



Trinidad and Tobago Heritage and Stabilisation Fund

SUSTAINING OUR HERITAGE 2014 Annual Report



Purpose

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, 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;
- (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-renewal 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.





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Chairman's Foreword

DR. RALPH HENRY, CHAIRMAN

On behalf of the Board of Governors, it is my pleasure and privilege to present the Annual Report of the Trinidad and Tobago Heritage and Stabilisation Fund for the year ended September 30, 2014.

The Report records the continuing success of the Board in growing the fund and thus, increasing the assets of the country that are destined for the usufruct of succeeding generations. They are assured that we share the benefits of a depleting natural asset with them.

The growth of the Fund also provides us with some level of protection of revenue sources from a collapse in energy prices, even as the country seeks to reduce our dependence on hydrocarbons for government revenue, and for foreign exchange earnings.

The year 2013/2014 was not uneventful even though less so than the previous year. By and large however, positive indicators outweighed negative indicators. International financial markets continued on their rebound, with equity markets in the lead. The Federal Reserve also gave clear indications of the commitment to ending quantitative easing as the economy of the United States registered positive growth, reduced unemployment and improved investor confidence. Indeed, the United States resumed its role as a lead economy in the international economy.

However, while there was stabilisation and even recovery in the problem economies of the European Union, there was stagnation generally in

Europe. Japan slowed and so also did the Brazil, Russia, India, China and South Africa - BRICS. The Russian intervention in the Ukraine and absorption of the Crimea triggered geopolitical fallout on the European economy. The IMF, more than once during the course of the year found it necessary to reduce its projection of growth in the international economy,

In the midst of all of this turbulence, the assets of the HSF rose from US\$5,154.0 million to US\$5,533.4. This increase was achieved solely on the basis of the returns on the investment. No deposits were made by the Government of Trinidad and Tobago, given that the necessary statutory conditions, in terms of surpluses between actual energy revenues surpassing budgeted energy revenues by at least 10 percent, were not met.

The strong performance of the Fund is explained by a buoyant equity market for most of the period. The US Core Domestic Equity portfolio yielded a return of 18.6 percent, and the Non-Core International Equity registered an increase of 9.2 percent. The equity component of the Fund contributed the greater share of the growth compared to the fixed income component – 5.8 percent of the total return vis-à-vis 1.8 percent.

Indeed, asset growth in equities led to thresholds being exceeded in some months. The Board





Chairman's Foreword (continued)

took steps in time to conduct rebalancing of the portfolio before the flight into safer territory of the fixed income as the returns on equities declined towards the end of the period.

The Legislative Review of the HSF has continued and draft legislation is before the Ministry and is expected to be passed into law presently. The new legislation will allow the Board to become a body corporate with the capacity to be more directly involved in the conduct of its affairs and to acquire its own staff thereto.

After careful consideration, the Board recommended that the Fund should not be split formally into two funds at this time – i.e. a Heritage Fund and a Stabilisation Fund. Consistent with the Board's recommendation, the Government has signaled its intention to raise the floor of the Fund from US\$1.0 billion to US\$4.0 billion. If approved by the Parliament, the Fund cannot fall below US\$4.0 billion, in the event that the Government has to access resources to cover shortfalls in its revenues.

In anticipation of its remit, the Board has initiated collaboration and discussion with other national institutions that are endowed with funds which are invested abroad. The objective is to strengthen the domestic capacity of our institutions engaged in the enhancement of the national assets invested abroad.

I would like to thank the Governors on the Board for the considerable time devoted to meetings, especially since the Board meets more regularly than the statutory requirement of once every two months.

On behalf of the Board, I would also like to record our appreciation to the previous Chair and Board Members who served so well in the last financial year and set a high standard for emulation.

The Board records its thanks as well to the Governor of the Central Bank and its personnel who have been involved directly in oversight of the external managers of the Fund, and whose reports are the basis for our decisions.

Finally, the Board expresses, through me, its sincerest commendation to the Minister of Finance for his wise advice in the exchanges that we have had with him, and in his allowing the Board the space to maximize all possibilities in achieving its mandate to administer the Fund in the best interest of the Government and people of Trinidad and Tobago.

With continued support the HSF should be able to reach the pinnacle in performance of sovereign wealth funds in the world.

Dr. Ralph Henry

Chairman

December 2014

Board of Governors

Board Secretariat:

- Dr. Ralph Henry – Chairman
- Mr. Vishnu Dhanpaul – Member
- Mr. Jwala Rambarran – Member
- Mr. Ramcharan Kalicharan – Member
- Mr. Michael L. Raymond – Economic Policy Analyst performing the functions of Corporate Secretary to the Board

Governance

The Board of Governors

- The Heritage and Stabilisation Fund Act provides that the Fund be governed by a Board of Governors who under Section 9, has the responsibility for the management of the Fund. Section 10, however, provides for the Board to delegate its management responsibility to the Central Bank of Trinidad and Tobago.
- 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 submits to the Minister of Finance, quarterly and annual investment reports on the operation and performance of the Fund.

The Minister of Finance

- The Minister of Finance advises the President on the appointment of the Board in accordance with the Act, and is responsible for approving deposits and withdrawals from the Fund in accordance with the provisions of the Act.

The Trinidad and Tobago Parliament

- Parliament passed the enabling legislation and continues to have ultimate oversight of the Fund, which is exercised through the review of annual reports and audited financial statements, no later than four months following the end of the financial year.





Governance (continued)

- This reporting requirement gives the people of Trinidad and Tobago an opportunity to assess the Fund's performance, thereby fostering transparency and accountability, and ensuring effective ownership of the Fund by the population.

The Management of the Fund

- The Central Bank is responsible for the day-to-day management of the Fund (to meet Investment Objectives of the Board) and reports quarterly and annually to the Board.
- The Schedule to the Act details the responsibilities of the Central Bank.

Deposits and Withdrawals

The Act outlines the deposit and withdrawal rules which the Ministry of Finance must apply regarding the Fund.

Deposits

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

Quantum:

- A minimum of sixty per cent of the total excess (difference between estimated and actual) revenues must be deposited to the Fund during a financial year.
- Estimated petroleum revenues are calculated based on defined international sources.

Timing:

- Deposits to the Fund are to be made quarterly, no later than one month following the end of the quarter in which the deposit was calculated. Quarter under the Act refers to the three-month period ending December, March, June and September of each year.

Withdrawals

Section 15 of the Act outlines the conditions under which revenues may be withdrawn from the Fund.

Quantum:

- 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.

Limitations on Withdrawals:

- The withdrawal is limited to sixty per cent of the amount of the shortfall of petroleum revenues for the relevant year; or
- Twenty five per cent of the balance of the Fund at the beginning of that year, whichever is the lesser amount.
- The Act precludes any withdrawal where the balance standing to the credit of the Fund would fall below one billion US dollars if such withdrawal were to be made.

Overview of Activities

Reports to the Parliament

The Audited Financial Statements for the period ending September 30, 2013 were presented to the Parliament in January 2014. The 2013 Annual Report for the corresponding period was provided to the Parliament in March 2014.

Deposits to the Fund

There were no deposits to or withdrawals from the Fund during the financial year 2013/2014.

HSF Review

Further to work commenced previously the Board in 2014 liaised extensively with the Ministry of Finance and the Office of the Attorney General to give its position on draft amendments to the HSF Act (2007). The Board's proposals were completed in November and forwarded to the Ministry in December 2014.

