



GOVERNMENT OF THE REPUBLIC OF TRINIDAD AND TOBAGO
MINISTRY OF FINANCE

The Trinidad and Tobago Heritage and Stabilisation Fund



Annual Report 2019

The New Normal



**TRINIDAD AND TOBAGO
HERITAGE AND STABILISATION FUND**

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

Since its establishment in March 2007, the Heritage and Stabilisation Fund (HSF) has made a very important contribution to economic management in Trinidad and Tobago. Above all, the Fund has significantly increased public sector savings and has constituted a secondary external buffer which has helped to boost the country's credit worthiness. In addition, by sterilising a portion of the government's foreign exchange income, deposit transfers to the HSF have facilitated demand management and alleviated inflationary pressures in the local economy.

During the period 2007 through 2013, with daily West Texas Intermediate (WTI) spot oil prices averaging US\$ 85.77 per barrel (and Henry Hub spot gas prices US\$5.06 per mmbtu) fiscal revenues from petroleum were around TT\$20 billion per year. In this period, notwithstanding significant increases in government expenditure, some US\$2.6 billion was transferred to the HSF. Together with the returns from the Fund's investments, these transfers boosted the net asset value of the Fund from a modest US\$1.4 billion in 2007 (the amount brought forward from the Interim Revenue Stabilisation Fund) to US\$ 5.2 billion at the end of 2013.

The collapse of oil prices beginning in 2014 was the start of a new era of sharply lower oil and gas prices reflecting the impact of an explosion of investment in shale. As this occurred in parallel with a steady decline in domestic oil and gas production, government fiscal revenues from petroleum declined by more than one-half to an annual average of TT\$ 14.8 billion in the period 2014-2019, thus precluding any budgetary transfers to the HSF. The challenges facing the domestic energy sector triggered a decline in economic activity, an expansion in fiscal imbalances and a significant increase in public sector indebtedness.

The energy price shock of 2014-15 slowed the growth of the HSF in the ensuing years as the decline in oil and gas prices constrained the Government's capacity to make budgetary transfers to the Fund. However, the portfolio returns of the Fund maintained the strong trend established in the earlier years, averaging 5.7 per cent annually in the period 2016-2019, compared with 5.3 per cent per year from the inception in 2007 through 2015. In FY 2019, the year under review, the

Fund registered a return of 5.10 per cent. While the main driver of the Fund's performance in recent years has been the equity portfolio, in 2019 the equity returns were sharply down because of concerns about the protracted US-China trade dispute and the Brexit uncertainty with the main contributor to the Fund being the fixed income portfolio.

In fiscal years 2016 and 2017 with public sector indebtedness edging towards unsustainable levels, the Government reduced its fiscal financing requirement by making two withdrawals from the HSF amounting to US\$ 627.6 million. However, because of the strong portfolio returns, the net asset value of the Fund continued to increase -- from US\$ 5.2 billion as at the end of 2013 to US\$ 6.3 billion as at September 2019. Despite the challenging financial market environment during the period, the Fund generated a return of 5.10 per cent for the financial year ended September 30, 2019.

In public consultations held in September 2016, many stakeholders argued that the structural changes taking place in global oil and gas markets since 2014 introduced a new normal, likely to be characterised by significantly lower petroleum prices. This, along with the uncertainties surrounding the domestic outlook for oil and gas production, suggested, it was felt, that the prospect for accumulating large surpluses in the HSF was likely to be extremely limited over the next few years. Under these circumstances, the view of many at the time was that consideration should be given to reviewing the objectives of the HSF such that it contributes to the establishment of fiscal and public debt sustainability and a resumption in economic growth.

Section 22 of the Heritage and Stabilisation Act of 2007 states that "the provisions of the Act shall be subject to a review by the Minister, who shall submit a report to the Parliament every five years". However, in the twelve years of the Fund's existence, there has not been a comprehensive review by the Parliament. In light of the changes in the external and domestic environment discussed above, a review of the objectives and the operational mechanisms of the HSF Act of 2007, as required by the law, would now seem to be an urgent imperative.



Board of Governors



Mr. Ewart Williams
– Chairman



Dr. Alvin Hilaire
– Member



**Mrs. Suzette
Taylor Lee-Chee**
– Member



Mr. Bevan Narinesingh
– Member



Dr. Dorian M. Noel
– Member
(from May 17, 2019)



**Mrs. Judith
Morrain-Webb**
– Member
(up to April 19, 2019)

Ms. Sharon Mohammed
– Senior Business Analyst
performing the functions of
Corporate Secretary to the Board



Governance

The Board of Governors

- The Heritage and Stabilisation Fund Act (the 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.
- 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 the 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 petroleum 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 amounts 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 Annual Report 2018 and the Audited Financial Statements for the period ending September 30, 2018 were presented to the Parliament in January 2019.

Deposits/Withdrawals to the Fund

There were no deposits nor were there any withdrawals from the Fund during the 2018/19 financial year.

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 (8) Ordinary Meetings during the financial year 2018/19.



Investment Report

Executive Summary

For the financial year 2019, the Fund generated a return of 5.10 per cent. This performance compares favourably to the 3.79 per cent earned during the previous year.

The Fund's performance during the financial year was primarily due to its US fixed income mandates, which registered an annual return of 5.30 per cent. These investments benefitted from the declining interest rate environment, which pushed bond prices higher during the year. The Fund's US equity investments contributed 0.79 per cent (or 79 basis points) to its overall performance. In general, equity markets were negatively impacted by the protracted US-China trade dispute. Better than expected economic numbers, however, kept the equity market in the positive territory for the period as a whole.

Investments in non-US equity markets seriously detracted from the overall performance of the Fund, Non-US equity investments contributed a negative return of 0.93 per cent (or 93 basis points) for the period. This performance was generated in a market environment that was quite challenging for active fund management. The protracted US-China trade negotiations, Brexit uncertainty and political unrests in Asia, in particular Hong Kong, served to push non US equity markets lower during the financial year.

Although the Fund returned 5.10 per cent for the financial year, its performance trailed that of its Strategic Asset Allocation (SAA) benchmark by 1.44 per cent (or 144 basis points). This under-performance could be attributed to (1) on average, the portfolio held less fixed income assets, which performed better, than included in the benchmark and (2) many managers had a worst performance than the benchmark, in part, due to stock selection. With respect to the former, the US equity (proxied Russell 3000 Index) and the non US equity (proxied MSCI EAFE Index) returned 2.91 per cent and negative 0.87 per cent, respectively, for the financial year. In comparison, the US fixed income market, proxied by the Barclays US Aggregate, returned 10.30 per cent over the same period. As regard the latter, on average, the worst performing managers were in the equity mandates and specifically within the Fund's Non-US Core International Equity mandate. This mandate underperformed its benchmark (MSCI EAFE ex Energy index) by negative 4.57 per cent, returning negative 5.05 per cent for the financial year.

As at the end of September 2019, the Fund's Net Asset Value stood at US\$6,255.3 million, up from US\$5,965.8 million one year earlier. During the financial year, there were no contributions to or withdrawals from the Fund.

Fund Highlights



**US\$6,255.3
million**

Net Asset Value (September 30, 2019)



**US\$2,554.6
million**

Cumulative Contributions by the Government (as at September 30, 2019)



**US\$627.6
million**

Cumulative Withdrawals by the Government (as at September 30, 2019)



5.10%

1 Year Return to September 2018



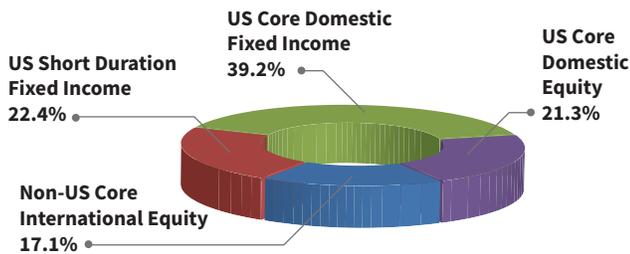
5.44%

Since Inception Return to September 30, 2019 (annualised)



Investment Report (continued)

Portfolio composition as at September 30, 2019



Macroeconomic Environment

Global economic growth slowed during the financial year ended September 2019 (see Chart 1). Increasing headwinds from the protracted trade dispute between the United States and China as well as heightened geopolitical uncertainty affected overall market sentiment. More pronounced declines in manufacturing activity reflected weaker business confidence and investment. According to the International Monetary Fund’s October 2019 World Economic Outlook, global output is projected to expand by 3.0 per cent in the calendar year 2019, a decline from 3.6 per cent in 2018. Among the advanced economies, the United States experienced the highest growth while several European economies underwent a sharp economic downturn.

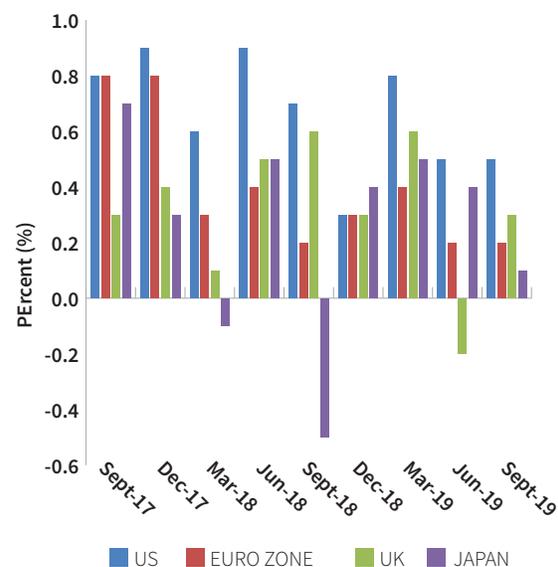
In the **United States (US)**, gross domestic product (GDP) slowed to 2.1 per cent over the year compared to 3.1 per cent during the previous financial year. Economic growth was supported by continued improvements in the labour market, with the unemployment rate declining to a 50-year low of 3.5 per cent. These gains bolstered personal consumption and helped to offset the decline in non-residential fixed investment. However, inflation measures weakened with the Core Personal Consumption Expenditure Index falling to 1.7 per cent from 2.0 per cent year-on-year. The Federal Reserve (Fed) reversed course following its 25 basis points increase in December 2018 and reduced rates twice during the Financial Year 2018/2019, citing rising downside risks to the economy. The Fed rate cuts in July 2019 and September 2019 were viewed as a mid-cycle adjustment, suggesting that the overall degree of accommodation would likely be limited in scope.

