



**REPUBLIC OF TRINIDAD AND TOBAGO
AUDITOR GENERAL'S DEPARTMENT**

**R E P O R T
O F T H E
A U D I T O R G E N E R A L**

**ON THE FINANCIAL STATEMENTS OF THE
HERITAGE AND STABILISATION FUND OF THE
REPUBLIC OF TRINIDAD AND TOBAGO**

FOR THE YEAR ENDED

30 September 2014



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 2014

The accompanying Financial Statements of the Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago (the Fund) for the year ended 30 September 2014 have been audited. The Statements comprise a Statement of Financial Position as at 30 September 2014, a Statement of Comprehensive Income, a Statement of Changes in Equity and a Statement of Cash Flows for the year ended 30 September 2014 and Notes to the Financial Statements numbered 1 to 13.

MANAGER'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

2. The Central Bank of Trinidad and Tobago as Manager 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.

AUDITOR'S RESPONSIBILITY

3. The Auditor General's responsibility is to express an opinion on these Financial Statements based on the audit. The audit which was carried out 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, 2007 (the Act) was conducted in accordance with International Standards on Auditing. Those Standards require that ethical requirements be complied with and that the audit be planned and performed to obtain reasonable assurance about whether the Financial Statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. It is my view that the audit evidence obtained is sufficient and appropriate to provide a basis for the audit opinion.

OPINION

6. In my opinion, the Financial Statements present fairly, in all material respects, the financial position of the Heritage and Stabilisation Fund as at 30 September 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

EMPHASIS OF MATTER

7.1 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.'

7.2 It was seen that action is being taken with respect to this matter.

28th November 2014



**SHARMAN OTTLEY
AUDITOR GENERAL**

**HERITAGE AND STABILISATION FUND
OF THE REPUBLIC OF TRINIDAD AND TOBAGO**

FINANCIAL STATEMENTS
for the year ended 30 September 2014

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

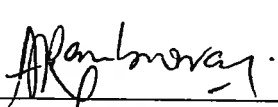
Statement of Financial Position
as at 30 September 2014
(Expressed in United States Dollars)

	Notes	Sep-14 \$	Sep-13 \$
ASSETS			
Current assets			
Cash and cash equivalents	4	288,665,171	167,772,022
Investments	5,6	5,308,399,562	5,055,388,239
Accounts receivable and prepayments	7	285,123,292	232,120,115
TOTAL ASSETS		5,882,188,025	5,455,280,376
LIABILITIES			
Current liabilities			
Accounts payable	8	352,132,845	304,627,587
Financial liabilities	9	156,741	-
Bank overdraft	4	78,626	-
TOTAL LIABILITIES		352,368,212	304,627,587
NET ASSETS		5,529,819,813	5,150,652,789
PUBLIC EQUITY			
Contributed capital		3,956,874,067	3,956,874,067
Available-for-sale financial assets revaluation reserve		333,310,281	346,823,778
Accumulated surplus		1,239,635,465	846,954,944
TOTAL EQUITY		5,529,819,813	5,150,652,789


RALPH HENRY
(Chairman)


RAMCHARAN KALICHARAN




JWALA RAMBARRAN


VISHNU DHANPAUL

The accompanying notes form an integral part of these financial statements

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

**Statement of Comprehensive Income
for the year ended 30 September 2014
(Expressed in United States Dollars)**

	Note	Sep-14 \$	Sep-13 \$
Income			
Investment income	10	137,989,785	123,303,488
Investment expenses		(26,220,204)	(25,844,743)
Gain on sale of investments		410,397,864	392,826,716
Loss on sale of investments		(124,124,129)	(173,738,877)
Income from investments		<u>398,043,316</u>	<u>316,546,584</u>
Other income		116,809	146,741
Total income		<u>398,160,125</u>	<u>316,693,325</u>
Operating expenses			
Management fees		1,631,748	1,476,467
Subscription fees		13,954	13,770
Audit fees		9,655	8,742
Licence fees		4,751	12,257
Total operating expenses		<u>1,660,108</u>	<u>1,511,236</u>
Net profit for the year before tax		396,500,017	315,182,089
Withholding tax expense		3,819,496	2,405,785
Net profit for the year after tax		<u>392,680,521</u>	<u>312,776,304</u>
Other comprehensive income:			
Available-for-sale financial assets			
- Unrealised (loss)/gain from fair value changes		(13,513,497)	86,231,646
Other comprehensive income for the year		<u>(13,513,497)</u>	<u>86,231,646</u>
Total comprehensive income for the year		<u>379,167,024</u>	<u>399,007,950</u>