Conference and Outreach

During the year the Chairman represented the Fund at an international conference in Mexico City in May 2014 on National Asset Liability Management in the Americas, hosted by Central Banking Publications. This conference focused on a myriad of issues including the challenges facing Sovereign Wealth Funds in managing volatile capital flows and risks in a post-crisis world.

In recognition of the fact that there are other national institutions which, like the HSF, are engaged in investment of financial assets abroad, the Board took the decision to explore areas of cooperation among them, especially in the building of domestic capacity in the interest of better protection of the resources of the Government and people of Trinidad and Tobago. This cooperation must be without compromise to the mandate of these institutions in respect of their fiduciary responsibilities.

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 eight ordinary meetings during the financial year 2013/2014. Additionally, two special meetings were held during April 2014 with the Ministry to discuss further proposed amendments to the HSF Act (2007).





Investment Report

Executive Summary

The financial year ended September 30, 2014 was yet another positive year in the history of the Heritage and Stabilisation Fund. The Fund's strong performance was attributed primarily to rallying of equity markets globally, especially in the United States (US), where the S&P 500 rose to record highs. A continuation of accommodative monetary policies by the major central banks, particularly the Bank of Japan (BOJ) and the European Central Bank (ECB), and geopolitical risk in Russia, Ukraine and the Middle East resulted in declining global sovereign yields in the US, Europe and Japan.

Markets were slightly less volatile during the 2013/2014 financial year when compared to the previous year. As in the previous year, markets continued to be impacted to a large extent by the actions of the major central banks, and in the case of the US, by the markets' expectations with respect to these actions. Across the developed economies, noteworthy improvements to the economic landscape occurred in the US and the United Kingdom (UK) while softening economic

data and a loss of momentum plagued the Euro zone and Japan. As a result, there was a divergence in monetary policy among these countries with the US and UK contemplating the end of the monetary easing cycle while the Euro zone and Japan pursued further stimulus.

For the financial year 2013/2014, the Fund returned 7.7 per cent, compared with gains of 5.6 per cent for the strategic asset allocation (SAA) benchmark. The equity portion of the Fund contributed approximately 5.8 per cent to the total return, while the fixed income portion added 1.8 per cent to total return. Among the four mandates, the US Core Domestic Equity portfolio had the strongest performance, producing an absolute return of 18.6 per cent. The Non-US Core International Equity portfolio also posted a solid gain of 9.2 per cent.

As at the end of September 2014, the Fund's Net Asset Value stood at US\$5,533.4 million, up from US\$5,154.0 million as at the end of September 2013. During the financial year, there were no contributions made to the Fund.



1. Macroeconomic Environment

The global economy showed continued growth in 2014, led by the advanced economies of the United Kingdom (UK) and the United States (US), while the Euro Area showed a very mild continued recovery and Japan returned to a recession. Central bank policies dominated the headlines during the year, with a growing policy divergence between countries where policy makers are coming to the end of their monetary easing cycles and those seeking to implement further stimulus in the hope of fuelling economic expansion. Of particular focus were the expectations surrounding the timing of the first policy rate increase in both the US and the UK while in the Euro zone and Japan, additional stimulus measures were widely anticipated. Persistently low levels of inflation across developed economies were also a major area of concern during the year.

In its October 2014 World Economic Outlook, the International Monetary Fund (IMF) lowered its projection for global growth in 2014 and 2015 to 3.3 per cent and 3.8 per cent, respectively. Emerging and developing economies are now forecast to grow by 4.4 per cent in 2014, while in the advanced economies, activity is projected to expand by 1.8 per cent.

The US economic recovery remained on track during the 2013/2014 financial year. The underlying strength of the economy proved resilient as it contended with weather related disruptions, bouts of geopolitical risk and global growth concerns. In its October 2014 World Economic Outlook, the

IMF projected that the US will expand by 2.2 per cent in 2014 and 3.1 per cent in 2015.

After considerable speculation, the Federal Reserve (Fed) began tapering its monthly bond buying programme in December 2013, and continued to reduce its bond purchases at a steady pace throughout 2014. While inflationary pressures remain subdued, labour market conditions improved markedly, with the unemployment rate falling from 7.2 per cent in October 2013 to 5.9 per cent as of September 2014.

At its October 2014 meeting, the Federal Reserve ended its quantitative easing programme citing “substantial improvement in the outlook for the labor market”. The Committee reiterated that it would maintain low rates for a “considerable time”, however, the uncertainty around the timing of the first rate hike, as well as the future path of interest rates thereafter, may result in significant market adjustments during 2015. Market expectations with respect to interest rate increases remain below the Fed’s forecast.

The Euro zone emerged from recession in mid-2013 and struggled during the twelve months ended September 30, 2014 to maintain positive economic growth as the recovery remained fragile. As the year progressed, growth in the periphery, outstripped that of the core with bright spots in Spain, Ireland and the Netherlands, while





Investment Report (continued)

the traditional drivers of growth in the region, Germany and France, faced significant headwinds due to weather-related factors combined with a sharp fall in exports, stemming from sanctions against Russia. In its October 2014 World Economic Outlook, the IMF reduced its GDP forecast for the Euro area by 0.3 per cent to 0.8 per cent for 2014. Inflationary pressures in the region eased further during the year, reaching its lowest level in five years, thus posing a concern for the European Central Bank (ECB) which anticipated that inflation would remain subdued over the medium term. The increasing threat of outright deflation was and continues to be of immense concern to policymakers and markets. Markets were therefore on constant watch for further monetary easing by the ECB.

The tepid economic recovery and persistently low inflation prompted the ECB to respond, cutting its main refinancing rate and lowering its deposit rate to negative -0.20 per cent in addition to unveiling a targeted loan plan directed at reviving lending in the region in the pursuit of expanding credit conditions. Throughout the year, comments by the Governing Council served to reaffirm its commitment to maintaining a high degree of monetary accommodation and to acting swiftly if required. This included a willingness to consider further stimulus if inflation remained at current low levels in addition to plans to purchase asset-backed securities and covered bonds.

During the twelve months ended September 30, 2014, the United Kingdom (UK) economy continued on the path of positive growth that it enjoyed in the previous year, expanding at a faster



Investment Report (continued)

rate than both the US and the rest of Europe. The UK economy, exceeded expectations, with unemployment ending the period at 6 per cent, well below 7 per cent, which was widely believed to be the Bank of England's (BOE) trigger for increasing its benchmark interest rate. In its October 2014 World Economic Outlook, the IMF maintained its GDP forecast for the UK which projects the economy to expand by 3.2 per cent in 2014.

Inflationary pressures in the UK declined steadily during the year, falling below the BOE's inflation target for the first time in four years. Pricing pressures remained subdued due in part to lower food prices, fuel costs and air fares.

Despite the strong recovery, below target inflation has allowed the BOE to keep rates at record low levels. During the year, the Bank of England kept the policy rate and the size of its asset purchase programme unchanged. In September, the Bank of England Governor, Mark Carney, signaled that the time for a rate rise is nearing, but the exact date will depend on the data. UK policymakers have expressed concerns about the slowdown in Europe, and the absence of inflationary pressures in the UK. Many investors were expecting an interest rate increase around spring 2015, but the dovish tone of the monetary policy meeting minutes suggests a possible delay in increasing the policy rate.