In the **Eurozone**, economic growth weakened to 1.2 per cent over the Financial Year 2018/2019. The decline in activity was widespread with signs that the slowdown in manufacturing and industrial activity was beginning to manifest in the services sector as well. Germany, the region’s largest economy, narrowly avoided a recession following a contraction of 0.20 per cent

in the three months to June. Across the Euro-zone region, employment prospects broadly rose and the unemployment rate declined to 7.5 per cent from 8.0 per cent. Meanwhile, inflation remained relatively subdued, stagnating at 1.0 per cent. Against this backdrop, the European Central Bank (ECB) eased monetary policy by lowering rates further into negative territory, cutting its deposit rate by 10 basis points to negative 0.50 per cent. In addition, the ECB re-introduced its asset purchase programme at a monthly pace of €20 billion as well as engaged in a new series of targeted longer-term refinancing operations.

The **United Kingdom (UK)** continued to grapple with the fallout related to its decision to leave the European Union. Economic growth was uneven during the financial year but overall, the economy expanded by 1.0 per cent compared to 1.6 per cent during the prior year. The original March deadline for a Brexit deal impacted activity and resulted in stockpiling prior to the date as well as a corresponding reduction in inventory thereafter. Despite slower growth and inflation falling to 1.7 per cent (see Chart 2), the Bank of England (BOE) decided to hold its monetary rates steady ahead of the new Brexit deadline of January 31st 2020, and the country’s December 12th, 2019 general elections.

Chart 1: GDP growth: selected developed economies quarter over quarter

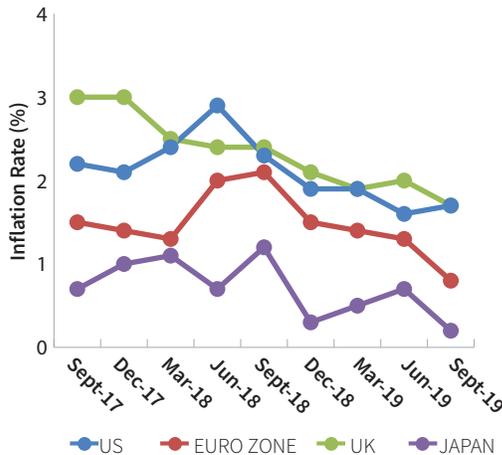


Source: Bloomberg. Data for September 2019 are preliminary and may be subject to revisions.



Investment Report (continued)

Chart 2: Inflation rates of selected developed economies (Year-on-Year)



Source: Bloomberg.

In contrast, **Japan's** economy improved during the financial year, growing by 1.3 per cent compared to 0.1 per cent in the prior year. The country recovered from a series of natural disasters, which impeded growth during the final quarter of fiscal year 2017/2018. Domestic demand gained momentum ahead of the consumption tax increase from 8 per cent to 10 per cent on October 1st, 2019. This growth in domestic demand helped to offset the deterioration in exports and business investment activities stemming from the trade war with South Korea as well as the spill-over effects from the US-China trade dispute. Despite mounting market expectations for the Bank of Japan (BOJ) to provide monetary stimulus alongside the actions of the Fed and ECB, the BOJ left monetary rates unchanged during the year. However, the bank indicated its willingness to provide a more accommodating monetary policy should greater downside risks to inflation emerge.

Financial Market Review

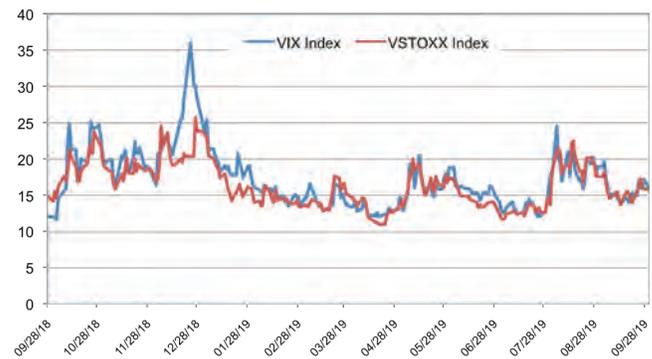
The worsening trade conflict between the US and China, developments on the Brexit front and investors' concerns about slowing global growth heightened financial market volatility during the financial year. This was particularly evident in the first quarter of the financial year 2018/2019, when volatility rose amidst escalating trade tensions between the US and China, which fuelled market's speculation about the expected probability of a US recession.

The Chicago Board Option Exchange Volatility Index (VIX), a proxy of investor anxiety in the US, reached a high of 36.1 points in December (see Chart 3). However, the decision by key global

central banks to cut monetary rates and provide additional stimulus helped to somewhat re-assure markets. Overall, the VIX averaged 17.2 points for the year, up from an average of 13.9 points in the previous financial year. The European equivalent, the Euro Stoxx 50 Volatility Index (VSTOXX), also experienced periods of elevated volatility during the financial year. The VSTOXX averaged 16.3 points for the financial year, compared to 14.7 points for the prior year.

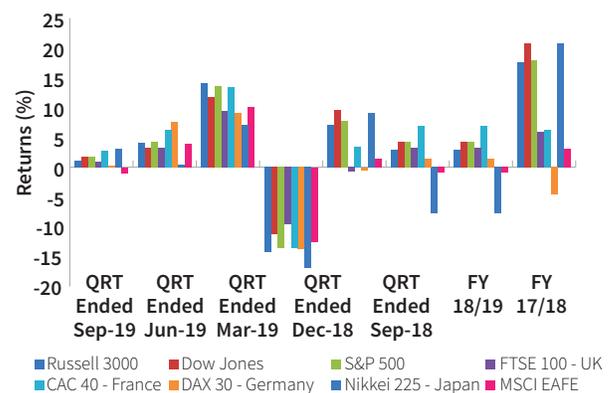
Fixed income markets benefitted from the declining interest rate environment and elevated levels of investors' risk aversion while equity markets in the US and Euro-zone recovered from the tumultuous first quarter's losses to end the financial year higher (see Chart 4). The rebound in the equity was influenced by better than expected corporate earnings and improving investor sentiment following announcements of progress on US-China trade negotiations and Brexit.

Chart 3: Implied financial market volatility (in Points)



Source: Bloomberg.

Chart 4: Total returns on selected equity indices (in Per Cent)



Source: Bloomberg.



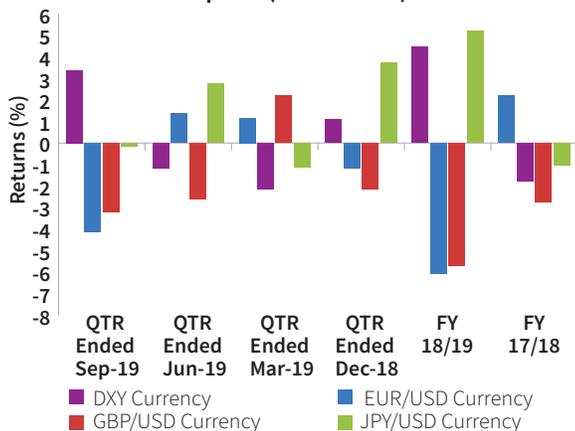
Investment Report (continued)

In the US, the S&P 500 equity index posted modest gains of 4.25 per cent for the financial year ended September 2019, down from a 17.90 per cent in the previous year (see Chart 4). Sector performance was mixed, with defensive sectors such as Utilities generally performing better than economically sensitive sectors such as energy, which declined with falling oil prices.

Non-US developed equity markets, as measured by the MSCI EAFE index, declined 0.87 per cent (in US dollar terms) during the year. In comparison, the index returned 3.16 per cent for the financial year 2017/18. Despite delays on Brexit, European equity markets rallied with the lower probability of the United Kingdom’s disorderly exit from the European Union. While equity markets in Europe posted gains during the year, the decline in the Japanese equity market of 7.80 weighted heavily on the overall performance of the MSCI EAFE index (see Chart 4). Japanese stocks declined with subdued earnings expectations, falling exports and a modest strengthening of the Yen currency.

In the currency market, major currencies depreciated against to the US Dollar (see Chart 5). Although the Fed cut rates twice during the period, indications that the rate reduction was part of a mid-cycle adjustment and the relatively better economic prospects in the US helped support the US dollar against the Euro and British Pound. The uncertainty stemming from Brexit continued to detract from the British Pound, which depreciated 5.69 per cent vis-à-vis the US dollar during the year (refer to Chart 5). In the Euro-zone, the ECB’s rate cut, reintroduction of its asset purchase programme and commitment to maintaining an accommodative monetary policy stance negatively impacted the Euro. The Euro weakened 6.08 per cent vis-à-vis the US Dollar during the financial year.

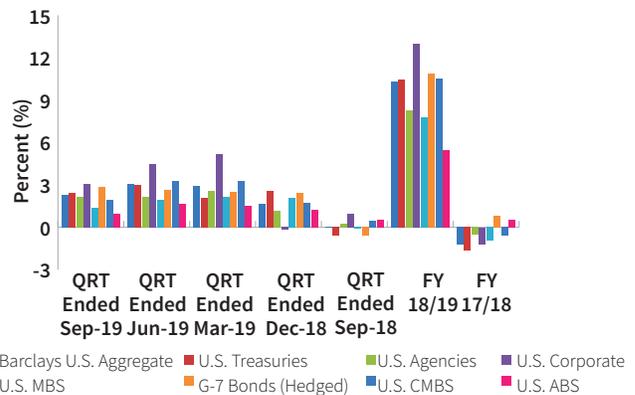
Chart 5: Foreign exchange returns for major currency pairs (in Per Cent)



Source: Bloomberg.

In the US fixed income market, spread products performances were mixed. The US Investment Grade Corporate Bond sector was the best performing sector of the Barclays US Aggregate Index, returning 13.0 per cent for the financial year ended September 2019 (see Chart 6). Conversely, the US Asset-Backed Securities sector and the US Mortgage-Backed Securities sector lagged the broader index, rising 5.4 per cent and 7.8 per cent, respectively. The shorter-duration profile of asset-backed securities resulted in more modest returns. In the mortgage market, faster prepayment speeds detracted from overall performance of the US mortgage-backed securities during the year.

