30 September 2022	1,620,701,967	3,088,880,222	4,709,582,189

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

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



Statement of Cash Flows

For the Year ended 30 September, 2022 (expressed in United States Dollars)

	Note	Sep-22 \$	Sep-21 \$
Cash flows from operating activities			
Net (deficit)/profit for the year before withholding tax		(909,223,444)	631,184,939
Adjustments			
Interest income		(63,461,658)	(77,133,581)
Dividend income		(65,191,723)	(70,590,171)
Fair value adjustment on financial assets and liabilities at fair value through profit or loss		909,919,755	(198,101,996)
Net realised loss/(gain) from the sale of financial assets		<u>109,828,552</u>	<u>(317,193,780)</u>
Cash outflows before changes in operating assets and liabilities		(18,128,518)	(31,834,589)
Changes in operating assets and liabilities			
(Increase)/decrease in receivables and prepayments		(81,201,885)	86,794,227
Increase/(decrease) in other payables		106,223,409	(333,017,736)
Withholding tax paid		<u>(4,233,474)</u>	<u>(7,006,490)</u>
Net cash from/(used in) operating activities		<u>2,659,532</u>	<u>(285,064,588)</u>
Cash flows from investing activities			
Interest received		61,448,585	81,956,799
Dividend received		66,904,625	68,894,182
Net (purchase)/sale of financial assets		<u>(108,846,387)</u>	<u>860,136,203</u>
Net cash flows from investing activities		<u>19,506,823</u>	<u>1,010,987,184</u>
Cash flows from financing activities			
Withdrawal from contributed capital by government		-	(892,714,533)
Contributed capital		<u>163,994,499</u>	<u>-</u>
Net cash flows from/(used in) financing activities		<u>163,994,499</u>	<u>(892,714,533)</u>
Effects of exchange rate changes on cash and cash equivalents		(14,529)	(11,866)
Net increase/(decrease) in cash and cash equivalents		186,146,325	(166,803,803)
Cash and cash equivalents at beginning of year		<u>155,526,692</u>	<u>322,330,495</u>
Cash and cash equivalents at end of the year	4	<u>341,673,017</u>	<u>155,526,692</u>

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



Notes to the Financial Statements

For the Year ended 30 September, 2022 (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, 2022 (expressed in United States Dollars)

2. Accounting Policies (continued)

b) *Changes in accounting policies and disclosures*

i. *New standards and interpretations adopted by the Bank*

There were no new standards and interpretations adopted by the Fund during the financial year.

ii. *New standards and interpretations that are not yet effective and have not been early adopted by the Fund*

There are new standards, amendments and interpretations to existing standards that are not yet effective for accounting periods beginning on or after January 1 2021 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 the new and revised standards. 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 Amendments to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets- Onerous Contracts-Cost of fulfilling a contract (effective 1 January 2022).

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

- o Amendments to IAS 16 – Property, Plant and Equipment – Proceeds before intended use (effective 1 January 2022).

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

- o Amendment to IFRS 3 – Business Combinations- Reference to the Conceptual Framework (effective January 1, 2022).

The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.

- o Amendments to IFRS 9 –Financial Instruments –Fees included in the 10 percent test for derecognition of financial liabilities (effective January 1, 2022).

This amendment seeks to clarify the fees a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. The standard specifies that the terms are substantially different if the discounted present value of the cash flows under the new terms using the original effective interest rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2022 (expressed in United States Dollars)

2. Accounting Policies (continued)

b) Changes in accounting policies and disclosures (continued)

ii. New standards and interpretations that are not yet effective and have not been early adopted by the Fund (continued)

- o Amendment to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors -Definition of Accounting Estimates (effective 1 January 2023).

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.

- o Amendment to IAS 12 – Income Taxes- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective January 1, 2023)

The amendments introduce an exception to the initial recognition exemption in IAS 12. Applying this exception, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. This standard is not relevant to the Fund.

- o Amendments to IAS 1 – Presentation of Financial Statements- Classification of Liabilities as Current or Non-Current (effective 1 January 2023).

The amendments clarify the requirements for classifying liabilities as current or non-current, it specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. Management expectations about events after the balance sheet date, for example on whether a covenant will be breached, or whether early settlement will take place, are not relevant. Additionally, the amendments clarify the situations that are considered settlement of a liability.