The accompanying notes form an integral part of these financial statements

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

**Statement of Changes in Equity
for the year ended 30 September 2014**
(Expressed in United States Dollars)

	Contributed Capital	Available-for- Sale Financial Assets Revaluation Reserve	Accumulated Surplus	Total
	\$	\$	\$	\$
Balance as at 1 October 2012	3,914,354,285	260,592,132	534,178,640	4,709,125,057
Contributions from Government for the year	42,519,782	-	-	42,519,782
Total comprehensive income for the year	-	86,231,646	312,776,304	399,007,950
Balance as at 30 September 2013	<u>3,956,874,067</u>	<u>346,823,778</u>	<u>846,954,944</u>	<u>5,150,652,789</u>
Balance as at 1 October 2013	3,956,874,067	346,823,778	846,954,944	5,150,652,789
Total comprehensive income for the year	-	(13,513,497)	392,680,521	379,167,024
Balance as at 30 September 2014	<u>3,956,874,067</u>	<u>333,310,281</u>	<u>1,239,635,465</u>	<u>5,529,819,813</u>

The accompanying notes form an integral part of these financial statements

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

**Statement of Cash Flows
for the year ended 30 September 2014
(Expressed in United States Dollars)**

	Note	Sep-14 \$	Sep-13 \$
Cash flows from operating activities			
Net profit for the year		392,680,521	312,776,304
Adjustments			
Interest income		(77,452,757)	(69,935,444)
Dividend income		(59,101,179)	(53,368,044)
Fair value adjustment on financial assets and liabilities at fair value through profit or loss		(1,435,849)	-
Net realised gain from the sale of investments		(286,273,735)	(219,087,839)
Cash outflows before changes in operating assets and liabilities		<u>(31,582,999)</u>	<u>(29,615,023)</u>
Changes in operating assets and liabilities			
(Increase)/decrease in accounts receivable		(52,279,273)	536,865,845
Increase/(decrease) in accounts payable		47,505,258	(561,718,470)
Net cash used in operating activities		<u>(36,357,014)</u>	<u>(54,467,648)</u>
Cash flows from investing activities			
Interest received		76,392,394	70,305,868
Dividend received		59,437,638	54,012,122
Purchase of investments		(267,219,791)	(473,288,214)
Proceeds from sale of investments		288,624,387	219,034,178
Net cash flows from/(used in) investing activities		<u>157,234,628</u>	<u>(129,936,046)</u>
Cash flows from financing activities			
Contributed capital		-	42,519,782
Net cash flows from financing activities		<u>-</u>	<u>42,519,782</u>
Effects of exchange rate changes on cash and cash equivalents		(63,091)	69,290
Net increase/(decrease) in cash and cash equivalents		120,814,523	(141,814,622)
Cash and cash equivalents, beginning of year		167,772,022	309,586,644
Cash and cash equivalents, end of year	4	<u><u>288,586,545</u></u>	<u><u>167,772,022</u></u>

The accompanying notes form an integral part of these financial statements

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

Notes to the Financial Statements for the year ended 30 September 2014 (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.

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.

Notes to the Financial Statements
for the year ended 30 September 2014 (continued)
(Expressed in United States Dollars)

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 the revaluation of available-for-sale financial assets.

b) Changes in accounting policies

IFRS 13 – Fair Value Measurement: IFRS 13 has been established as the single source of guidance for fair value measurements and disclosures. The disclosures with respect to fair value have been enhanced in accordance with the new stipulations.