Chart 6: Returns on selected fixed income indices (in Per Cent)



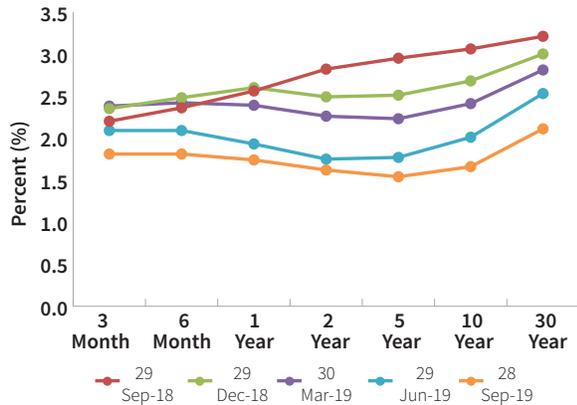
Source: Bloomberg.

Consistent with the US Fed’s accommodative monetary policy stance and the safe haven status of US Treasuries during times of heightened investors’ anxiety, US yields trended lower throughout the period. The 2-year and 10-year rates declined by 120 basis points and 140 basis points, to end the period at 1.62 per cent and 1.66 per cent, respectively (refer to Chart 7). The yield curve flattened over the year as the spread between the 2-year and 10-year rates decreased from 24 basis points to 4 basis points at the end of the financial year. At various times during the year, the yield curve partially inverted which increased investors’ anxiety around the slow growth environment, given that similar events have historically preceded a US recession.



Investment Report (continued)

Chart 7: US treasury yield curve (Per Cent)



Source: Bloomberg.

Non-US developed country sovereign bond yields fell over the financial year (see Table 1). Central banks' actions as well as safe haven demand placed downward pressure on rates. Italian 10-year rates declined the most among the G-7 nations over the financial year, falling by 232 basis points to end the year at 0.82 per cent. Political uncertainty eased with the formation of a coalition government in Italy and the ECB's increased level of monetary accommodation also drove Italian yields lower.

Table 1: G-7 Government 10-Year yields

Country	Government 10-Year Yields (in Per Cent)		Change (Basis Points)
	Sep 2018	Sep 2019	
US	3.06	1.66	(140)
UK	1.57	0.48	(109)
France	0.80	(0.28)	(108)
Germany	0.47	(0.57)	(104)
Italy	3.14	0.82	(232)
Canadian	2.43	1.36	(107)
Japan	0.12	(0.22)	(34)

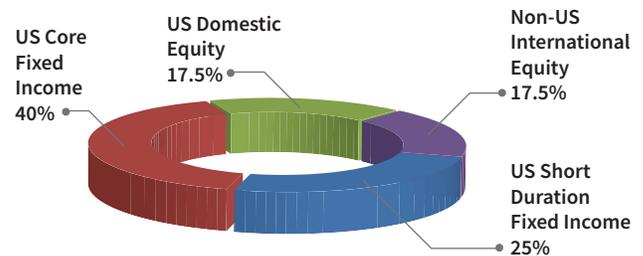
Source: Bloomberg.

Strategic asset allocation of the HSF

a) a) Approved Strategic Asset Allocation

Chart 8 below shows the strategic asset allocation (SAA) of the HSF, approved by the HSF's Board in 2007. Since January 2011, the Bank has fully invested the funds of the HSF's Investment Portfolio in the four (4) approved asset classes shown in Chart below.¹

Chart 8: The fund's strategic asset allocation



Source: Bloomberg.

b) Portfolio Composition

The Fund's portfolio composition over the financial year 2018/2019 is shown in Table 2 and Chart 9 below. During the financial year ended September 2019, the asset classes of the Fund deviated from its SAA. The deviation was primarily as a result of asset valuation changes. Nonetheless, the variance from the SAA weights remained within the HSF Board's approved allowable deviation range of +/- 5 per cent.

As at September 30, 2019, the US Core Domestic Equity mandate had an overweight allocation of 3.82 per cent, which resulted from robust returns in the US equity market during the prior financial year 2017/2018. This above target SAA weight allocation was maintained given the managers' outlook for US stock and considering the long term objectives of the Fund. In contrast, all other mandates were below their target SAA weights, with the largest deviation in the US Short Duration Fixed Income mandate which held an underweight position of 2.59 per cent (see Table 2).

¹ Section 4 of the HSF Operational and Investment Policy states that the Central Bank may hold cash and cash equivalent in order to cover day-to-day liquidity needs and the remaining portion called the Investment Portfolio would be invested in accordance with the strategic asset allocation (SAA) approved by the HSF Board.



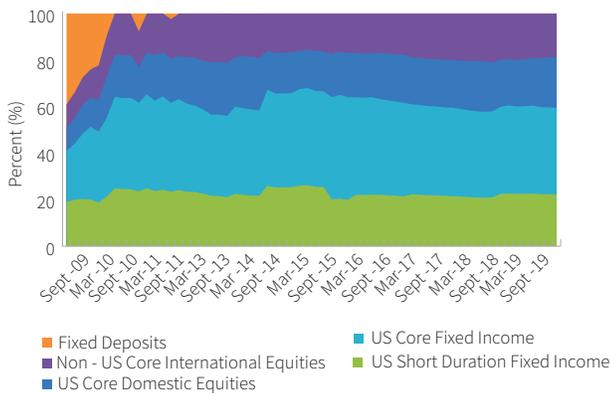
Investment Report (continued)

Table 2: Portfolio composition relative to the approved SAA (in Per Cent)

Portfolio Weights	Asset Class	Target Weight SAA	Dec-18	Mar-19	Jun-19	Sep-19
		Actual % of Fund	Actual % of Fund	Actual % of Fund	Actual % of Fund	
	US Short Duration Fixed Income	25.00	23.77	22.73	22.46	22.41
	US Core Domestic Fixed Income	40.00	39.51	38.55	38.65	39.19
	US Core Domestic Equity	17.50	19.51	20.94	21.22	21.32
	Non-US Core International Equity	17.50	17.22	17.79	17.67	17.07

Totals may not sum to 100 due to rounding.

Chart 9: Asset class composition of the HSF portfolio (in Per Cent)



Portfolio performance of the investment portfolio

The Fund’s investment portfolio earned 5.10 per cent for the financial year 2018/19. This performance compares favourably to a return of 3.79 per cent earned during the previous year. The return on the Fund’s Investment Portfolio was primarily driven by the strong performance of US core fixed income securities, which contributed a weighted return of 4.05 per cent to the overall performance of the Investment Portfolio (see Table 3). The US short duration fixed income position contributed 1.25 per cent, US domestic equities 0.79 per cent and Non US equities negative 0.93 per cent.

The Fund’s performance, however, trailed that of its SAA benchmark by 1.44 per cent, which gained 6.54 per cent for the financial year. The Fund’s underperformance relative to its SAA benchmark can be attributed to two factors. The first, the Fund had, on average, an overweight allocation to equities relative to US fixed income securities. US and non US equity markets largely underperformed the US fixed income markets during the financial year (see Chart 10). The second, the protracted US-China trade dispute, slowing global growth and uncertainty of the terms and timing of a Brexit deal provided a very challenging financial market condition for active management strategies, especially for the equity mandates. As a consequence, the investment strategies employed by several equity asset managers did not perform well in the current market environment.

c) Fund Value

The total net asset value of the Fund as at the end of September 2019 was US\$6,255.3 million, compared with US\$5,965.8 million at the end of September 2018. Of this total, the Investment Portfolio was valued at US\$6,253.6 million, while the remaining portion (US\$1.7 million) was held in an operating cash account to meet the day-to-day expenses that arise from the management of the Fund.



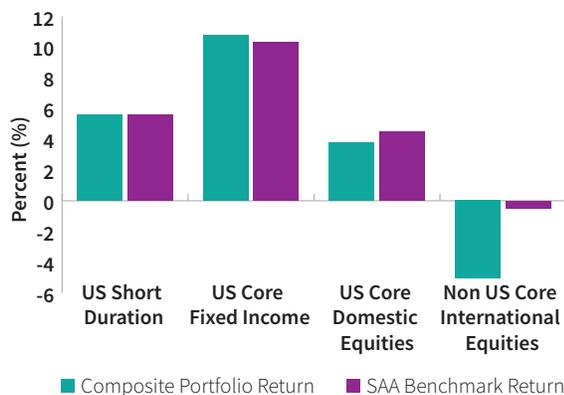
Investment Report (continued)

Table 3: Contribution to portfolio return for the FY 2018/2019 (in Per Cent)

	Beginning Portfolio Weights 30-Sep-18	Portfolio Weighted Return	Benchmark
Composite Portfolio	100.00	5.10	6.54
US Short Duration Fixed Income	22.27	1.25	1.38
US Core Fixed Income	37.21	4.05	4.02
US Core Domestic Equity	21.57	0.79	1.02
Non US Core International Equity	18.95	-0.93	0.07

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

Chart 10: Absolute returns by investment mandate for the FY 2018/2019 (in Per Cent)



Source: Bloomberg.

On an absolute return basis, the **Equity portion of the Fund** detracted from the overall performance of the Fund and posted an overall negative return over the financial year. The net asset value of the equity holdings decreased modestly to \$2,401.0 million from \$2,417.4 million one year earlier.

The **US Core Domestic Equity** portfolio gained 3.78 per cent, compared with a total return of 4.50 per cent for its benchmark, the Russell 3000 ex Energy Index. This relative underperformance was due to stock selection decisions, particularly within the financial services and health care sectors.

The **Non US International Equity portfolio** declined 5.05 per cent, underperforming the MSCI EAFE ex Energy Index, which returned negative 0.48 per cent. The portfolio's below benchmark returns resulted from the managers' security selection in Japan and the United Kingdom, while country allocation decisions to Finland and Israel also added to the underperformance.

The **Fixed Income portion** of the Fund performed well and contributed positively to total return. On an absolute basis, the US Short Duration Fixed Income and the US Core Fixed Income mandates generated strong positive returns for the financial year. As at the end of September 2019, the net asset value of the two mandates totalled US\$3,852.7 million, up from US\$3,548.3 million one year earlier.

The **US Short Duration Fixed Income** mandate returned 5.58 per cent, compared with a gain of 5.62 per cent for its benchmark, the Bank of America Merrill Lynch 1- 5 year US Treasury Index. The underperformance of the portfolio relative to its benchmark was attributed to the portfolio's shorter duration position and its breakeven inflation strategies employed by managers, which detracted given the decline in rates and the relatively subdued inflation environment.

The **US Core Domestic Fixed Income** mandate had the best performance, returning 10.75 per cent over the financial year. This mandate outperformed its benchmark, the Barclays Capital US Aggregate Bond index, by 45 basis points. The portfolio benefitted from its sector allocation to and security selection within investment grade corporate bonds and mortgage-backed securities. There were also incremental gains from relative country strategies, while duration positioning modestly detracted from performance.