In Japan, the initial optimism surrounding Prime Minister Shinzo Abe's plans to end the country's deflationary mindset and raise long term potential growth waned, as the economy struggled to

regain momentum in the wake of the first planned increase in the consumption tax. The April sales tax hike coupled with lower real wages diminished demand and dampened consumer spending in the second half of the 2013/2014 financial year. The Japanese economy technically entered a recession, as GDP contracted in the second and third quarter of 2014. While a weaker Yen helped exports to grow modestly, it was not enough to compensate for the significant drop in private consumption. In its October 2014 World Economic Outlook, which was released on October 7, the IMF reduced its GDP forecast for Japan by 0.7 per cent to 0.9 per cent for 2014.

Despite the data, the Bank of Japan (BOJ) remained upbeat on Japan's outlook and continued to express confidence in its ability to achieve its 2.0 per cent inflation target. However, inflation slowed to 1.0 per cent in September, and the prospect of lower inflation expectations may have prompted the Bank of Japan Governor Haruhiko Kuroda to provide additional stimulus at October's policy meeting.

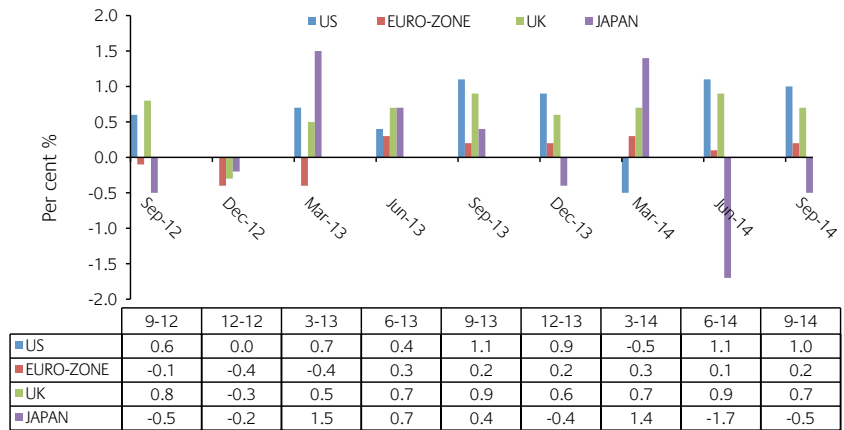
Policy makers surprised markets by announcing plans to expand its monetary base by 80 trillion yen annually, up from 60 to 70 trillion yen. The action was approved by a narrow margin and may limit the potential for additional monetary easing in the future. In addition to signaling the bank's "unwavering determination to end deflation", Governor Kuroda may have also been influenced by the upcoming decision regarding the implementation of the second tax increase in October 2015.





Investment Report (continued)

**CHART 1: GDP GROWTH: SELECTED DEVELOPED ECONOMIES
QUARTER OVER QUARTER**



Source: Bloomberg.
September 2014 data are preliminary and may be subject to revisions.

CHART 2: UNEMPLOYMENT RATES: SELECTED DEVELOPED ECONOMIES

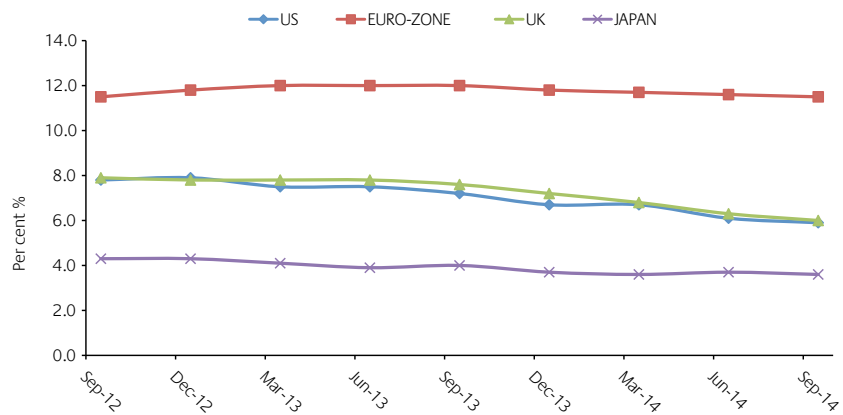
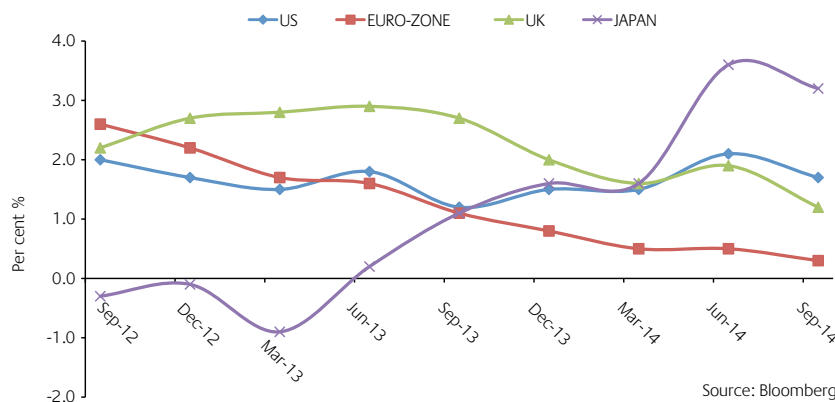


CHART 3: INFLATION RATES: SELECTED DEVELOPED ECONOMIES YEAR-ON-YEAR



Source: Bloomberg.

2. Financial Market Review

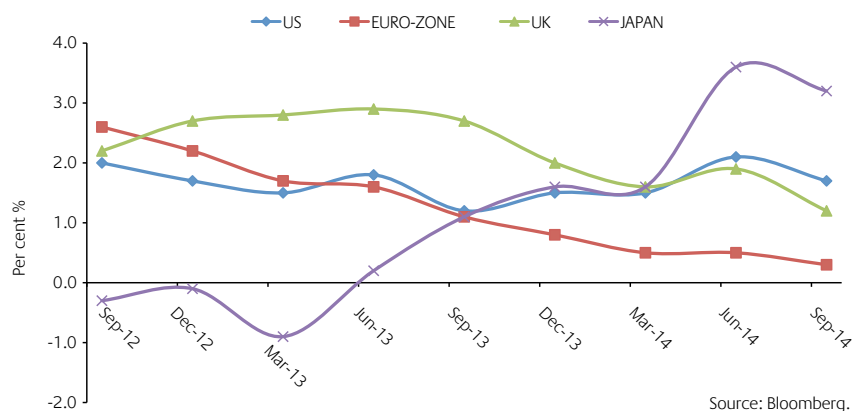
During the financial year ending September 30, 2014 fixed income investors benefitted from falling benchmark 10-year yields in many G-10 countries. Heightened geopolitical risks, improving economic conditions in the US and UK, growth concerns in China, Japan and the Euro zone, in addition to further accommodative monetary policies in Japan and Euro zone, impacted markets. During the review period fixed income asset classes generally enjoyed positive returns for most of the year, while equity markets rallied to new highs despite a difficult final quarter.

In the US, the Standard and Poor's (S&P) 500 index once again forged on to reach new record highs, while equity markets in other developed markets also posted strong returns. As in 2013, Japan was the best performing

non-US developed market as the Nikkei 225 index advanced by 11.88 per cent for the year ended September 2014.