The fair value measurement was applied prospectively as at the beginning of the annual period in which it initially applied. Consequently, no disclosure was applied in comparative information (see Notes 5(b) and 9).

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

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

Notes to the Financial Statements
for the year ended 30 September 2014 (continued)
(Expressed in United States Dollars)

2. Accounting Policies (continued)

e) *Investments*

i. *Initial recognition*

The Fund's investments are classified, at initial recognition, as financial assets at fair value through profit or loss or as available-for-sale financial assets, as appropriate.

Regular purchases and sales are recognized on the trade date. Thus, any agreements made before the reporting date, with expectations of settlement thereafter, will give rise to both a financial asset and financial liability, which are recognised in the Statement of Financial Position.

ii. *Subsequent Measurement*

Available-for-sale financial investments

Available-for-sale financial investments include investments which are intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or to meet the goals of the strategic asset allocation approved by the Board. These financial investments are initially measured at fair value and subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in Other Comprehensive Income (revaluation reserve). When the investment is derecognised or is determined to be impaired, the cumulative gain or loss previously reported in the revaluation reserve is included in the income statement as 'Gain or Loss from investments'.

Fair value through profit or loss

A derivative is a financial instrument or other contract within the scope of IAS 39 with all three of the following characteristics:

- a. its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');
- b. it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

Notes to the Financial Statements
for the year ended 30 September 2014 (continued)
(Expressed in United States Dollars)

2. Accounting Policies (continued)

e) Investments (continued)

ii. Subsequent Measurement (continued)

Fair Value through profit or loss (continued)

- c. it is settled at a future date.

Derivatives are initially recognised in the Statement of Financial Position at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Net changes in fair value are presented in the statement of comprehensive income.

The Fund holds the following derivative instruments (see Notes 5 and 9):

a) Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price. Options held by the Fund are exchange traded. The Fund is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

b) Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts. Interest rate swaps relate to contracts taken out by the Fund with major brokers in which the Fund either receives or pays a floating rate of interest in return for paying or receiving a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other. In a currency swap, the Fund pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are gross-settled.

Notes to the Financial Statements
for the year ended 30 September 2014 (continued)
(Expressed in United States Dollars)

2. Accounting Policies (continued)

e) *Investments (continued)*

iii. *Fair value measurement/estimation*

Fair value is the price at which an asset can be exchanged in an orderly arm's length transaction between knowledgeable and willing market participants. The fair value for financial instruments traded in active markets at the reporting date is based on their quoted current bid prices. For unlisted financial assets and those where the market is not active, the Fund establishes fair value by using valuation techniques. These include the use of recent arm's length market transactions adjusted as necessary and/or reference to the current market value of another transaction that is substantially the same.

Financial assets for which fair value is measured and disclosed in the financial statements are categorised within the three-level fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. The levels are:

- Level 1 - unadjusted quoted prices in active markets for identical assets
- Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

iv. *Impairment of financial assets*

At the end of each reporting period, the Fund assesses whether there is any objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are recognised if, and only if there is objective evidence that one or more events occurred after initial recognition of the asset ('loss event') and the loss event's impact on the estimated future cash flows of the financial asset can be reliably estimated.

v. *Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Fund has transferred substantially all of the risks and rewards of ownership or where the Fund has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

Notes to the Financial Statements
for the year ended 30 September 2014 (continued)
(Expressed in United States Dollars)

2. Accounting Policies (continued)

f) Collateral

The Margin used for futures contracts can be in the form of either cash or securities held at a Broker. For all balances held at a Broker where collateralised securities and/or swap cash collateral are used, these are reported as either a receivable or payable (see Note 5(d)).

g) Premium/Discount

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

A discount arises when a bond or treasury bill price is lower than its par value. This occurs when the interest rate rises; newly issued securities have higher coupon rates than existing securities issued when market rates were lower. Thus, coupon rates of securities trading at a discount are generally lower than similar quality, newly issued securities.

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

h) Income and Dividends

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

Interest income is accounted for on the accrual basis.

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

i) Expenses

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

j) Taxation

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

k) Accounts receivable

Accounts receivable are stated at their expected realisable value.