Overall, the Fund's SAA was constructed to meet the dual objectives of inter-generation savings and fiscal stabilisation support. In the past, equity market exposures would have been the main driver of the Fund's performance, however in this financial year the strong performance of the Fund's fixed income positions helped to offset the poor performance of its equity positions. This illustrates the importance of asset class diversification and underscores the value of maintaining a balanced portfolio in achieving the Fund's long term objectives.



Investment Report (continued)

**Risk exposures of
the investment portfolio**

The main risks for the Fund are credit, concentration, interest rate, and currency risks. The paragraphs below indicate how these risks are mitigated.

(a) Credit Risk

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

For **fixed income instruments**, Credit Risk is mitigated by the use of credit concentration limits as well as minimum credit quality ratings. Bonds must have an investment grade rating as defined by Standard and Poor’s, Moody’s Investors Services or Fitch Ratings Incorporated. Should the required ratings on an existing fixed income security fall below the minimum standards, the security must be sold within an agreed upon timeframe. Over the financial year, the average credit quality was “AA+” and “AA” for the US Short Duration and US Core Fixed Income Portfolios, respectively.

(b) Concentration Risk

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

The portfolio is currently invested across four asset groupings as follows: US Short Duration Fixed Income; US Core Domestic Fixed Income; US Core Domestic

Equity; and Non-US Core International Equity. In addition, concentration risk is minimised within asset groups by approved market exposure and issuer holding limits. For the **equity portfolios**, this risk is managed by imposing a maximum percentage holding of 3.0 per cent of any security’s outstanding shares, as well as a maximum sector deviation relative to the benchmark of 5.0 per cent.

(c) Interest Rate Risk

Interest rate risk is managed using a weighted average effective duration limit on the respective portfolios. For the US Short Duration Fixed Income mandate, the allowable range is six months longer or shorter than the weighted average duration of its respective benchmark. While the US Core Domestic Fixed Income mandate has an allowable range of 12 months longer or shorter than the weighted average duration of its respective benchmark. Table 4 shows the weighted average duration for the US Short Duration and US Core Domestic Fixed Income portfolios as at September 30, 2019.

Table 4: Weighted average duration (in Years)

Mandate	Portfolio	Benchmark
US Short Duration	2.42	2.56
US Core Domestic Fixed Income	5.54	5.78

(d) Currency Risk

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



Investment Report (continued)

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

Table 5: Portfolio currency exposure

Currency	Exposure (%)
US Dollar	84.10
Euro Currency	5.01
Japanese Yen	3.85
Pound Sterling	2.15
Swiss Franc	1.73
Australian Dollar	1.15
Swedish Krona	0.49
Singapore Dollar	0.38
Danish Krone	0.35
Hong Kong Dollar	0.34
New Israeli Sheqel	0.18
New Zealand Dollar	0.12
Norwegian Krone	0.09
Canadian Dollar	0.07
Composite	100.00

* Figures may not sum to 100 due to rounding.

Appendix I

Heritage and Stabilisation Fund Financial Year end Portfolio Valuation (in USD)

Valuation Date	Net Asset Value	Financial Year Total Comprehensive Income	Accumulated Surplus & Unrealised Capital Gains/Losses	Contributions/ (Withdrawals)
September 30, 2007	1,766,200,701	41,966,361	41,966,361	321,706,043
September 30, 2008	2,888,421,556	68,412,770	110,379,131	1,054,174,457
September 30, 2009	2,964,686,478	76,248,691	186,755,766	-
September 30, 2010	3,621,984,041	177,645,460	364,361,226	477,344,263
September 30, 2011	4,084,016,158	9,715,841	374,074,067	451,400,519
September 30, 2012	4,712,376,278	420,693,705	794,770,772	207,550,846
September 30, 2013	5,154,027,747	399,007,950	1,193,778,722	42,519,782
September 30, 2014	5,533,425,248	379,167,024	1,572,945,746	-
September 30, 2015	5,655,143,565	120,639,605	1,693,585,351	-
September 30, 2016	5,584,246,290	305,452,096	1,999,037,447	(375,050,860)
September 30, 2017	5,762,544,777	429,475,446	2,428,512,893	(252,548,048)
September 30, 2018	5,965,847,092	203,717,910	2,632,230,803	-
September 30, 2019	6,255,349,599	288,837,111	2,921,067,914	-



Appendix II

HSF Portfolio Historical Performance Since Inception

Financial Year End	Financial Year Return			Annualised Return Since Inception		
	Portfolio (%)	Benchmark (%)	Excess (bps)	Portfolio (%)	Benchmark (%)	Excess (bps)
September 2007*	2.97	2.95	1.89	5.48	5.44	3.50
September 2008	3.62	3.50	12.12	4.34	4.25	9.37
September 2009	2.80	3.18	-37.81	3.81	3.91	-10.01
September 2010	6.07	5.75	31.93	4.61	4.59	2.29
September 2011	0.79	1.14	-34.89	3.80	3.87	-7.13
September 2012	10.73	10.18	55.01	5.38	5.33	5.20
September 2013	8.63	7.26	137.06	5.40	5.16	24.01
September 2014	7.65	5.60	204.51	5.69	5.22	47.69
September 2015	2.47	1.13	134.06	5.31	4.73	58.12
September 2016	5.83	6.29	-45.72	5.34	4.87	47.12
September 2017	8.25	6.55	170.48	5.64	5.05	58.79
September 2018	3.79	2.65	113.37	5.47	4.84	63.61
September 2019	5.10	6.54	-144.08	5.44	4.97	47.15

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%).



HERITAGE AND STABILISATION FUND



REPUBLIC OF TRINIDAD AND TOBAGO AUDITOR GENERAL'S DEPARTMENT

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

**FOR THE YEAR ENDED
30 September, 2019**



HERITAGE AND STABILISATION FUND

REPORT OF THE AUDITOR GENERAL OF THE REPUBLIC OF TRINIDAD AND TOBAGO ON THE FINANCIAL STATEMENTS OF THE HERITAGE AND STABILISATION FUND OF THE REPUBLIC OF TRINIDAD AND TOBAGO FOR THE YEAR ENDED 30 SEPTEMBER 2019

OPINION

1. The financial statements of the Heritage and Stabilisation Fund (the Fund) for the year ended 30 September 2019 have been audited. The statements as set out on pages 1 to 36 comprise a Statement of Financial Position as at 30 September 2019, and the Statement of Comprehensive Income, a Statement of Changes in Equity and a Statement of Cash Flows for the year ended 30 September 2019 and Notes to the financial statements numbered 1 to 15, including a summary of significant accounting policies.
2. In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 30 September 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BASIS FOR OPINION

3. The audit was conducted in accordance with accepted auditing standards. The Auditor General's responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this report. The Auditor General is independent of the Fund in accordance with the ethical requirements that are relevant to the audit of the financial statements and other ethical responsibilities have been fulfilled in accordance with these requirements. It is my view that the audit evidence obtained is sufficient and appropriate to provide a basis for the above audit opinion.



OTHER MATTER

4.1 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.'

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

5. Management of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
6. In preparing the financial statements, management is responsible for assessing the ability of the Fund to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.
7. Those charged with governance are responsible for overseeing the financial reporting process of the Fund.



AUDITOR' S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

8. The Auditor General's responsibility is to express an opinion on these financial statements based on the audit and to report thereon in accordance with section 116 of the Constitution of the Republic of Trinidad and Tobago and Section 16 (1) of the Heritage and Stabilisation Fund Act, Section Chapter 70:09
9. The Auditor General's objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes his opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions or users taken on the basis of these financial statements.
10. As part of an audit in accordance with accepted auditing standards, the Auditor General exercises professional judgment and maintains professional skepticism throughout the audit. The Auditor General also:
 - Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for an opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Fund.
 - Concludes on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Fund to continue as a going concern. If the Auditor General concludes that a material uncertainty exists, the Auditor General is required to draw attention in his audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify his opinion. The Auditor General's conclusions are based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
 - Evaluates the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



11. The Auditor General communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that were identified during the audit.

**27th NOVEMBER, 2019
PORT OF SPAIN**




**LORELLY PUJADAS
AUDITOR GENERAL**



Statement of Financial Position

As at 30 September, 2019 (expressed in United States Dollars)

	Note	Sep-19 \$	Sep-18 \$
ASSETS			
Current assets			
Cash and cash equivalents	4	86,492,079	89,164,701
Financial assets	5,6	6,317,013,624	5,912,771,949
Receivables and prepayments	7	545,275,506	242,746,869
TOTAL ASSETS		6,948,781,209	6,244,683,519
LIABILITIES			
Current liabilities			
Other payables	8	696,430,354	282,223,622
Financial liabilities	9	2,007,782	953,935
TOTAL LIABILITIES		698,438,136	283,177,557
NET ASSETS		6,250,343,073	5,961,505,962
PUBLIC EQUITY			
Contributed capital		3,329,275,159	3,329,275,159
Available-for-sale financial assets revaluation reserve		-	421,113,383
Accumulated surplus		2,921,067,914	2,211,117,420
TOTAL EQUITY		6,250,343,073	5,961,505,962

MR. EWART WILLIAMS
(Chairman)



MRS. SUZETTE TAYLOR-LEE CHEE

DR. DORIAN NOEL

DR. ALVIN HILAIRE

MR. BEVAN NARINESINGH

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



Statement of Comprehensive Income

For the Year ended 30 September, 2019 (expressed in United States Dollars)

	Note	Sep-19 \$	Sep-18 \$
Income			
Investment income	10	278,929,563	160,490,123
Investment expenses	11	(16,371,472)	(17,413,025)
Gain on sale of financial assets		252,088,314	296,189,994
Loss on sale of financial assets		<u>(219,463,870)</u>	<u>(169,878,338)</u>
Income from investments		295,182,535	269,388,754
Other income		<u>328,929</u>	<u>503,733</u>
Total income		295,511,464	269,892,487
Operating expenses			
Management fees	12	(1,800,209)	(1,768,336)
Subscription fees		(15,405)	(14,616)
Audit fees		(344)	(2,489)
Licence fees		<u>(4,546)</u>	<u>(4,458)</u>
Total operating expenses		(1,820,504)	(1,789,899)
Net profit for the year before tax		293,690,960	268,102,588
Withholding tax expense		<u>(4,853,849)</u>	<u>(4,159,763)</u>
Net profit for the year after tax		288,837,111	263,942,825
Other comprehensive income:			
Available-for-sale financial assets			
- Unrealised (loss)/gain from fair value changes		<u>-</u>	<u>(60,224,915)</u>
Other comprehensive income for the year		-	(60,224,915)
Total comprehensive income for the year		288,837,111	203,717,910