The Chicago Board Options Exchange Volatility Index (VIX), a widely used measure of market risk, often referred to as the "investor fear gauge", pointed to a slightly lower overall level of volatility on average in the US during the financial year, when compared to the previous year. Over the twelve month period ended September 30, 2014, the index averaged 13.71 points. The VIX reached a high of 21.44 points in the beginning of February, as concerns about currency crises in Argentina and Turkey at the time, and lagging manufacturing data from China dragged down equity markets globally.

CHART 3: INFLATION RATES: SELECTED DEVELOPED ECONOMIES YEAR-ON-YEAR





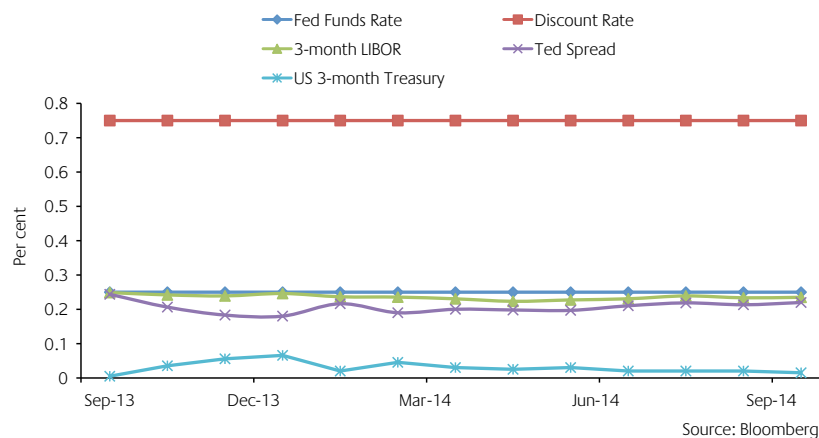
Investment Report (continued)

(a) Money Market

Persistently low yields characterised money markets over the financial year ended September 2014 as the central banks in the advanced economies maintained their accommodative monetary policy stance. The Federal Funds rate remained in the range 0 to 0.25 per cent for the twelve-month period, while short-term rates fluctuated somewhat during the year but remained low. The US 3-month London Inter-Bank Offered Rate (LIBOR) declined slightly to 0.24 per cent, from 0.25 per cent in September

2013, while the US 3-month Treasury bill rate increased from 0.005 per cent at the end of September 2013 to 0.015 per cent at the end of September 2014 as rates crept up in anticipation of the Federal Reserve hiking rates possibly in mid-2015. Accordingly, the TED spread, which represents the difference between the 3-month US Treasury bill rate and the 3-month LIBOR rate, narrowed to 21.99 basis points from 24.38 basis points over the financial year (Chart 5 below, refers).

CHART 5: SELECTED MONEY MARKET RATES IN THE US
/per cent/



(b) Fixed Income Market

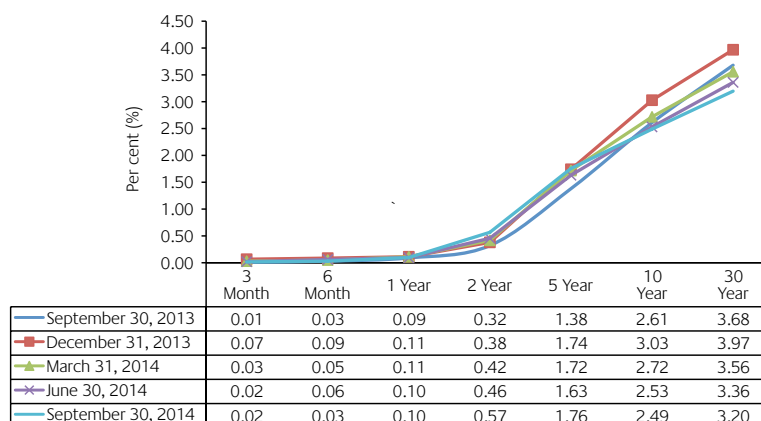
US Treasury Fixed Income investors encountered uncertain markets at the start of the financial year, due to the contentious political debates around the US federal budget and debt ceiling levels which impacted the short end of the curve. As the December 2013 quarter progressed, improving U.S. economic data and the Federal Reserve's positive economic outlook, combined with expectations of a modest reduction in the Fed asset purchase program helped to push medium to long-term yields higher resulting in negative returns for the quarter for the US fixed income markets.

In 2014 however, US Treasury Fixed Income investors benefited from positive returns as the majority of the yield curve declined, this as the Federal Reserve tapered its asset purchase program. In addition, geopolitical

risks in Ukraine and Russia and the continued possibility of a slowdown in China increased investor risk aversion and pushed investors to seek safe haven assets in the form of US Treasuries.

In the final quarter of the financial year, heightened anxiety about the timing of the Fed's first rate hike and the volatile geopolitical landscape resulted in significant rate movements. Geopolitical tensions, deteriorating fundamentals in Europe and falling global bond yields increased the appeal of long-dated U.S. treasuries. However, yields in the 2-7 year portion of the curve increased modestly, reflecting fears that the Fed may increase rates earlier than anticipated. At the short-end of the curve, quarter-end funding pressures coupled with a limited supply of short-term safe assets resulted in lower yields.

CHART 6: US Treasury Yield Curve





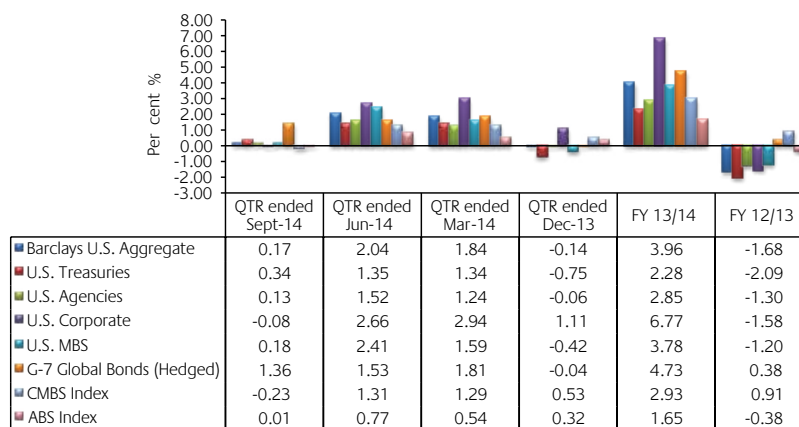
Investment Report (continued)

Fixed income markets posted an improved performance for the financial year 2013/2014 when compared to the previous year which was characterised by negative returns for this asset class. The broader US fixed income market, as represented by the Barclays US Aggregate Index¹, generated a total return of 3.96 per cent for the year ending September 30, 2014. Spread products generally outperformed similar-duration Treasuries with the top performing sector, US Corporates,

returning 6.77 per cent, compared with a loss of 1.58 per cent in the previous year. Other noteworthy performances were the G-7 global bonds which returned 4.73 per cent and US Mortgage Backed Securities which returned 3.78 per cent.

¹ A market-value-weighted index of taxable investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage backed securities, with maturities of one year or more.

CHART 7: Returns on Fixed Income Indices



The sovereign bond yields of the other G7 countries generally fell over the year, except for an increase in the first quarter of the financial year when positive economic data coupled with the U.S. Fed announcement that tapering would begin in January 2014, generally pushed rates higher. For the remainder of the period disappointing economic data in various markets in addition

to rising geopolitical risks in Ukraine and Russia generally pushed rates lower.