- o Amendments IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies (effective 1 January 2023).

The amendments require that an entity discloses its material accounting policy information instead of its significant accounting policies. Several paragraphs were added to explain how an entity can identify a material accounting policy information and examples given of when an accounting policy is likely to be material. Additionally, amendments were made to the IFRS Practice Statement by adding guidance and examples to explain and demonstrate the application of the ‘four-step materiality process’.

iii. New accounting standards and interpretations that are not yet effective and are not applicable to 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, 2021 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.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2022 (expressed in United States Dollars)

2. Accounting Policies (continued)

b) *Changes in accounting policies and disclosures (continued)*

iii. *New accounting standards and interpretations that are not yet effective and are not applicable to the Fund (continued)*

These standards and amendments include:

o IFRS 17 – Insurance Contracts (effective January 1, 2023)

IFRS 17 would replace IFRS 4 on accounting for insurance contracts; 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.

This standard is not relevant to the Fund as it does not issue insurance contracts.

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 maturing within three months from the date of the financial statements.

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.

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)
- 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



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2022 (expressed in United States Dollars)

2. Accounting Policies (continued)

e) *Investment Securities (continued)*

- 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.

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.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2022 (expressed in United States Dollars)

2. Accounting Policies (continued)

e) *Investment Securities (continued)*

Business model assessment (continued)

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;
- Risk parameters under which portfolio assets are managed to meet the objectives;
- 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.

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.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2022 (expressed in United States Dollars)

2. Accounting Policies (continued)

g) Premium/Discount (continued)

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.

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.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2022 (expressed in United States Dollars)

2. Accounting Policies (continued)

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;
- 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.

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:



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2022 (expressed in United States Dollars)

2. Accounting Policies (continued)

q) Critical accounting estimates and judgements (continued)

- **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, people and 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 Policy that is 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.

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 Years 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.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2022 (expressed in United States Dollars)

3. Financial Risk Management (continued)

a) The Strategic Benchmark (continued)

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.

b) Portfolio Performance

The portfolio performance for the twelve months ended 30 September, 2022 was as follows:

12 Month Performance			
Portfolio	Fund	Benchmark Return	Benchmark Composition
Composite	-16.52%	-15.49%	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	-1.16%	-1.73%	Merrill Lynch US Government Treasury 1-5 Years Index
US Core Fixed Income	-5.01%	-6.04%	Barclays Capital US Aggregate Bond Index
US Core Domestic Equity	-4.60%	-3.38%	Russell 3000 (Ex Energy)
Non-US Core International Equity	-6.39%	-4.93%	MSCI EAFE (Ex Energy)
Internal Portfolio	0.00%	-	N/A



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2022 (expressed in United States Dollars)

3. Financial Risk Management (continued)

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.

The table below summarises the credit quality of the Fund's debt securities as at September 30, 2022:

Credit Rating	2021	2020
AAA	11.76%	13.5%
AA	64.74%	59.8%
A	6.06%	6.6%
BBB	17.21%	20.0%
Not Rated*	0.23%	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 these investments is implicitly tied to the credit rating of the associated government.

The table below illustrates the investment grade 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.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2022 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) *Portfolio Risk (continued)*

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.

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.



Confronting Global Turbulence

Trinidad and Tobago Heritage and Stabilisation Fund

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2022 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk (continued)

Market Risk (continued)

i. Currency Risk (continued)

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 2022 and 30 September 2021 as follows:

	Sep-22 \$	Sep-21 \$
Change in net assets	<u>16,093,586</u>	<u>25,982,412</u>

The following table illustrates the currency concentration exposure of financial assets and liabilities held by the Fund as at 30 September 2022 and 2021:

Financial Assets	% of financial assets	
Currency	Sep-22	Sep-21
Australian dollar	1.34	1.05
Canadian dollar	0.40	0.26
Danish krone	0.48	0.81
Euro	4.76	8.31
Hong Kong dollar	0.44	0.99
Israeli shequel	0.19	0.10
Japanese yen	4.52	6.57
New Zealand dollar	0.00	0.00
Norwegian krone	0.32	0.08
Singapore dollar	0.21	0.33
Swedish krona	0.16	0.76
Swiss franc	1.53	2.05
British pound	2.78	2.70
United States dollar	82.87	75.99
Total	<u>100.00</u>	<u>100.00</u>
Financial Liabilities	% of financial liabilities	
Currency	Sep-22	Sep-21
United States dollar	100.00	0.00
Total	<u>100.00</u>	<u>0.00</u>