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



Statement of Changes in Equity

For the Year ended 30 September, 2019 (expressed in United States Dollars)

	Contributed Capital	Available-for- Sale Financial Assets Revaluation Reserve	Accumulated Surplus	Total
	\$	\$	\$	\$
Balance as at 1 October 2017	3,329,275,159	481,338,298	1,947,174,595	5,757,788,052
Total comprehensive income for the year	-	(60,224,915)	263,942,825	203,717,909
Balance as at 30 September 2018	<u>3,329,275,159</u>	<u>421,113,383</u>	<u>2,211,117,420</u>	<u>5,961,505,962</u>
Balance as at 1 October 2018	3,329,275,159	421,113,383	2,211,117,420	5,961,505,962
Adjustment on adoption of IFRS 9	-	(421,113,383)	421,113,383	-
Adjusted Balance as at 1 October 2018	3,329,275,159	-	2,632,230,803	5,961,505,962
Total comprehensive income for the year	-	-	288,837,111	288,837,111
Balance as at 30 September 2019	<u>3,329,275,159</u>	<u>-</u>	<u>2,921,067,914</u>	<u>6,250,343,073</u>

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



Statement of Cash Flows

For the Year ended 30 September, 2019 (expressed in United States Dollars)

	Note	Sep-19 \$	Sep-18 \$
Cash flows from operating activities			
Net profit for the year before withholding tax		293,690,960	268,102,588
Adjustments			
Interest income		(114,666,726)	(98,958,387)
Dividend income		(65,135,232)	(61,324,591)
Fair value adjustment on financial assets and liabilities at fair value through profit or loss		(99,127,605)	(207,145)
Net realised gain from the sale of financial assets		<u>(32,624,444)</u>	<u>(126,311,656)</u>
Cash outflows before changes in operating assets and liabilities		(17,863,047)	(18,699,191)
Changes in operating assets and liabilities			
Increase in receivables and prepayments		(302,756,466)	(18,066,380)
Increase in other payables		414,206,732	34,569,936
Withholding tax paid		<u>(4,853,849)</u>	<u>(4,159,763)</u>
Net cash from/(used in) operating activities		<u>88,733,370</u>	<u>(6,355,399)</u>
Cash flows from investing activities			
Interest received		114,313,489	96,872,810
Dividend received		65,716,298	60,937,865
Net purchase of financial assets		<u>(271,425,641)</u>	<u>(180,139,193)</u>
Net cash flows used in investing activities		<u>(91,395,854)</u>	<u>(22,328,518)</u>
Effects of exchange rate changes on cash and cash equivalents		(10,138)	17,451
Net decrease in cash and cash equivalents		(2,672,622)	(28,666,465)
Cash and cash equivalents at beginning of year		<u>89,164,701</u>	<u>117,831,166</u>
Cash and cash equivalents at end of the year	4	<u>86,492,079</u>	<u>89,164,701</u>

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



Notes to the Financial Statements

For the Year ended 30 September, 2019 (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.

2. Accounting Policies

a) Basis of preparation

The Financial Statements of the Fund have been prepared in accordance with International Financial Reporting Standards as adopted by the Institute of Chartered Accountants of Trinidad and Tobago. The Financial Statements have been prepared under the Historical Cost Convention as modified by financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets (before 1 October, 2018).

b) Changes in accounting policies and disclosures

i. *New and amended accounting standards and interpretations*

Effective October 1, 2018, the Fund applied for the first time certain standards and amendments which are effective for annual periods beginning on or after January 1, 2018. The nature and impact of each new standard or amendment are described below:

- ***IFRS 9 – Financial Instruments (effective January 1, 2018)***

The Fund has adopted the requirements of IFRS 9 effective October 1, 2018 which introduces new requirements for classifying and measuring financial instruments. The classification and measurement, and



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

2. Accounting Policies (continued)

b) Changes in accounting policies and disclosures (continued)

i. New and amended accounting standards and interpretations (continued)

• IFRS 9 – Financial Instruments (effective January 1, 2018) (continued)

impairment requirements are applied retrospectively by adjusting the opening balances at the date of initial application, October 1, 2018. As permitted by IFRS 9, the Fund has not restated comparatives for 2018 for financial instruments in the scope of IFRS 9. Differences and adjustments to the carrying amounts of financial assets from the adoption of IFRS 9 at the date of initial application have been recognised directly in retained earnings as of October 1, 2018.

Changes to classification and measurement

The new classification requirements are based on both the entity's business model for managing the financial assets and contractual cash flow characteristics of a financial asset. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL). The Standard eliminates the previous IAS 39 categories of held-to-maturity (HTM), available-for-sale (AFS) and loans and receivables.

Changes to impairment of financial assets

The adoption of IFRS 9 has fundamentally changed the Fund's accounting for financial asset impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Fund to record an allowance for ECLs for financial assets measured at amortised cost and FVOCI. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. Details of the Fund's impairment methodology are disclosed in Note 2 (e).

The quantitative impact of applying IFRS 9 as at October 1, 2018, is disclosed in the transition disclosures in this Note. To reflect the differences between IFRS 9 and IAS 39, transition disclosures are provided below.

Transition disclosures

The following sets out the impact of adopting IFRS 9 on the Fund's statement of financial position and retained earnings. A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of October 1, 2018, is as follows:

	IAS 39			IFRS 9		Effect on Retained Earnings on October 1, 2018
	Measurement Amount as at September 30, 2018	Reclassification	Remeasurement	Carrying Amount as at October 1, 2018	Category	
	\$	\$	\$	\$		\$
Financial Assets						
Available for Sale	5,902,563,463	(5,902,563,463)	-	-	FVPL	
Fair Value through Profit or Loss	10,208,486	5,902,563,463	-	5,912,771,949	FVPL	421,113,383
	<u>5,912,771,949</u>	-	-	<u>5,912,771,949</u>		<u>421,113,383</u>
Total Adjusted Assets	<u>5,912,771,949</u>	-	-	<u>5,912,771,949</u>		<u>421,113,383</u>
Financial Liabilities						
Derivatives	953,935	-	-	953,935	FVPL	-
	<u>953,935</u>	-	-	<u>953,935</u>		
Total Adjusted Liabilities	<u>953,935</u>	-	-	<u>953,935</u>		<u>-</u>



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

2. Accounting Policies (continued)

b) Changes in accounting policies and disclosures (continued)

i. New and amended accounting standards and interpretations (continued)

Transition disclosures (continued)

The reclassification of financial assets from AFS to FVPL has realised a transfer of the existing Available for Sale Revaluation Reserve balance as at September 30, 2018, to Retained Earnings as at October 1, 2018. This transfer is reflected in the above reconciliation of balances between IAS 39 and IFRS 9.

The following table provides an overview of the impact of the changes to total financial assets under classification and measurement affected by IFRS 9:

	IAS 39 Carrying Amount Oct 1, 2018 \$	Reclassification \$	Remeasurement \$	IFRS 9 Amount \$
Financial Assets - Available for Sale	5,902,563,463			5,902,563,463
To Fixed Income instruments FVPL	-	(3,516,570,908)		(3,516,570,908)
To Equity instruments FVPL	-	(2,385,992,555)		(2,385,992,555)
	<u>5,902,563,463</u>	<u>(5,902,563,463)</u>	-	<u>-</u>
Financial Assets - Fair Value through Profit or Loss				
From Fixed Income instruments FVPL	-	3,516,570,908		3,516,570,908
From Equity instruments FVPL	-	2,385,992,555		2,385,992,555
	<u>-</u>	<u>5,902,563,463</u>	-	<u>5,902,563,463</u>

As of October 1, 2018, the Fund has reclassified fixed income and equity instruments previously held as Available-for-Sale (AFS) to Fair Value through Profit or Loss (FVPL). These instruments are actively traded. The fair value of these instruments that the Fund held at September 30, 2018 was \$5.9 billion. As at October 1, 2018, there was no change in their fair value. Fair value changes which would have been recorded through Other Comprehensive Income (OCI) are now recorded in profit or loss.

The impact of transition to IFRS 9 on reserves as at October 1, 2018 is as follows:

	Contributed Capital \$	Sale Financial Assets Revaluation \$	Accumulated Surplus \$	Total \$
Closing Balance under IAS 39 as at September 30, 2018	3,329,275,159	421,113,383	2,211,117,420	5,961,505,962
Reclassification of investment securities from available-for-sale to fair value through profit or loss	-	(421,113,383)	421,113,383	-
Opening Balance under IFRS 9 as at October 1, 2018	<u>3,329,275,159</u>	<u>-</u>	<u>2,632,230,803</u>	<u>5,961,505,962</u>



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

2. Accounting Policies (continued)

b) Changes in accounting policies and disclosures (continued)

ii. *New accounting standards and interpretations that are not yet effective and are not applicable to the Fund*

There are new standards and amendments to standards and interpretations that are not yet effective for accounting periods beginning on or after January 1 2018 and have not been early adopted by the Fund. The Fund intends to adopt these standards and interpretations, if applicable, when they become effective.

The Fund is currently assessing the impact of adopting these new standards and interpretations. Some of these by nature are not expected to have a significant effect on the Fund's financial statements. However, the impact of adoption depends on the assets and liabilities held by the Bank at the date of adoption; therefore it is not practical to quantify the effect at this time. These standards and amendments include:

- **IFRS 16 – Leases (effective January 1, 2019)**

This new standard was issued in January 2016 and applies to annual reporting periods beginning on or after 1 January 2019. This standard establishes principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying assets has a low value. IFRS 16's approach to lessor accounting will not change substantially, lessors will continue to classify leases as either operating or finance.

This standard will replace the following standards and interpretations:

- IAS 17 – Leases
- IFRIC 4 – Determining whether an Arrangement contains a Lease
- SIC – 15 – Operating Leases – Incentives
- SIC – 27 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease

Early adoption of this standard is permitted only if IFRS 15 – Revenue from Contracts with Customers has also been adopted. As the Fund currently holds no lease arrangements, it is not anticipated that this will have an impact on the financial statements.

- **IFRS 17 – Insurance Contracts (effective January 1, 2021)**

IFRS 17 replaces IFRS 4 on accounting for insurance contracts and has an effective date of 1 January 2021.

It establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts.

The impact of this standard is not applicable to the Fund.