Notes to the Financial Statements
for the year ended 30 September 2014 (continued)
(Expressed in United States Dollars)

2. Accounting Policies (continued)

l) Accounts payable

Accounts payable are stated at their expected 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.

o) Capital contributions

In accordance with Section 14 of the Act:

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

Notes to the Financial Statements
for the year ended 30 September 2014 (continued)
(Expressed in United States Dollars)

3. Financial Risk Management

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

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

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

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. In other words, the expected net variation of return of the portfolio and the composite benchmark is 2.0%.

Notes to the Financial Statements
for the year ended 30 September 2014 (continued)
(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.	4.00%
Non U.S. Equities	MSCI EAFE ex-energy Index, which comprises the following countries: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.	4.50%
U.S. Government Treasuries 1-5 Years	Merrill Lynch U.S. Treasuries 1-5 Years Index	0.50%
U.S. Core Domestic Fixed Income	Barclays Capital U.S. Aggregate Index	1.00%

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

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

Notes to the Financial Statements
for the year ended 30 September 2014 (continued)
(Expressed in United States Dollars)

3. Financial Risk Management (continued)

b) *Portfolio Performance*

The portfolio performance for the twelve months ended 30 September, 2014 was as follows:

12 Months Performance			
Portfolio	Fund	Benchmark Return	Benchmark Composition
Composite	7.65%	5.60%	Merrill Lynch US Government Treasury 1-5 Years Index , US 1-month LIBID, Barclays Capital US Aggregate Bond Index, Russell 3000 (ex Energy), MSCI EAFE (Ex Energy)
US Short Duration Fixed Income	0.21%	0.16%	Merrill Lynch US Government Treasury 1-5 Years Index
US Core Fixed Income	1.59%	1.57%	Barclays Capital US Aggregate Bond Index
US Core Domestic Equity	3.83%	3.06%	Russell 3000 (Ex Energy)
Non US Core International Equity	1.90%	0.76%	MSCI EAFE (Ex Energy)

c) *Portfolio Risk*

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

Credit Risk

This is the risk that a third party will default on its obligation to the Fund, causing the Fund 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 credit risk on cash and cash equivalents.

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

Notes to the Financial Statements
for the year ended 30 September 2014 (continued)
(Expressed in United States Dollars)

3. Financial Risk Management (continued)

c) *Portfolio Risk (continued)*

Credit Risk (continued)

The table below summarises the credit quality of the Fund's debt securities as at September 30, 2014.

Debt securities by rating category

Credit Rating	2014	2013
AAA	20.9%	10.0%
AA	54.0%	65.4%
A	7.3%	8.2%
BBB	17.5%	16.1%
Not Rated*	0.3%	0.3%

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

Money-market counterparts should have a minimum credit rating of A1 from Standard & Poor's, or P1 from Moody's. Counterparty credit risk is also managed by limiting the exposure of a single counterparty to 3% of the Fund.

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.

Notes to the Financial Statements
for the year ended 30 September 2014 (continued)
(Expressed in United States Dollars)

3. Financial Risk Management (continued)

c) *Portfolio Risk (continued)*

Concentration Risk (continued)

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 and price risk.

a. *Currency Risk*

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

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

A 1% change in the US dollar relative to other currencies (see Note 6) in which the Fund trades would have changed the net assets of the Fund as at 30 September 2014 and 30 September 2013 as follows:

	Sep-14	Sep-13
	\$	\$
Change in Net Assets	<u>11,954,673</u>	<u>17,940,616</u>

Notes to the Financial Statements
for the year ended 30 September 2014 (continued)
(Expressed in United States Dollars)

3. Financial Risk Management (continued)

c) *Portfolio Risk (continued)*

Market Risk (continued)

b. *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.

Portfolio versus Benchmark Duration

	Portfolio	Index
US Short Duration Fixed Income	2.81	2.71
US Core Fixed Income	5.02	5.32

c. *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.