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.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2022 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) *Portfolio Risk (continued)*

Market Risk (continued)

ii. *Interest Rate Risk (continued)*

	2022		2021	
	Portfolio	Index	Portfolio	Index
US Short Duration Fixed Income	2.12	2.55	2.29	2.65
US Core Fixed Income	6.04	6.20	6.35	6.71

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.

The tables below summarise the sector concentrations within the Fund:

US Short Duration Fixed Income - Sector Concentrations

	2022		2021	
	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	55.01%	100.00%	41.92%	100.00%
Agencies	20.30%		27.10%	
Supranational	14.19%		16.90%	
Local Authorities	5.08%		7.22%	
Sovereign	2.37%		2.41%	
CMBS	2.41%		3.29%	
MBS	0.59%		0.97%	
Corporates	0.05%		0.19%	
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, 2022 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) *Portfolio Risk (continued)*

Market Risk (continued)

iii. *Price Risk (continued)*

US Core Fixed Income - Sector Concentrations

	2022		2021	
	US Core Fixed Income Mandate	Barclays US Aggregate Bond Index	US Core Fixed Income Mandate	Barclays US Aggregate Bond Index
Corporates	35.46%	23.86%	37.00%	26.10%
US Treasuries	27.32%	40.97%	25.00%	38.52%
MBS	26.67%	27.61%	25.11%	27.42%
CMBS	4.34%	1.89%	5.20%	2.05%
ABS	3.88%	0.39%	5.00%	0.28%
Government Related	2.33%	5.28%	2.69%	5.63%
Total	100%	100%	100.00%	100.00%

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

US Core Domestic Equity - Sector Concentrations

	2022		2021	
	US Core Equity Mandate	Russell 3000 Ex-Energy Index	US Core Equity Mandate	Russell 3000 Ex-Energy Index
Technology	26.49%	26.20%	27.72%	28.5%
Consumer Discretionary	15.80%	15.73%	12.70%	16.5%
Industrials	13.98%	13.35%	9.20%	13.8%
Health Care	15.38%	14.98%	14.16%	13.5%
Financials	11.41%	12.02%	12.34%	11.8%
Consumer Staples	5.74%	5.92%	5.16%	4.8%
Real Estate	3.68%	3.65%	3.50%	3.6%
Telecommunications	2.39%	2.49%	10.36%	3.1%
Utilities	3.13%	3.50%	2.39%	2.7%
Basic Materials	2.00%	2.16%	2.47%	1.7%
Total	100.00%	100%	100.00%	100.00%

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



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2022 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) *Portfolio Risk (continued)*

Market Risk (continued)

iii. *Price Risk (continued)*

Non-US International Equity - Sector Concentrations

	2022		2021	
	Non-US International Equity Mandate	MSCI EAFE EX- Energy Index	Non-US International Equity Mandate	MSCI EAFE EX- Energy Index
Financials	16.37%	18.51%	14.90%	17.79%
Industrials	14.90%	15.81%	18.90%	16.36%
Consumer Staples	14.28%	11.85%	9.99%	10.59%
Consumer Discretionary	10.50%	11.53%	12.70%	13.20%
Health Care	15.17%	14.57%	12.25%	13.10%
Materials	8.28%	7.87%	9.52%	7.59%
Communication Services	5.67%	5.07%	5.67%	4.98%
Real Estate	3.28%	2.92%	3.40%	3.03%
Information Technology	8.86%	8.33%	9.52%	9.97%
Utilities	2.69%	3.54%	3.15%	3.38%
Total	100.00%	100.00%	100.00%	100.00%

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

The table below summarises 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-22 \$	Sep-21 \$
Effect on net assets attributable to redeemable shares of a 1% increase/decrease in the share price	<u>18,338,663</u>	<u>26,552,192</u>

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-22 \$	Sep-21 \$
Effect on net assets attributable to fixed income securities of a 25 basis points increase/decrease in interest rates	<u>6,314,934</u>	<u>6,638,487</u>



Confronting Global Turbulence

Trinidad and Tobago Heritage and Stabilisation Fund

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2022 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk (continued)

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.