Italian 10-year rates declined the most among the G-7 nations over the financial year, falling by 209 basis points as yields ended the year at 2.33 per cent. A more stable political situation in Italy and the European Central Bank expanding its easy monetary policies helped to drive Italian yields lower. German 10-year

Investment Report (continued)

yields remain at depressed levels ending the year at 0.95 per cent falling 83 basis points over the year, while French yields fell by 114 basis points to close the year at 1.81 per cent. UK Gilt yields fell by 30 basis points to 2.72 per cent at the end of September 2014, as broader global macro concerns weighed on yields in addition to the forward guidance from the Bank of England, which stated that

interest rate increases will be dependent on a variety of factors including unemployment and that the rate hikes will not threaten the ongoing recovery. Meanwhile, yields on 10-year Japanese bonds (JGBs) fell by 23 basis points to end the period at 0.68 per cent, as the Bank of Japan continued its accommodative monetary policy.

(c) Equity Market

Global equity markets posted a strong performance over the financial year ended September 2014, enjoying positive returns albeit below those experienced during the prior year.

Returns in the US markets peaked in the fourth quarter of 2013 as equity markets reacted to favourable economic developments throughout the developed world and recovered from the partial US government shutdown and debt ceiling debates. In the first quarter of 2014, equity markets were volatile posting significantly lower returns than the previous quarter as investor risk appetite declined given worsening tensions between Russia and Ukraine in addition to adverse weather conditions in the US. Returns rebounded somewhat in the quarter ended June 2014 before suffering a significant sell-off in the final quarter of the financial year as a result of turmoil in various parts of the world. Generally throughout the year, large

cap companies outperformed small cap companies.

During review period, global equity markets did not fare as well as their US counterparts. The strongest non-US market was Japan which benefitted from coordinated efforts by the Japanese government and the Bank of Japan to increase inflation and spur sustainable economic growth. This was despite the introduction of the Japanese consumption tax increase which negatively impacted growth, consumer confidence and Japanese stocks during the first quarter of 2014. Japanese stocks however ended the year on a positive note as a result of improving economic data out of China in addition to proposed changes to increase the equity allocation in the 129 trillion yen Government Pension Investment Fund. Equity markets in the Euro zone, were supported by the additional accommodative policies announced by the ECB in June. Disappointing German economic



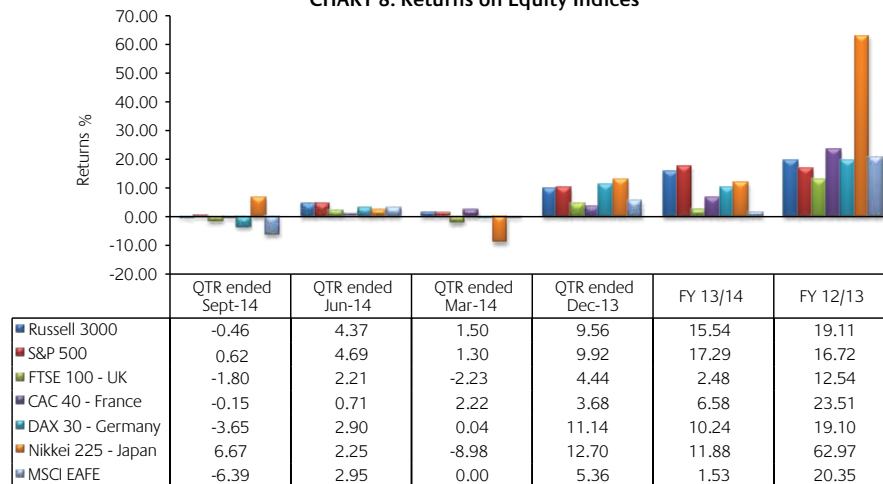
Investment Report (continued)

data however weighed on investor sentiment during the last quarter of the financial year.

For the twelve month period, the Standard and Poor's (S&P) 500 and Russell 3000 Indices increased by 17.29 per cent and 15.54 per cent, respectively, compared with gains of 16.72 per cent and 19.11 per cent, for the corresponding period one year earlier. Japan's Nikkei 225 rose 11.88 per cent, outperforming other non-US markets during the period. In

the Euro zone, the French CAC index advanced 6.58 per cent, whilst Germany's DAX 30 index returned 10.24 per cent. Returns of MSCI EAFE which are denominated in USD were negatively impacted by the strength of the US dollar in the quarter ended September 2014, falling 6.39 per cent as a result of negative currency returns given the depreciation of the Euro and the Yen. (Chart 8, refers).

CHART 8: Returns on Equity Indices



(d) Currency Market

During 2013/2014 financial year, the US dollar index strengthened by 7.62 per cent due to positive US economic data, which reflected the continued strong growth prospects particularly when compared to Europe and Japan. The US dollar index peaked at 86.33 at the end of September 2014, compared to 80.22 a year earlier.

During the first quarter of the financial year, the US Congress budget and debt-ceiling debates and the threat of a U.S. debt default placed pressure on the US dollar temporarily hurting US dollar demand. The Yen also exhibited weakness in the quarter, as markets reacted to the 5.5 trillion yen stimulus package announced in December 2013.

For the quarters, ended March and June 2014, the Yen benefitted from its safe haven status as markets reacted to geopolitical risks in Iraq, Russia and the Ukraine, and continued currency deterioration in key emerging markets. The Euro and the British Pound also appreciated, as economic conditions improved. The Euro however depreciated during the quarter ended June, in response to speculation around

the potential scope and scale of additional ECB accommodative measures

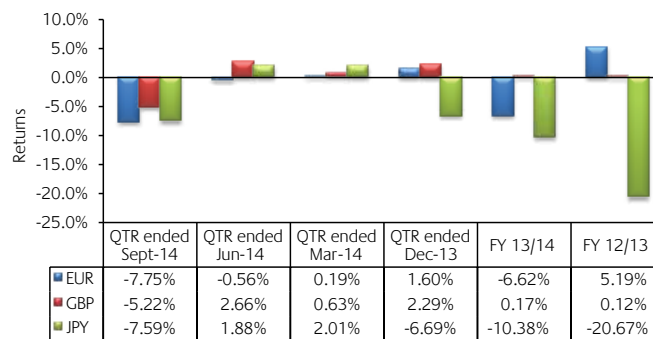
The U.S. dollar's rally against other major currencies was the main narrative in the FX markets during the third quarter. The Euro, pound and Yen all weakened relative to the U.S. dollar (USD), with the greatest depreciation occurring in September. The improving economic outlook for the U.S. and expectation that the U.S. Fed would start to raise rates by mid-2015 provided the impetus for USD strength. Meanwhile the Euro currency fell as deteriorating growth prospects and weak economic data prompted the ECB to expand its range of easy monetary policies. The depreciation of the pound was related to the Scottish independence referendum in addition to a loss of momentum in the economy alongside the stagnation in the Eurozone. The Japanese yen depreciation was influenced by Japanese investors seeking to increase their holdings of overseas stocks and bonds during the quarter in addition to softening economic data following the April sales tax increase.