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.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

2. Accounting Policies (continued)

d) Foreign currency translation

i. Functional and presentation currency

The financial statements are presented in United States Dollars which is the Fund's functional and presentation currency.

ii. Transactions and balances

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

e) Investment Securities

Under IFRS 9 (Policy applicable from October 1, 2018)

The classification of financial instruments at initial recognition depends on their contractual terms and the Fund's business model for managing the instruments. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities which are recorded at fair value through profit or loss.

From October 1, 2018, the Fund classifies all of its financial assets based on the Fund's business model for managing the assets and the instruments' contractual cash flow characteristics, measured at either:

- Amortised Cost (AC)
- Fair value through profit or loss (FVPL)

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income (FVOCI) only if it meets both of the following conditions and is not designated as at FVPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and by the sale of financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

The financial assets that are not measured at amortised cost or FVOCI are classified in the category FVPL, with gains and losses arising from changes in the fair value recognised in profit and loss. Management can also, on initial recognition, irrevocably designate a financial asset as measured at FVPL if doing so eliminates or significantly reduces an inconsistency in measurement or recognition that would otherwise result from the measurement of assets or liabilities, and their gains and losses, on different bases.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

2. Accounting Policies (continued)

e) Investment Securities (continued)

Under IFRS 9 (Policy applicable from October 1, 2018) (continued)

Impairment of financial assets

The adoption of IFRS 9 has fundamentally changed the Fund's accounting for impairment losses on financial assets by replacing IAS 39's incurred loss approach with the forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record ECLs on all financial assets measured at amortised cost or FVOCI.

IFRS 9 introduces a three-stage approach to impairment of financial assets. The ECL allowance is based on credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss.

The 12-month ECL is the portion of lifetime ECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both lifetime and 12-month expected credit losses are calculated on either an individual basis or a collective basis, depending on the size and nature of the underlying portfolio of financial instruments.

Based on the investment securities held by the Fund and the current business model, there are no financial assets held at amortised cost or FVOCI. The ECL model is therefore, not applicable to the Fund for this reporting period.

Business model assessment

Business model assessment entails a determination of the way financial assets are managed in order to generate cash flows. There are three business models available under IFRS 9:

- Hold to collect: it is intended to hold the asset to maturity to earn interest, collecting repayments of principal and interest from the counterparty.
- Hold to collect and sell: this model is similar to the hold to collect model, except that the entity elects to sell some or all of the assets before maturity as circumstances change or to hold the assets for liquidity purposes.
- Other: all those models that do not meet the 'hold to collect' or 'hold to collect and sell' qualifying criteria.

The assessment of business model requires judgement based on facts and circumstances at the date of initial application. The business model is not assessed on an instrument by instrument basis, but at a higher level of aggregated portfolios per instrument type and is based on observable factors.

The Fund determines its business model at the portfolio level as this best reflects the way the Fund manages its financial assets to achieve its business objective. The Fund's business model assessment considers the following qualitative and observable factors:

- Frequency, value and timing of sales in prior periods; the reasons for those sales; and expectations about future sales activity;
- Basis of management decision making: whether or not management focuses primarily on fair value information to make decisions;
- Risk parameters under which portfolio assets are managed to meet the objectives;
- Performance evaluation (including compensation): how the Fund's portfolio managers' performance is evaluated and how it relates to compensation; and
- Relative significance of the various sources of income (for example, interest income relative to fair value gains and losses) as one objective determinant to assess how integral contractual cash flows are vis-à-vis fair value gains or losses.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

2. Accounting Policies (continued)

e) Investment Securities (continued)

Under IFRS 9 (Policy applicable from October 1, 2018) (continued)

Solely Payments of Principal and Interest (SPPI) Test

The Fund assesses the contractual terms of financial assets to determine whether they meet the SPPI test i.e. contractual cash flows that represent solely payments of principal and interest on the principal amount outstanding that are consistent with basic lending arrangements.

‘Principal’ for the purpose of this test is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as the consideration for the time value of money and the credit risk associated with the principal amount outstanding during a particular period of time.

If a financial asset is held in either a ‘Hold to Collect’ or a ‘Hold to Collect and Sell’ business model, then assessment to determine whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding at initial recognition is required to determine the classification. The SPPI test is performed on an individual instrument basis.

In assessing whether the contractual cash flows are SPPI, the Fund considers whether the contractual terms of the financial asset contain a term that could change the timing or amount of contractual cash flows arising over the life of the instrument which could affect whether the instrument is considered to meet the SPPI test. If the SPPI test is failed, such financial assets are measured at FVPL.

Under IAS 39 (Policy applicable before October 1, 2018)

Before October 1, 2018, the Fund classified its investment securities as follows:

i. Initial recognition

The Fund’s financial assets 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 recognised 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

Available-for-sale financial assets are those 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 assets 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 recognised in Other Comprehensive Income (revaluation reserve). When the financial asset 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 financial assets’.

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’);



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

2. Accounting Policies (continued)

e) Investment Securities (continued)

Under IAS 39 (Policy applicable before October 1, 2018) (continued)

Fair value through profit or loss (continued)

- 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
- 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 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.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

2. Accounting Policies (continued)

e) Investment Securities (continued)

Under IAS 39 (Policy applicable before October 1, 2018) (continued)

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.

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) Receivables

Receivables are stated at their expected realisable value.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

2. Accounting Policies (continued)

l) Other payables

Other payables are stated at their expected realisable amounts.

m) Comparative information

When necessary, comparative data has been adjusted to conform with changes in presentation in the current year.

n) Statement of cash flows

- **Operating activities** include all activities other than investing and financing activities. The cash inflows include all receipts from the sources of revenue that support the Fund's operating activities. Cash outflows include payments made to suppliers.
- **Investing activities** are those activities relating to the acquisition and disposal of current and non-current securities and any other non-current assets. Investments include securities not falling within the definition of cash.
- **Financing activities** are those activities relating to changes in equity of the Fund and those activities relating to the cost of servicing the Fund's equity capital.
- **Cash** means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Fund invests as part of its day-to-day cash management

o) Capital contributions

In accordance with Sections 13 and 14 of the Act:

- i. a minimum of sixty per cent of the aggregate of the excess revenues shall be deposited to the Fund during a financial year;
- ii. all revenues to be deposited into the Fund shall be a charge on the Consolidated Fund.

The deposits are to be made no later than the end of the month following the quarter in respect of which the deposit was calculated.

Capital contributions received under the requirements of the Act are treated as additions to Equity.

p) Withdrawals

In accordance with Section 15 of the Act, subsection 1, subject to subsections (2) and (3), where the petroleum revenues collected in any financial year fall below the estimated petroleum revenues for that financial year by at least ten per cent, withdrawals may be made from the Fund as follows, whichever is the lesser amount:

- i) Either sixty per cent of the amount of the shortfall of petroleum revenues for that year; or
- ii) Twenty-five per cent of the balance outstanding to the credit of the Fund at the beginning of that year

Subsection 2 states that the amount withdrawn from the Fund in accordance with subsection 1 shall be deposited into the Consolidated Fund within forty-eight hours of such withdrawal.

Subsection 3 states that notwithstanding subsection 1, no withdrawal may be made from the Fund in any financial year, where the balance standing to the credit of the Fund would fall below one billion dollars in the currency of the United States of America, if such withdrawal were to be made.

q) Critical accounting estimates and judgements

The Fund makes estimates and assumptions that affect the reported amounts of the assets and liabilities within the financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

2. Accounting Policies (continued)

q) Critical accounting estimates and judgements (continued)

The resulting accounting estimates will seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are illustrated below:

- **Fair value of financial instruments**

Where the fair value of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

- **Business Model and SPPI**

Determining the appropriate business model and assessing the SPPI requirements for financial assets may require significant accounting judgement and have a significant impact on the financial statements.

3. Financial Risk Management

The Fund is exposed to a variety of financial risks including credit risk, concentration risk, market risk and liquidity risk. The Fund is also exposed to operational risk, the risk of loss arising from inadequate or failed processes, 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%



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

3. Financial Risk Management (continued)

a) The Strategic Benchmark (continued)

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.

The benchmarks and the risk budget for each of the asset classes are as follows:

Asset class	Performance Index	Risk Budget
U.S. Equities	Russell 3000 ex-energy Index comprised of the 3,000 largest market capitalisation stocks in the United States and accounts for roughly 97% of the total market capitalisation of that country.	0.70%
Non U.S. Equities	MSCI EAFE ex-energy Index, which comprises the following countries: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.	4.50%
U.S. Government Treasuries 1-5 Years	Merrill Lynch U.S. Treasuries 1-5 Years Index	0.50%
U.S. Core Domestic Fixed Income	Barclays Capital U.S. Aggregate Index	1.00%

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

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

b) Portfolio Performance

The portfolio performance for the twelve months ended 30 September, 2019 was as follows:

12 Month Performance			
Portfolio	Fund	Benchmark Return	Benchmark Composition
Composite	5.10%	6.54%	Merrill Lynch US Government Treasury 1-5 Years Index , US 1-month LIBID, Barclays Capital US Aggregate Bond Index, Russell 3000 (ex Energy), MSCI EAFE (Ex Energy)
US Short Duration Fixed Income	1.25%	1.38%	Merrill Lynch US Government Treasury 1-5 Years Index
US Core Fixed Income	4.05%	4.05%	Barclays Capital US Aggregate Bond Index
US Core Domestic Equity	0.79%	1.02%	Russell 3000 (Ex Energy)
Non-US Core International Equity	-0.93%	0.07%	MSCI EAFE (Ex Energy)



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk

The Fund's activities expose it to a variety of financial risks: credit risk, concentration risk, market risk (currency risk, interest rate risk 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 it to incur a loss. The main concentration of credit risk arises from the Fund's investments in debt securities. The Fund is also exposed to counterparty 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 Recognised Statistical Rating Organisations, Standard & Poor's or Moody's. Corporate debt should have a minimum credit quality of investment grade, at least Baa3 by Moody's or BBB- by Standard & Poor's. An investment grade corporate bond is considered to have a relatively low risk of default.

The table below summarises the credit quality of the Fund's debt securities as at September 30, 2019.

Credit Rating	2019	2018
AAA	8.9%	12.7%
AA	63.7%	63.5%
A	7.0%	7.0%
BBB	19.9%	16.3%
Not Rated *	0.5%	0.5%

* 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, the United Kingdom or France.