Notes to the Financial Statements
for the year ended 30 September 2014 (continued)
(Expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk (continued)

c. Price Risk (continued)

The tables below summarize the sector concentrations within the Fund:

US Short Duration Fixed Income - Sector Concentrations

Sector	2014		2013	
	US Short Duration Mandate	Merill Lynch US Treasury 1-5 Year Index	US Short Duration Mandate	Merill Lynch US Treasury 1-5 Year Index
US Treasuries	77.2%	100.0%	71.3%	100.0%
Agencies	9.9%		14.5%	
Credits	5.2%		4.6%	
ABS/CMBS	4.4%		3.1%	
Supranationals	1.5%		3.6%	
Mortgages	1.1%		1.1%	
Municipals	0.7%		0.8%	
Local Government Obligations	0.0%		0.9%	
Total	100.0%	100.0%	100.0%	100.0%

Notes to the Financial Statements
for the year ended 30 September 2014 (continued)
(Expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk (continued)

c. Price Risk (continued)

US Core Fixed Income - Sector Concentrations

Sector	2014		2013	
	US Core Fixed Income Mandate	Barclays US Aggregate Bond Index	US Core Fixed Income Mandate	Barclays US Aggregate Bond Index
Corporates	37.4%	23.2%	33.6%	21.9%
US Treasuries	17.5%	35.5%	20.9%	36.1%
Residential Mortgage Backed Securities	14.7%	0.0%	12.9%	0.0%
Mortgage Backed Securities	14.0%	28.9%	12.5%	29.5%
Commerical Mortgage Backed Securities	7.2%	2.0%	7.5%	1.7%
Asset Backed Securities	4.2%	0.5%	4.3%	0.4%
Government Related Securities	3.8%	9.7%	3.5%	10.3%
Emerging Market Debt	1.1%	0.0%	1.2%	0.0%
Convertibles	0.1%	0.0%	0.2%	0.0%
Covered Bonds	0.0%	0.1%	0.4%	0.0%
Commercial Mortgage Obligations	0.0%	0.0%	2.1%	0.0%
Municipals	0.0%	0.0%	0.9%	0.0%
Total	100.0%	100.0%	100.0%	100.0%

Notes to the Financial Statements
for the year ended 30 September 2014 (continued)
(Expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk (continued)

c. Price Risk (continued)

US Core Domestic Equity - Sector Concentrations

Sector	2014		2013	
	US Core Equity Mandate	Russell 3000 Ex-Energy Index	US Core Equity Mandate	Russell 3000 Ex-Energy Index
Financials	20.2%	20.8%	20.1%	20.9%
Technology	18.9%	18.0%	17.4%	16.9%
Consumer Discretionary	15.6%	15.2%	17.4%	16.6%
Health Care	14.9%	14.8%	13.7%	13.8%
Producer Durables	12.8%	12.5%	13.5%	12.9%
Consumer Staples	8.0%	8.1%	8.4%	8.4%
Utilities	5.2%	5.7%	5.0%	5.8%
Materials & Processing	4.4%	4.9%	4.4%	4.9%
Total	100.0%	100.0%	100.0%	100.0%

Non-US International Equity - Sector Concentrations

Sector	2014		2013	
	Non-US International Equity Mandate	MSCI EAFE EX-Energy Index	Non-US International Equity Mandate	MSCI EAFE EX-Energy Index
Financials	27.1%	27.6%	28.3%	27.3%
Industrials	12.8%	13.4%	15.4%	14.0%
Health Care	12.7%	12.1%	11.8%	10.7%
Consumer Discretionary	12.4%	12.5%	12.8%	12.7%
Consumer Staples	9.3%	11.7%	9.3%	12.1%
Telecommunication Services	7.5%	5.3%	6.1%	5.9%
Materials	7.2%	8.3%	6.9%	8.8%
Information Technology	6.7%	5.0%	5.4%	4.7%
Utilities	4.4%	4.2%	3.8%	4.0%
Total	100.0%	100.0%	100.0%	100.0%

Notes to the Financial Statements
for the year ended 30 September 2014 (continued)
(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.