Investment Report (continued)

**CHART 9: FOREIGN EXCHANGE RETURNS:
MAJOR CURRENCIES VIS-À-VIS THE US DOLLAR**
/per cent/



3. Strategic Asset Allocation

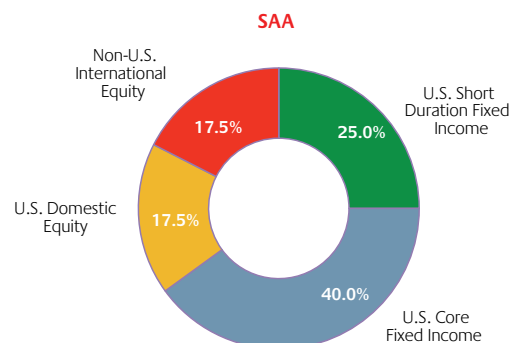
a) Portfolio Desired Allocation

In 2008, the Board of Governors approved the Strategic Asset Allocation (SAA) ² for the Fund. Given the onset of the financial crisis, the three-year implementation of the SAA was delayed until August 2009. By January 2011, the Fund's investment portfolio ³ was fully invested in the four major asset classes shown in Chart 10 below.

2 The approved Strategic Asset Allocation (SAA) is considered to be the optimal mix of assets that is expected to meet the long term investment objective of the Fund, both in terms of risk and return.

3 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 Board.

CHART 10: The Fund's Strategic Allocation



c) Portfolio Composition

During the financial year ended September 2014, the asset classes of the Fund deviated from their Strategic Asset Allocation (SAA) and at certain times these deviations were outside the allowable range (+/- 5 per cent) stipulated in the investment policy statement. Such deviations occurred as a result of changes in assets' market values. Throughout the financial year, the Fund had an overweight allocation to US Core Domestic Equities and Non-US Core International Equities.

The specific months in which the deviations outside the allowable range occurred were as follows:

- December 2013: US Core Fixed Income Mandate deviated from its SAA allocation by -5.20 per cent.
- February 2014: US Core Fixed Income Mandate deviated from its SAA allocation by -5.09 per cent.
- March 2014: US Core Domestic Equity Mandate deviated from its SAA allocation by +5.06 per cent.
- May 2014: US Core Domestic Equity Mandate deviated from its SAA allocation by +5.05 per cent.
- June 2014: US Core Fixed Income Mandate and the US Core Domestic Equity Mandate deviated from their SAA allocations by -5.07 and +5.05 per cent respectively.
- July 2014: US Core Domestic Equity Mandate deviated from its SAA allocation by +5.15 per cent.

During the month of August 2014, the portfolio was re-balanced to within the permitted SAA range for each of the mandates. A total of US\$202.6 million was withdrawn from the two equity mandates and deposited with the two fixed income mandates by the end of August 2014.

As at September 30, 2014, the overweight allocations to the US Core Domestic Equities and Non-US Core International Equities were 3.83 per cent and 1.18 per cent respectively. Conversely, the fixed income asset classes carried allocations below their target weights, specifically 2.48 per cent for US Core Fixed Income and 2.53 per cent for US Short Duration Fixed Income.

The Fund's SAA and the portfolio composition over the 2013/2014 financial year are shown below (Table 1, refers).



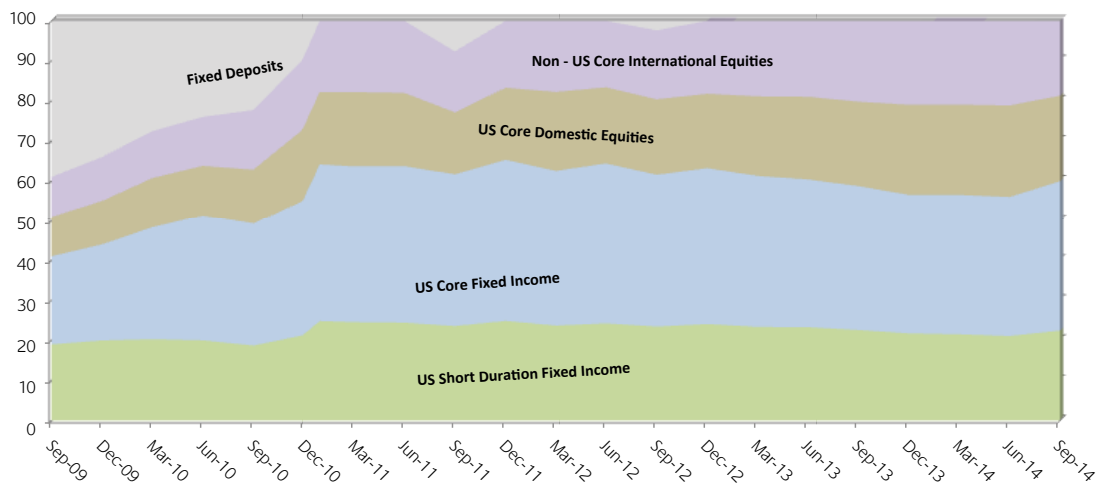


Investment Report (continued)

Table 1
PORTFOLIO COMPOSITION RELATIVE TO THE APPROVED SAA
 /per cent/

Portfolio Weights	Asset Class		Dec-13	Mar-14	Jun-14	Sept-14
		Target Weight SAA	Actual % of Fund	Actual % of Fund	Actual % of Fund	Actual % of Fund
	Cash	0.00	0.00	0.00	0.00	0.00
	US Short Duration Fixed Income	25.00	21.76	21.53	21.09	22.47
	US Core Domestic Fixed Income	40.00	34.80	35.01	34.93	37.52
	US Core Domestic Equity	17.50	22.49	22.56	22.87	21.33
	Non-US Core International Equity	17.50	20.95	20.90	21.12	18.68

CHART 11: ASSET COMPOSITION OF THE HSF PORTFOLIO
 /per cent/



Investment Report (continued)

d) Fund Value

As at September 30 2014, the Fund's Net Asset Value stood at US\$5,533.4 million, compared with US\$5,154.0 million as at the end of September 2013. The increase in the value of the Fund reflected positive investment returns.

4. Portfolio Performance

Over the financial year ended September 2014, the Fund's investment portfolio gained 7.7 per cent, compared with returns of 5.6 per cent for the SAA benchmark. The strong performance of equity markets, particularly US Core Domestic equities, was the main driver of the overall portfolio return. The fixed income portion, added 1.8 per cent to the overall portfolio performance.

Table 2
CONTRIBUTION TO ANNUAL RETURN FY 2013/2014
/per cent/

	Percentage of Portfolio as at September 30, 2014	Portfolio Weighted Return	Benchmark
COMPOSITE PORTFOLIO	100.00	7.65	5.60
FIXED INCOME:			
• US Short Duration Fixed Income	22.47	0.21	0.16
• US Core Fixed Income	37.52	1.59	1.57
EQUITY:			
• US Core Domestic Equity	21.33	3.83	3.06
• Non US Core International Equity	18.68	1.90	0.76

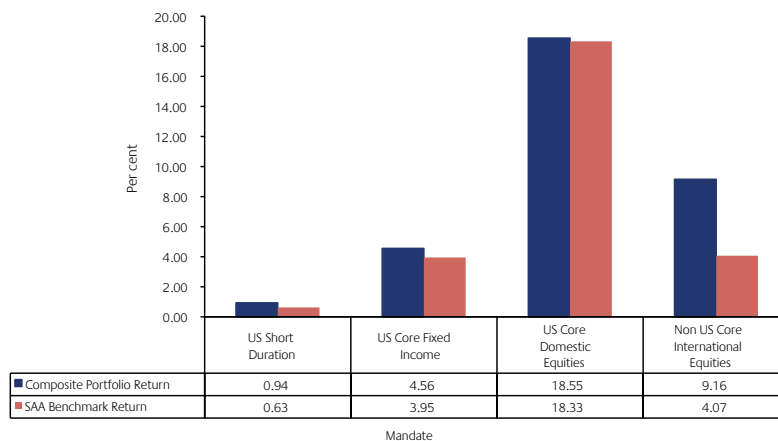
** Portfolio and Benchmark returns may not sum to the Composite Return as they geometrically-linked.