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-22				
Non-Derivative Financial Liabilities				
Investment purchased	291,239,183	-	-	291,239,183
Foreign currency purchased	1,993,154	-	-	1,993,154
Interest payable	1	-	-	1
Due to money market	-	-	-	-
Due to brokers	448,976	-	-	448,976
Accrued expenses	2,329,245	537,255	3,150	2,869,650
Other Payables	22,242	376,241	-	398,483
	296,032,801	913,496	3,150	296,949,447
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

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



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2022 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) *Portfolio Risk (continued)*

Liquidity Risk (continued)

	Less than 1 month \$	1-12 months \$	>12 months \$	Total \$
Sep-22				
Derivative Financial Liabilities				
Derivative financial liabilities	-	-	23,674,010	23,674,010
	-	-	23,674,010	23,674,010
Sep-21				
Derivative Financial Liabilities				
Credit default swap	-	-	-	-
	-	-	-	-

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-22 \$	Sep-21 \$
Cash at bank	333,979,364	149,710,443
Cash at broker	7,709,994	5,818,062
	341,689,358	155,528,505
Net effect of exchange rate changes	(16,341)	(1,813)
	<u>341,673,017</u>	<u>155,526,692</u>

5. Financial Assets

	Sep-22 \$	Sep-21 \$
Fair value through profit or loss	<u>4,503,767,936</u>	<u>5,390,981,317</u>
	<u>4,503,767,936</u>	<u>5,390,981,317</u>
Financial Assets at fair value through profit or loss		
Fixed income investments		
Cost	2,740,304,520	2,582,623,619
Net (Diminution)/Appreciation in Market Value	(214,330,869)	55,441,651
	<u>2,525,973,651</u>	<u>2,638,065,270</u>



Confronting Global Turbulence

Trinidad and Tobago Heritage and Stabilisation Fund

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2022 (expressed in United States Dollars)

5. Financial Assets

	Sep-22 \$	Sep-21 \$
Equity		
Cost	1,727,674,368	1,917,893,119
Net Appreciation in Market Value	<u>106,191,940</u>	<u>737,326,053</u>
	<u>1,833,866,308</u>	<u>2,655,219,172</u>
Financial Derivatives		
Cost	196,678,965	141,486,997
Fair Value Adjustments	<u>(52,750,988)</u>	<u>(43,790,122)</u>
	<u>143,927,977</u>	<u>97,696,875</u>
Total Financial assets at fair value through profit or loss	<u>4,503,767,936</u>	<u>5,390,981,317</u>

Derivative assets for 2020 have been reclassified to maintain consistency in reporting as at the financial year ended September 30, 2022.

6. Fair Value of Financial Assets

a) Debt and equity securities

	Sep-22		Sep-21	
	Fair value \$	% of net assets	Fair value \$	% of net assets
Total debt securities	2,525,973,651	53.63	2,638,065,270	48.32
Total equity	1,833,866,308	38.94	2,655,219,172	48.64
Total derivatives	<u>143,927,977</u>	<u>3.06</u>	<u>97,696,875</u>	<u>1.79</u>
Total Financial Assets	<u>4,503,767,936</u>	<u>95.63</u>	<u>5,390,981,317</u>	<u>98.75</u>



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2022 (expressed in United States Dollars)