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-14	Sep-13
	\$	\$
Cash at bank	2,168,204	5,349,171
Cash at broker	1,326,734	1,924,813
US Government Money Market	285,217,513	160,482,227
	<u>288,712,451</u>	<u>167,756,211</u>
Net effect of exchange rate changes	(47,280)	15,811
	<u>288,665,171</u>	<u>167,772,022</u>
Bank overdraft	78,626	-
	<u><u>288,586,545</u></u>	<u><u>167,772,022</u></u>

Bank overdraft balance, subsequently cleared on 1 October, 2014, was derived from the transfer of funds to the US Government Money Market in the daily sweep performed on 30 September, 2014.

Notes to the Financial Statements
for the year ended 30 September 2014 (continued)
(Expressed in United States Dollars)

5. Investments

	Sep-14 \$	Sep-13 \$
Available-for-sale financial assets		
Cost/Amortised Cost	4,974,651,501	4,707,565,284
Net Appreciation	332,038,182	347,822,955
	<u>5,306,689,683</u>	<u>5,055,388,239</u>
Represented by:		
Fixed income investments		
Amortised Cost	3,099,041,957	2,951,029,582
Net Appreciation in Market Value	30,749,925	14,879,484
	<u>3,129,791,882</u>	<u>2,965,909,066</u>
Equity		
Cost	1,875,609,544	1,756,535,702
Net Appreciation in Market Value	301,288,257	332,943,471
	<u>2,176,897,801</u>	<u>2,089,479,173</u>
Total Available-for-sale financial assets	<u>5,306,689,683</u>	<u>5,055,388,239</u>
Financial assets at fair value through profit or loss		
Cost	422,331	-
Fair Value Adjustments	1,287,548	-
Total Financial assets at fair value through profit or loss	<u>1,709,879</u>	<u>-</u>
Total Investments	<u>5,308,399,562</u>	<u>5,055,388,239</u>

(a) Debt and equity securities

	2014		2013	
	Fair value \$	% of net assets	Fair value \$	% of net assets
Total debt securities	3,129,791,882	56.60	2,965,909,066	57.58
Total equity	2,176,897,801	39.37	2,089,479,173	40.57
Financial assets at fair value through profit or loss	1,709,879	0.03	-	-
Total Investments	<u>5,308,399,562</u>	<u>96.00</u>	<u>5,055,388,239</u>	<u>98.15</u>

Notes to the Financial Statements
for the year ended 30 September 2014 (continued)
(Expressed in United States Dollars)

5. Investments (continued)

(b) Fair value of investments

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 are analysed by the fair valuation hierarchy below:

	Sep-14			Total
	Level 1	Level 2	Level 3	
	\$	\$	\$	\$
Financial Assets				
Asset Backed Securities	-	128,005,102	-	128,005,102
Collateralized Mortgage-Backed Securities (CMO)	-	249,931,960	-	249,931,960
Convertible Bonds	-	2,253,818	-	2,253,818
Corporate Bonds	-	773,877,345	-	773,877,345
Government Issues	-	1,465,694,779	-	1,465,694,779
Mortgage Backed Securities	-	479,156,939	-	479,156,939
Municipals	-	30,871,939	-	30,871,939
Fixed Income	-	3,129,791,882	-	3,129,791,882
Common Stock	2,122,375,499	272,402	-	2,122,647,901
Depository Receipts	12,795,550	-	-	12,795,550
Limited Partnership Units	171,011	-	-	171,011
Preferred Stock	1,680,755	-	-	1,680,755
Real Estate Investment Trust	39,602,584	-	-	39,602,584
Equity	2,176,625,399	272,402	-	2,176,897,801
Interest Rate Swap	-	656,086	-	656,086
Options	1,053,793	-	-	1,053,793
Financial assets at fair value through profit or loss	1,053,793	656,086	-	1,709,879
Total Investments	2,177,679,192	3,130,720,370	-	5,308,399,562

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.

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

Notes to the Financial Statements
for the year ended 30 September 2014 (continued)
(Expressed in United States Dollars)

5. Investments (continued)

(c) Transfers between Fair Value Hierarchy levels.