Investment Report (continued)

CHART 12: ABSOLUTE RETURNS BY ASSET CLASS
FY 2013/2014
 /per cent/



The Equity portion of the Fund posted yet another strong performance over the financial year ended September 2014 as ongoing monetary stimulus measures by the major central banks fuelled investor optimism and appetite for risk, and US economic data showed that the economy continued to strengthen. The US equity portfolio generated double-digit returns. As at September 30, 2014, the net asset value of the equity holdings were US\$2,213.2 million, compared with a value of US\$2,124.7 million one year earlier. This change in value reflected in part, the rebalancing process which occurred at the end of August 2014, in which \$202.6 million was transferred from these mandates to the fixed income mandates.

The US Core Domestic Equity portfolio gained 18.6 per cent, compared with a return of 18.3 per cent for its benchmark, the Russell 3000 ex Energy Index.

This outperformance of the portfolio relative to its benchmark was as a result of sector allocation decisions. Allocations to the Technology, Consumer Discretionary and Materials & Processing sectors proved beneficial to overall portfolio returns.

The other equity mandate, the Non-US International Equity portfolio, returned 9.2 per cent to outperform the MSCI EAFE ex Energy Index, which returned 4.1 per cent. Excess returns can mainly be attributed to favourable security selection decisions and currency hedged allocations over the financial year. Country allocations to Norway and Finland were especially beneficial to the portfolio.

The Fixed Income portion of the Fund rebounded from its negative performance in the prior financial year to post positive returns and also outperform its benchmark in 2013/2014. US Treasury yields between the 2-year and 10-year segment of the

Investment Report (continued)

curve increased, while longer term yields declined over the financial year. In spite of medium term yield curve increases, spread products outperformed like-duration Treasuries over the period. As at the end of September 2014, the net asset value of the two fixed income mandates totaled US\$3,318.8 million, up from US\$3,027.4 million one year earlier. This increase in value reflected in part, the rebalancing process which occurred at the end of August 2014, when \$202.6 million was transferred to this mandate from the equity mandates.

The US Short Duration Fixed Income mandate returned 0.9 per cent, compared with a gain of 0.6 per cent for its benchmark, the Bank of America Merrill Lynch 1-5 year US Treasury Index. The out-performance of the portfolio relative to its benchmark was attributed to the portfolio's exposure to German Bunds as yields fell in Germany and exposure to spread products (mortgage backed securities) as spreads generally tightened over the financial year.

The other fixed income mandate, the US Core Domestic Fixed Income portfolio, gained 4.6 per cent over the financial year ended September 2014. This compares favourably to a return of 4.0 per cent for its benchmark, the Barclays Capital US Aggregate Bond Index.

The portfolio's exposure to the commercial mortgage backed securities and corporate bonds were the primary contributors to excess returns, as sector allocation was integral to excess returns over the financial year. Additionally, security selection in the securitized sector (mortgage backed securities, and mortgage pass-throughs) was also positive.

The Fund received no cash contributions during the financial year. The cash balance held to meet the day-to-day expenses arising from the management of the Fund, amounted to US\$1.5 million as at September 30, 2014.





Investment Report (continued)

5. Outlook & Risks to the Portfolio

Over the upcoming financial year, the portfolio's investment managers will implement various strategies depending on the asset class they are overseeing, in the context of current and anticipated market conditions. The key risks facing the fixed income portfolios stem from the commencement and speed at which the Federal Reserve (the Fed) conducts its monetary policy hiking process (increasing its benchmark interest rate) in addition to monetary easing by other major central banks, which include the European Central Bank and the Bank of Japan.

Given that US equities are no longer buoyed by the purchase of US Treasuries by the Fed, as the most recent quantitative easing program was wrapped up in the fourth quarter of 2014,

the strength of US equities going forward will depend on the financial strength of the US consumer and US corporations in addition to the continued overall improvement of the US economy as a whole.

The continued tensions in Russia and the Middle East and its effects on energy prices continue to weigh on markets globally. The possibility of a hard landing in China, as its economic growth begins to slowdown, is also at the forefront for the international equity investor. Finally the divergence in economic strength between developed markets (the US vs Europe and Asia), is also a cause for concern as investors may seek to invest in the region with better overall growth prospects and economic stability.

6. Portfolio Risks

The main risks for the HSF portfolio are Credit, Concentration, Interest rate, and Currency risks. The exposition below indicates how these risks are mitigated.

(a) Credit Risk

For the money market portion of the Fund, credit risk is minimized 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; 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 implied investment grade rating as defined by Standard and Poor's, Moody's

Investment Report (continued)

or Fitch. 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. 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. The Asset classes in which the Fund invests react differently under a given market condition.

As such, it is likely that when one asset class has strong returns, another may have lower returns. The Fund’s investments are also diversified across a number of assets with the aim of securing a positive return under a range of market conditions and to lower the total risk of the portfolio. In addition, Concentration Risk is minimised within asset groups. 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, with an allowable range of one (1) year longer or shorter than the weighted average duration of the respective benchmarks. Table 3 shows the weighted average duration for the US Short Duration and US Core Domestic Fixed Income portfolios as at September 30, 2014.

Table 3
WEIGHTED AVERAGE DURATION
/Years/

Mandate	Portfolio	Benchmark
US Short duration	2.36	2.70
US Core Domestic Fixed Income	4.92	5..36

(d) Currency Risk

Currency risk is managed by containing and managing the exposure to non-US dollar instruments. The Fund is invested in twelve currencies in addition to the US dollar. These currencies include the Euro, Japanese Yen, Pound Sterling, Australian dollar, Swiss Franc dollar and



Investment Report (continued)

Swedish Krona. For the Fixed Income and US Core Domestic Equity 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.

The Non-US Core International Equity Portfolio is comprised primarily of non-

US dollar denominated securities, and the Fund accepts the currency risk inherent in the relevant benchmark. For this mandate, currency hedging is permitted up to 15 per cent of the market value of the portfolio using the US dollar as the base currency.