The table below illustrates the credit quality categories for the respective rating agencies:

Rating Category	Moody's	S&P
	Aaa	AAA
High-Quality Grade	Aa1	AA+
	Aa2	AA
	Aa3	AA-
	A1	A+
Upper-Medium Grade	A2	A
	A3	A-
	Baa1	BBB+
Lower-Medium Grade	Baa2	BBB
	Baa3	BBB-

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.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk (continued)

Concentration Risk

Concentration risk is the risk of loss attributable to holding investments in a single security or to a limited number of investment styles or asset classes. The Strategic Asset Allocation (SAA) reduces this risk by ensuring the Fund's assets are invested across various asset classes and styles. The Fund is invested in three broad asset classes:- Fixed Income including Government and Government- Related, Supranational, Corporate, and Securitised bonds; Equities including financial, consumer discretionary, healthcare, utilities, information technology, industrials, consumer staples and telecom services; and Cash Equivalents including U.S. Treasury and agency bills, Certificates of deposits and Money Market funds managed by the custodian with an AAAM rating and comprising only of the eligible asset classes defined in the Fund's investment policy.

Each asset class in which the Fund invests, reacts differently under the same market conditions, and usually when one asset class has strong returns another will have lower returns. Diversification across asset classes reduces the total risk of the Fund.

Concentration risk is also managed at the portfolio level, relative to the Strategic benchmark. Total net exposure to each of the sub-sectors of the Barclays Capital U.S. Aggregate Bond Index (U.S. Treasury, Government-Related, Corporate and Securitised) cannot exceed plus or minus 20% versus the benchmark. Sector deviations relative to the Russell 3000 (Ex Energy) and MSCI EAFE (Ex Energy) indices are limited to plus or minus 5%. The Fund's policy also prescribes concentration limits for the various asset classes, including no more than 3% of the portfolio to any one corporate issuer and country allocation limited to plus or minus 10% of the MSCI EAFE (Ex Energy) index.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises: currency risk, interest rate risk and price risk.

i. Currency Risk

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

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

A 1% change in the US dollar relative to other currencies (see below) in which the Fund trades would have changed the net assets of the Fund as at 30 September 2019 and 30 September 2018 as follows:

	Sep-19 \$	Sep-18 \$
Change in net assets	<u>19,507,897</u>	<u>20,770,453</u>



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk (continued)

Market Risk (continued)

i. Currency Risk (continued)

The following table illustrates the currency concentration exposure of financial assets and liabilities held by the fund as at 30 September 2019 and 2018.

Foreign Currency Concentration Exposure on Financial Assets and Financial Liabilities

Financial Assets	Sep-19	Sep-18
Currency	% of financial assets	% of financial assets
Australian dollar	1.15	0.90
Canadian dollar	0.07	0.13
Danish krone	0.35	0.27
Euro	5.01	5.44
Hong Kong dollar	0.34	0.74
New Israel sheqel	0.18	0.23
Japanese yen	3.85	5.53
New Zealand dollar	0.12	0.00
Norwegian krone	0.09	0.50
Singapore dollar	0.38	0.42
Swedish krona	0.49	0.24
Swiss franc	1.73	1.26
British pound	2.15	2.67
United States dollar	84.09	81.67
Total	<u>100.00</u>	<u>100.00</u>
Financial Liabilities	Sep-19	Sep-18
Currency	% of financial liabilities	% of financial liabilities
Euro	53.00	12.00
British pound	37.00	0.00
Norwegian krone	2.00	0.00
Swedish krona	0.00	4.00
Australian dollar	1.00	13.00
United States dollar	7.00	71.00
Total	<u>100.00</u>	<u>100.00</u>

ii. Interest Rate Risk

This is the risk that the value of a financial instrument will fluctuate, due to changes in market interest rates.

The Fund invests in fixed and floating rate debt securities that expose it to fair value and cash flow interest rate risk. Interest Rate Risk is managed at the portfolio level whereby the average weighted effective duration of the U.S. Short Duration Fixed Income mandate must not vary from that of the Benchmark by more than plus or minus six (6) months. The weighted average effective duration of the U.S. Core Fixed Income mandate may range between one (1) year longer or shorter than the weighted average duration of the Benchmark.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) **Portfolio Risk (continued)**

Market Risk (continued)

ii. *Interest Rate Risk (continued)*

	2019		2018	
	Portfolio	Index	Portfolio	Index
US Short Duration Fixed Income	2.42	2.56	2.46	2.64
US Core Fixed Income	5.54	5.78	5.80	5.91

iii. *Price Risk*

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes other than those arising from interest rate risk or currency risk, whether those changes are caused by factors specific to the individual financial instruments or issuer, or factors affecting all similar financial instruments traded in the market.

Price risk is managed through asset class diversification and selection of securities within the limits approved by the Board of Governors. The Fund's policy limits its holdings of any equity security to no more than 3% of that security's outstanding shares.

The tables below summarise the sector concentrations within the Fund:

US Short Duration Fixed Income - Sector Concentrations

	2019		2018	
	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	62.4%	100.0%	55.2%	100.0%
Agencies	7.3%		13.8%	
Non-US Government	15.6%		13.0%	
Supranationals	8.8%		13.0%	
Agency CMBS	3.0%		0.0%	
Agency RMBS	1.2%		0.0%	
Local Government Obligations	1.5%		1.7%	
Municipals	0.2%		0.3%	
Credits	0.0%		0.0%	
ABS/CMBS	0.0%		3.0%	
Mortgages	0.0%		0.0%	
Total	100.0%	100.0%	100.0%	100.0%



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) **Portfolio Risk (continued)**

Market Risk (continued)

iii. *Price Risk (continued)*

US Core Fixed Income - Sector Concentrations

	2019		2018	
	US Core Fixed Income Mandate	Barclays US Aggregate Bond Index	US Core Fixed Income Mandate	Barclays US Aggregate Bond Index
Corporates	35.0%	25.2%	34.1%	30.1%
US Treasuries	17.9%	39.8%	21.2%	38.1%
Residential Mortgage Backed Securities	19.2%	0.0%	11.7%	0.0%
Mortgage Backed Securities	13.8%	26.8%	14.5%	28.1%
Asset Backed Securities	8.9%	0.4%	12.7%	0.5%
Commercial Mortgage Backed Securities	3.4%	2.0%	0.9%	1.9%
Government Related Securities	1.2%	5.8%	3.8%	1.3%
Emerging Market Debt	0.6%	0.0%	0.4%	0.0%
Covered Bonds	0.0%	0.0%	0.5%	0.0%
Convertibles	0.0%	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%

US Core Domestic Equity - Sector Concentrations

	2019		2018	
	US Core Equity Mandate	Russell 3000 Ex-Energy Index	US Core Equity Mandate	Russell 3000 Ex-Energy Index
Financials	18.5%	22.2%	21.0%	21.6%
Technology	22.9%	22.7%	22.5%	22.6%
Health Care	14.3%	13.7%	15.6%	15.1%
Consumer Discretionary	19.9%	15.1%	15.4%	15.2%
Producer Durables	10.8%	10.8%	11.9%	11.3%
Consumer Staples	7.0%	6.2%	5.6%	5.7%
Utilities	3.6%	5.8%	4.8%	4.9%
Materials & Processing	3.0%	3.5%	3.2%	3.6%
Total	100.0%	100.0%	100.0%	100.0%



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) **Portfolio Risk (continued)**

Market Risk (continued)

iii. Price Risk (continued)

Non-US International Equity - Sector Concentrations

	2019		2018	
	Non-US International Equity Mandate	MSCI EAFE EX-Energy Index	Non-US International Equity Mandate	MSCI EAFE EX-Energy Index
Financials	16.8%	19.6%	20.6%	21.0%
Industrials	17.3%	15.5%	16.0%	15.5%
Consumer Staples	11.4%	12.7%	10.5%	11.9%
Consumer Discretionary	13.4%	12.1%	12.1%	13.0%
Health Care	12.8%	12.2%	10.6%	11.8%
Materials	7.2%	7.4%	10.6%	8.6%
Telecommunication Services	4.1%	5.6%	5.4%	4.0%
Real Estate	3.9%	3.8%	4.1%	3.6%
Information Technology	8.0%	7.1%	6.2%	7.3%
Utilities	5.1%	4.0%	3.9%	3.5%
Total	100.0%	100.0%	100.0%	100.0%

The table below summarises the sensitivity of the Fund's net assets attributable to redeemable shares to equity price movements as at 30 September. The analysis is based on the assumption that the share price increased by 1% and decreased by 1%, with all other variables held constant, and that the fair value of the Fund's portfolio of equity securities moved according to their historic correlation with the price.

	Sep-19 \$	Sep-18 \$
Effect on net assets attributable to redeemable shares of a 1% increase/decrease in the share price	<u>23,711,975</u>	<u>23,859,926</u>

The table below summarises the sensitivity of the Fund's net assets attributable to fixed income securities to fixed income price movements as at 30 September. The analysis is based on the assumption that interest rates increased by 25 basis points and decreased by 25 basis points, with all other variables held constant, and that the fair value of the Fund's portfolio of fixed income securities moved according to their historic correlation with the price.

	Sep-19 \$	Sep-18 \$
Effect on net assets attributable to fixed income securities of a 25 basis points increase/decrease in interest rates	<u>9,838,766</u>	<u>8,791,427</u>



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk (continued)

Liquidity Risk

This is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

One of the strategic objectives of the Fund is the maintenance of sufficient liquidity to cover its obligations at short notice and in accordance with the Act. In order to meet this stated objective, the Fund holds a combination of cash and short term assets such as U.S. Treasury and agencies bills and notes, certificates of deposits and money market funds managed by the custodian with an AAAm rating containing eligible asset classes in accordance with the investment policy.

The Fund's investments in aggregate of any fixed income security must not exceed 5% of that security's outstanding par value.