6. Fair Value of Financial Assets (continued)

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-22			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial Assets				
Asset Backed Securities	-	62,991,619	-	62,991,619
Collateralized Mortgage -Backed Securities (CMO)	-	4,480,982	-	4,480,982
Corporate Bonds	-	772,159,463	-	772,159,463
Government Issues	-	1,237,746,471	-	1,237,746,471
Mortgage Backed Securities	-	386,796,710	-	386,796,710
Municipals	-	33,610,724	-	33,610,724
Real Estate Investment Trust	-	28,187,682	-	28,187,682
Fixed Income	-	2,525,973,651	-	2,525,973,651
Real Estate Investment Trust	41,141,170	-	-	41,141,170
Preferred Stock	10,975	-	-	10,975
Common Stock	1,792,282,948	-	-	1,792,282,948
Other Equity	431,215	-	-	431,215
Equity	1,833,866,308	-	-	1,833,866,308
Credit Default Swaps	-	70,061	-	70,061
Mortgage Back Securities - To Be Announced	-	149,602,740	-	149,602,740
Futures	(5,744,824)	-	-	(5,744,824)
Derivatives	(5,744,824)	149,672,801	-	143,927,977
Total Financial Assets	1,828,121,484	2,675,646,452	-	4,503,767,936



Confronting Global Turbulence

Trinidad and Tobago Heritage and Stabilisation Fund

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2022 (expressed in United States Dollars)

6. Fair Value of Financial Assets (continued)

b) Fair value hierarchy (continued)

	Sep-21			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial Assets				
Asset Backed Securities	-	89,515,637	-	89,515,637
Collateralized Mortgage -Backed Securities (CMO)	-	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

Valuation techniques

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, 2022 (expressed in United States Dollars)

6. Fair Value of Financial Assets (continued)

c) Transfers between fair value hierarchy levels

As at September 30, 2022, there were no transfers between the fair valuation levels

d) Collateral

Securities pledged as collateral were as follows:

	Sep-22 \$	Sep-21 \$
Fixed Income	480,000	300,000
	<u>480,000</u>	<u>300,000</u>

7. Receivables and Prepayments

	Sep-22 \$	Sep-21 \$
Pending Trades	156,527,394	75,815,779
Interest Receivable	12,117,777	10,104,704
Dividends Receivable	4,388,053	6,100,955
Other Receivables	11,731,469	11,241,199
	<u>184,764,693</u>	<u>103,262,637</u>

Accounts receivable as at 30 September, 2022 include Pending Trades – Investments, and Foreign Currency sold in the amounts of USD154,498,502 and USD2,028,892 respectively which will subsequently be settled during the period October – November 2022.

8. Other Payables

	Sep-22 \$	Sep-21 \$
Pending Trades	293,232,336	184,813,328
Accruals	2,869,651	4,866,693
Other Payables	847,460	1,046,017
	<u>296,949,447</u>	<u>190,726,038</u>

As at 30 September, 2022 there were Pending Trades – Investments and Foreign Currency purchased of USD291,239,182 and USD1,993,154. Subsequent settlement will occur during the month of October 2022.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2022 (expressed in United States Dollars)

9. Financial Liabilities

Financial liabilities at fair value through profit or loss

	Sep-22 \$	Sep-21 \$
Cost	24,514,316	-
Fair Value Adjustments	(840,306)	-
	<u>23,674,010</u>	<u>-</u>

10. Investment Income

	Sep-22 \$	Sep-21 \$
Interest Income		
Cash at bank	31,677	1,344
Financial assets at fair value through profit or loss	59,187,693	67,168,923
Amortisation of bond discount	3,940,603	9,956,386
Short term securities	301,685	6,928
	<u>63,461,658</u>	<u>77,133,581</u>
Dividend income	65,191,723	70,590,171
Fair value adjustments on financial assets and liabilities at fair value through profit or loss	-	198,101,996
Total	<u>128,653,381</u>	<u>345,825,748</u>

11. Investment Expenses

	Sep-22 \$	Sep-21 \$
Amortization of bond premium	5,501,983	17,849,119
External managers' fees	11,430,501	12,239,017
Fair value adjustments on financial assets and liabilities at fair value through profit or loss	909,919,755	-
Custodian's fees	311,425	757,998
External managers' expenses	142,167	439,901
Total	<u>927,305,831</u>	<u>31,286,035</u>



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2022 (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 specifies that within the instrument of delegation, 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 (o)). During the current year ended September 30, 2022, capital contributions of USD 163,994,499 were received.

15. Withdrawals

Withdrawals from the Fund are made in accordance with the criteria set out Section 15 and 15A of the Act, (see note 2 (p)). For the financial year ended September 30, 2022, there were no withdrawals.



Confronting Global Turbulence

Trinidad and Tobago Heritage and Stabilisation Fund