Table 4
IMPLIED CURRENCY EXPOSURE

CURRENCY	Per Cent
US DOLLAR	82.05
EURO CURRENCY	5.43
JAPANESE YEN	4.40
POUND STERLING	2.95
SWISS FRANC	1.17
AUSTRALIAN DOLLAR	1.06
SWEDISH KRONA	0.71
DANISH KRONE	0.70
NORWEGIAN KRONE	0.57
HONG KONG DOLLAR	0.36
CANADIAN DOLLAR	0.20
ISRAELI SHEKEL	0.19
SINGAPORE DOLLAR	0.08
NEW ZEALAND DOLLAR	0.07
NEW ISRAELI SHEQEL	0.06
COMPOSITE TOTAL	100.00

Appendices

Appendix I
HERITAGE AND STABILISATION FUND
FINANCIAL YEAR PORTFOLIO VALUATION
/USD/

Valuation Date	Net Asset Value	Financial Year Income	Accumulated Surplus & Unrealised Capital Gains/Losses	Contributions
September 30, 2007	1,766,200,701	42,217,837	41,966,361	321,706,043
September 30, 2008	2,888,421,556	67,894,134	110,379,131	1,054,174,457
September 30, 2009	2,964,686,478	35,807,757	186,755,766	-
September 30, 2010	3,621,984,041	88,381,935	364,361,226	477,344,263
September 30, 2011	4,084,016,158	179,748,798	374,074,067	451,400,519
September 30, 2012	4,712,376,278	125,221,977	794,770,772	207,550,846
September 30, 2013	5,154,027,747	312,776,304	1,193,778,722	42,519,782
September 30, 2014	5,533,325,279	392,680,521	1,572,945,746	-





Appendices (continued)

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

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%).



**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 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



Statement of Financial Position

As at 30 September, 2014 (expressed in United States Dollars)

	Note	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	<u>285,123,292</u>	<u>232,120,115</u>
TOTAL ASSETS		<u>5,882,188,025</u>	<u>5,455,280,376</u>
LIABILITIES			
Current liabilities			
Accounts payable	8	352,132,846	304,627,587
Financial liabilities	9	156,741	-
Bank overdraft	4	<u>78,626</u>	<u>-</u>
TOTAL LIABILITIES		<u>352,368,212</u>	<u>304,627,584</u>
NET ASSETS		<u>5,529,819,813</u>	<u>5,150,652,789</u>
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		<u>1,239,635,465</u>	<u>846,954,944</u>
TOTAL EQUITY		<u>5,529,819,813</u>	<u>5,160,652,789</u>

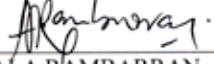


 RALPH HENRY
 (Chairman)




 RAMCHARAN KALICHARAN





 JWALA RAMBARRAN



 VISHNU DHANPAUL

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

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		398,043,316	316,546,584
Other income		116,809	146,741
Total income		398,160,125	316,693,325
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		1,660,108	1,511,236
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		392,680,521	312,776,304
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		(13,513,497)	86,231,646
Total comprehensive income for the year		379,167,024	399,007,950

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



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 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.

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	32,776,304
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		(1,435,735)	-
Net realised gain from the sale of investments		<u>(286,273,735)</u>	<u>(219,087,839)</u>
Cash outflows before changes in operating assets and liabilities		(31,582,999)	(29,615,023)
Changes in operating assets and liabilities (Increase)/decrease in accounts receivable		(52,279,273)	536,865,845
Increase/(decrease) in accounts payable		<u>47,505,258</u>	<u>(561,718,470)</u>
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		<u>288,624,387</u>	<u>219,034,178</u>
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		-	42,519,482
Net cash flows from financing activities		-	<u>42,519,482</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		<u>167,772,022</u>	<u>309,586,644</u>
Cash and cash equivalents, end of year	4	<u>288,586,545</u>	<u>167,772,022</u>

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



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 (continued)

For the Year ended 30 September, 2014 (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 (continued)

For the Year ended 30 September, 2014 (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 (continued)

For the Year ended 30 September, 2014 (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.

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



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2014 (expressed in United States Dollars)

2. Accounting Policies (continued)

e) Investments (continued)

iii. Fair value measurement/estimation (continued)

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.

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)).

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2014 (expressed in United States Dollars)

2. Accounting Policies (continued)

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.

l) Accounts payable

Accounts payable are stated at their expected amounts.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2014 (expressed in United States Dollars)

2. Accounting Policies (continued)

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 (continued)

For the Year ended 30 September, 2014 (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 (continued)

For the Year ended 30 September, 2014 (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 (continued)

For the Year ended 30 September, 2014 (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 Month 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	0.1%	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 (continued)

For the Year ended 30 September, 2014 (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.

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 (continued)

For the Year ended 30 September, 2014 (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 (continued)

For the Year ended 30 September, 2014 (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 (continued)

For the Year ended 30 September, 2014 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk (continued)

Market 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	Merrill Lynch US Treasury 1-5 Year Index	US Short Duration Mandate	Merrill 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 (continued)

For the Year ended 30 September, 2014 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk (continued)

Market 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%
Commercial 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 (continued)

For the Year ended 30 September, 2014 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk (continued)

Market 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%



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2014 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk (continued)

Market Risk (continued)

c. Price Risk (continued)

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 (continued)

For the Year ended 30 September, 2014 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk (continued)

Market 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.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2014 (expressed in United States Dollars)

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	<u>285,217,513</u>	<u>160,482,227</u>
	288,712,451	167,756,211
Net effect of exchange rate changes	<u>(47,280)</u>	<u>15,811</u>
	288,665,171	167,772,022
Bank overdraft	<u>78,626</u>	<u>—</u>
	<u>288,586,545</u>	<u>167,772,022</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 (continued)

For the Year ended 30 September, 2014 (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>5,308,399,562</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	-
	<u>1,709,879</u>	<u>-</u>
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 (continued)

For the Year ended 30 September, 2014 (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			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets				
Asset backed securities	-	128,005,102	-	128,005,102
Collateralised 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
	<u>-</u>	<u>3,129,791,882</u>	<u>-</u>	<u>3,129,791,882</u>
Fixed income				
Common stock	2,122,375,499	272,402	-	2,122,647,901
Depository receipts 1	2,795,550	-	-	2,795,550
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
	<u>2,176,625,399</u>	<u>272,402</u>	<u>-</u>	<u>2,176,897,801</u>
Equity				
Interest rate swap	-	656,086	-	656,086
Options	1,053,793	-	-	1,053,793
	<u>1,053,793</u>	<u>656,086</u>	<u>-</u>	<u>1,709,879</u>
Financial assets at fair value through profit or loss				
	<u>1,053,793</u>	<u>656,086</u>	<u>-</u>	<u>1,709,879</u>
Total investments	<u><u>2,177,679,192</u></u>	<u><u>3,130,720,370</u></u>	<u><u>-</u></u>	<u><u>5,308,399,562</u></u>

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2014 (expressed in United States Dollars)

5. Investments (continued)

(b) Fair value of investments (continued)

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 nonactive 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.

(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	<u>665,000</u>	<u>725,000</u>
	<u>2,790,000</u>	<u>1,840,000</u>



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2014 (expressed in United States Dollars)

6. Foreign Currency Concentration Exposure on Investments and Financial Liabilities

% of total investments

	Sep-14 % of investments	Sep-13 % of investments
Currency		
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	<u>81.11</u>	<u>79.65</u>
Total	<u>100.00</u>	<u>100.00</u>

% of total financial liabilities

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

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2014 (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	4,119,347
	<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	<u>(148,301)</u>	<u>—</u>
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 (continued)

For the Year ended 30 September, 2014 (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	-	156,741	-	156,741
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>

Notes to the Financial Statements (continued)

For the Year ended 30 September, 2014 (expressed in United States Dollars)

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.

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.



Design & Layout: Paria Publishing Co. Ltd.

Cover Photographs: Stephen Broadbridge

Printing: Scrip J