The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

	Less than 1 month	1 - 6 months	6 - 12 months	Total
	\$	\$	\$	\$
Sep-19				
<i>Non-derivative financial liabilities</i>				
Investment purchased	607,556,507	23,545,000	-	631,101,507
Foreign currency purchased	49,434,539	-	-	49,434,539
Interest payable	-	4,047	-	4,047
Due to money market	10,877,843	-	-	10,877,843
Accrued expenses	5,007,171	5,247	-	5,012,418
	672,876,060	23,554,294	-	696,430,354
Sep-18				
<i>Non-Derivative Financial Liabilities</i>				
Investment purchased	203,420,303	-	-	203,420,303
Foreign currency purchased	32,011,309	31,725,454	-	63,736,763
Due to money market	10,714,364	-	-	10,714,364
Due to brokers	5,262	-	-	5,262
Accrued expenses	4,336,174	10,756	-	4,346,930
	250,487,412	31,736,210	-	282,223,622



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

3. Financial Risk Management (continued)

c) Portfolio Risk (continued)

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

	Less than 1 month \$	1 - 6 months \$	6 - 12 months \$	Total \$
Sep-19				
Derivative Financial Liabilities				
Credit default swap		-	351,643	351,643
Interest rate swap	134,558	-	1,521,581	1,656,139
	134,558	-	1,873,224	2,007,782
Sep-18				
Derivative Financial Liabilities				
Credit default swap	-	294,828	-	294,828
Interest rate swap	-	659,107	-	659,107
	-	953,935	-	953,935

Operational risk

This is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It is managed through organisational policies, procedures and operational frameworks utilised by the Bank for management of the Fund. The internal and external processes for the Fund are similar to those which exist for management of the Official Reserves. These processes are tested and audited annually. The Bank strives to continually comply with international best practice.

4. Cash and Cash Equivalents

	Sep-19 \$	Sep-18 \$
Cash at bank	3,024,969	5,452,285
Cash at broker	12,360,879	4,968,137
US Government Money Market	71,095,263	78,723,172
	86,481,111	89,143,594
Net effect of exchange rate changes	10,968	21,107
	86,492,079	89,164,701



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

5. Financial Assets

	Sep-19 \$	Sep-18 \$
Available-for-sale	-	5,902,563,463
Fair value through profit or loss	<u>6,317,013,624</u>	<u>10,208,486</u>
	<u>6,317,013,624</u>	<u>5,912,771,949</u>
Available-for-sale financial assets		
Fixed income investments		
Cost	-	3,572,569,730
Net (Diminution)/Appreciation in Market Value	-	<u>(55,998,822)</u>
	-	<u>3,516,570,908</u>
Equity		
Cost	-	1,909,715,446
Net Appreciation in Market Value	-	<u>476,277,109</u>
	-	<u>2,385,992,555</u>
Total Available-for-Sale financial assets		<u>5,902,563,463</u>
Financial Assets at fair value through profit or loss		
Fixed income investments		
Cost	3,839,793,670	-
Net Appreciation in Market Value	<u>95,712,830</u>	-
	<u>3,935,506,500</u>	-
Equity		
Cost	1,947,623,152	-
Net Appreciation in Market Value	<u>423,574,309</u>	-
	<u>2,371,197,461</u>	-
Financial Derivatives		
Cost	9,459,601	10,426,449
Fair Value Adjustments	<u>850,062</u>	<u>(217,963)</u>
	<u>10,309,663</u>	<u>10,208,486</u>
Total Financial assets at fair value through profit or loss	<u>6,317,013,624</u>	<u>10,208,486</u>



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

6. Fair Value of Financial Assets

(a) Debt and equity securities

	Sep-19		Sep-18	
	Fair value \$	% of net assets	Fair value \$	% of net assets
Total debt securities	3,935,506,500	62.96	3,516,570,908	58.99
Total equity	2,371,197,461	37.94	2,385,992,555	40.02
Derivatives	10,309,663	0.01	10,208,486	0.01
Total Financial Assets	<u>6,317,013,624</u>	<u>100.91</u>	<u>5,912,771,949</u>	<u>99.02</u>

(b) Fair value hierarchy

Various methods are used in estimating the fair value of a financial instrument. The Fund classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making measurements.

The fair value of the Fund's investment securities are analysed by the fair value hierarchy below:

	Sep-19			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial Assets				
Asset Backed Securities	-	215,022,798	-	215,022,798
Collateralised Mortgage- Backed Securities (CMO)	-	158,389,590	-	158,389,590
Corporate Bonds	-	1,138,636,166	-	1,138,636,166
Government Issues	-	1,540,414,588	-	1,540,414,588
Mortgage Backed Securities	-	831,024,246	-	831,024,246
Municipals	-	52,019,112	-	52,019,112
Fixed Income	-	3,935,506,500	-	3,935,506,500
Common Stock	2,281,897,481	-	-	2,281,897,481
Depository Receipts	9,675,500	-	-	9,675,500
Preferred Stock	1,924,925	-	-	1,924,925
Rights	46,274	-	-	46,274
Real Estate Investment Trust	77,653,281	-	-	77,653,281
Equity	2,371,197,461	-	-	2,371,197,461
Credit Default Swaps	-	1,155,038	-	1,155,038
Interest Rate Swaps	-	1,999,321	1,999,321	
Options	7,155,304	-	-	7,155,304
Derivatives	7,155,304	3,154,359	-	10,309,663
Total Financial Assets	<u>2,378,352,765</u>	<u>3,938,660,859</u>	-	<u>6,317,013,624</u>



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

6. Fair Value of Financial Assets (continued)

(b) Fair value hierarchy (continued)

	Sep-18			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial Assets				
Asset Backed Securities	-	270,944,896	-	270,944,896
Collateralised Mortgage- Backed Securities (CMO)	-	94,650,477	-	94,650,477
Corporate Bonds	-	1,024,162,819	-	1,024,162,819
Government Issues	-	1,531,026,887	-	1,531,026,887
Mortgage Backed Securities	-	551,390,165	-	551,390,165
Municipals	-	44,395,664	-	44,395,664
Fixed Income	-	3,516,570,908	-	3,516,570,908
Common Stock	2,309,878,094	-	-	2,309,878,094
Depository Receipts	14,319,926	-	-	14,319,926
Limited Partnership Units	85,378	85,378	-	-
Preferred Stock	5,440,625	-	-	5,440,625
Real Estate Investment Trust	56,268,532	-	-	56,268,532
Equity	2,385,992,555	-	-	2,385,992,555
Credit Default Swaps	-	532,621	-	532,621
Interest Rate Swaps	-	772,861	772,861	-
Options	8,903,004	-	-	8,903,004
Financial assets at fair value through profit or loss	8,903,004	1,305,482	-	10,208,486
Total Financial Assets	2,394,895,559	3,517,876,390	-	5,912,771,949

Valuation techniques

Investment Securities included in Level 1

Exchange listed price or a broker quote in an active market.

Investment Securities included in Level 2

Where a security has ceased trading the last trade price or a broker quote in a non-active market is used. Additionally, securities closely related (e.g. when issued, fungible shares) where the security held is not trading but related security is traded.

Investment Securities included in Level 3

Security in which no indications or comparables are available and the company's financials/information or other market indicators are used to calculate valuation.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

6. Fair Value of Financial Assets (continued)

(c) Transfers between fair value hierarchy levels

As at 30 September, 2019, there were no transfers between the fair value valuation levels.

(d) Collateral

Securities pledged as collateral were as follows:

	Sep-19 \$	Sep-18 \$
Fixed Income	430,000	535,000
	<u>430,000</u>	<u>535,000</u>

7. Receivables and Prepayments

	Sep-19 \$	Sep-18 \$
Pending Trades	517,133,464	214,058,545
Interest Receivable	18,806,638	18,453,401
Dividends Receivable	4,448,034	5,029,100
Other Receivables	4,887,370	5,205,823
	<u>545,275,506</u>	<u>242,746,869</u>

Accounts receivable as at 30 September, 2019 include Pending Trades – Investments, and Foreign Currency sold in the amounts of USD467,320,461 and USD49,813,003 respectively which will subsequently be settled during the month of October 2019.

8. Other Payables

	Sep-19 \$	Sep-18 \$
Pending Trades	680,536,046	267,157,066
Accruals	5,012,418	4,346,930
Other Payables	10,881,890	10,719,626
	<u>696,430,354</u>	<u>282,223,622</u>

As at 30 September, 2019 there were Pending Trades – Investments, and Foreign Currency purchased of USD631,101,507 and USD49,434,539 respectively. Subsequent settlement will occur during the period October – November 2019.



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

9. Financial Liabilities

Financial liabilities at fair value through profit or loss

	Sep-19 \$	Sep-18 \$
Cost	1,513,104	1,165,909
Fair Value Adjustments	<u>494,678</u>	<u>(211,974)</u>
Financial liabilities at fair value through profit or loss	<u>2,007,782</u>	<u>953,935</u>

10. Investment Income

	Sep-19 \$	Sep-18 \$
Interest Income		
Cash at bank	211	1,745
Financial assets at fair value through profit or loss	104,021,173	-
Available-for-sale financial assets	-	90,351,691
Amortisation of bond discount	8,145,926	6,962,914
Short term securities	<u>2,499,416</u>	<u>1,642,037</u>
	114,666,726	98,958,387
Dividend income	65,135,232	61,324,591
Fair value adjustments on financial assets and liabilities at fair value through profit or loss	<u>99,127,605</u>	<u>207,145</u>
Total	<u>278,929,563</u>	<u>160,490,123</u>

11. Investment Expenses

	Sep-19 \$	Sep-18 \$
Amortisation of bond premium	3,539,567	4,728,020
External managers' fees	11,805,286	11,342,676
Custodian's fees	812,279	785,686
External managers' expenses	<u>214,340</u>	<u>556,643</u>
Total	<u>16,371,472</u>	<u>17,413,025</u>



Notes to the Financial Statements (continued)

For the Year ended 30 September, 2019 (expressed in United States Dollars)

12. Asset Management Agreements

Under Section 10(1) of the Act, the Bank as Manager of the Fund is responsible for the management of the assets and other resources of the Fund.

The Act specifies that within the instrument of delegation, the Bank be paid a management fee which is a percentage of the Fund's market value agreed between the Board and the Bank. The management fee is exclusive of any custodian fees, broker fees, current account fees or any other third party fees that may accrue incidental to the management of the Fund.

13. Board and Other Expenses

Under Section 4(6) of the Act, the members of the Board shall be paid such remuneration and allowances as may be determined by the Minister of Finance. These expenses, along with other operating expenses of the Fund's Secretariat are met from the Consolidated Fund, and thus do not form a part of the Financial Statements of the Fund.

14. Capital Contributions

Capital contributions are calculated based on criteria set out under Sections 13(1) and 14 of the Act, (see Note 2 (o)). There were no capital contributions during the financial year ended September 30, 2019.

15. Withdrawals

Withdrawals from the Fund are made in accordance with the criteria set out Section 15 of the Act, (see note 2 (p)). There were no withdrawals during the financial year ended September 30, 2019.



Ministry of Finance

Heritage and Stabilisation Fund

Eric Williams Finance Building
Independence Square,
Port of Spain,
Trinidad and Tobago