IFRS 13 – Fair Value Measurement was implemented on 1 October, 2013. There were no transfers between the hierarchy levels during the financial year.

(d) Collateral

Securities pledged as collateral were as follows:

	Sep-14 \$	Sep-13 \$
Fixed Income	2,125,000	1,115,000
Equity	665,000	725,000
	<u>2,790,000</u>	<u>1,840,000</u>

6. Foreign Currency Concentration Exposure on Investments and Financial Liabilities

% of total investments

Currency	Sep-14 % of investments	Sep-13 % of investments
Australian dollar	1.11	1.02
Canadian dollar	0.21	-
Danish krone	0.74	0.07
Euro	5.71	6.40
Hong Kong dollar	0.38	1.17
New Israel sheqel	0.26	0.02
Japanese yen	4.64	5.16
New Zealand dollar	0.08	0.07
Norwegian krone	0.60	0.20
Singapore dollar	0.08	0.13
Swedish krona	0.75	0.76
Swiss franc	1.23	2.25
British pound	3.10	3.10
United States dollar	81.11	79.65
Total	<u>100.00</u>	<u>100.00</u>

% of total financial liabilities

United States dollar	100.00	-
Total	<u>100.00</u>	<u>-</u>

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

Notes to the Financial Statements
for the year ended 30 September 2014 (continued)
(Expressed in United States Dollars)

7. Accounts receivable and prepayments

	Sep-14 \$	Sep-13 \$
Trade Receivables	262,580,617	209,237,070
Interest Receivable	14,285,683	13,225,320
Dividends Receivable	4,101,546	4,438,005
Other Receivables	4,155,446	5,219,720
	<u>285,123,292</u>	<u>232,120,115</u>

Accounts receivable as at 30 September, 2014 include Pending Trades – Investments, and Foreign Currency Sold in the amounts of USD186,399,774 and USD76,180,843 respectively which will subsequently be settled during the month of October 2014.

8. Accounts payable

	Sep-14 \$	Sep-13 \$
Pending Trades	346,533,258	297,126,608
Accruals	3,611,060	3,381,132
Other Payables	1,988,527	4,119,847
	<u>352,132,845</u>	<u>304,627,587</u>

As at 30 September, 2014 there were Pending Trades – Investments, and Foreign Currency Purchased of USD271,848,538 and USD74,684,720 respectively. Subsequent settlement will occur during the period October – November 2014.

9. Financial liabilities

	Sep-14 \$	Sep-13 \$
Financial liabilities at fair value through profit or loss		
Cost	305,042	-
Fair Value Adjustments	(148,301)	-
Financial liabilities at fair value through profit or loss	<u>156,741</u>	<u>-</u>
Total Financial liabilities	<u>156,741</u>	<u>-</u>

Notes to the Financial Statements
for the year ended 30 September 2014 (continued)
(Expressed in United States Dollars)

9. Financial liabilities (continued)

Fair value of financial liabilities

	Sep-14			Total
	Level 1	Level 2	Level 3	
	\$	\$	\$	\$
Financial Liabilities				
Credit Default Swap	-	156,741	-	156,741
Financial liabilities at fair value through profit or loss	-	156,741	-	156,741
Total Financial liabilities	-	156,741	-	156,741

Valuation techniques

Refer to Note 5 (b).

10. Investment income

	Sep-14	Sep-13
	\$	\$
Interest Income		
Cash at bank	341	833
Available-for-sale financial assets	74,673,005	68,173,704
Amortisation of bond discount	2,787,513	1,762,580
Short term securities	(8,102)	(1,673)
	<u>77,452,757</u>	<u>69,935,444</u>
Dividend income	59,101,179	53,368,044
Fair value adjustments on financial assets and liabilities at fair value through profit or loss	1,435,849	-
Total	<u>137,989,785</u>	<u>123,303,488</u>

11. 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.

12. 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.

**Notes to the Financial Statements
for the year ended 30 September 2014 (continued)
(Expressed in United States Dollars)**

13. 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 financial year ended 30 September, 2014 no capital contributions were made given the level of petroleum revenues collected.