



## REPORT OF THE BOARD OF TRUSTEES

On behalf of the Board of Trustees, it gives me great pleasure to report on the progress of the Caribbean Court of Justice Trust Fund during the year ended December 31, 2007.

In order to fulfill its responsibility to finance the Caribbean Court of Justice in perpetuity, the Trustees have continued to manage the resources of the Trust Fund in accordance with the following philosophy:

***“The fund will be invested prudently with a long-term investment horizon in a wide range of tax-efficient international instruments so as to produce an optimal gross rate of return with reasonable security of its capital.”***

Accordingly, during the course of the year, the full Board met 7 times, the Finance & Investment Committee 3 times, and the Audit and Compensation Committees twice each.

### Overview of 2007 Performance

The balance of the Trust Fund as at December 31, 2006 was US\$110,201,958, of which investments and operating accounts (“the total earning assets”) totalled US\$110,062,858. During 2007, a third party capital contribution of US\$1,017,778 was received from the Government of The Bahamas. Disbursements to the Court amounted to US\$4,912,235. The balance of the Trust Fund as at December 31, 2007 was US\$115,010,247 of which the total earning assets amounted to US\$114,882,826.

### International Markets

US equity markets experienced great volatility during 2007. The predominantly bull market experienced in the last 3 years hit its first major stumbling block in August as the US sub-prime mortgage sector showed obvious signs of a melt-down. The ripples of concern crossed to Europe and Asia as the international financial sector struggled to put numbers on the extent of losses in a sector where risk had been diversified into myriad financial instruments. The resulting strain on the financial

sector, the publicised write-downs and requirements for capital injections into some of the largest international financial institutions impacted negatively on the equity markets with the S&P 500 and DJIA ending the year relatively flat in comparison to the intra-year highs, with returns of +3.5% and +6.4% respectively in 2007. The international equity markets bore some of the pressure, but still outpaced the US equity markets with the MSCI EAFE posting a +8.62% return for 2007.

The year also saw the materialization of the emerging market economies as global economic growth drivers, with China, Russia and India making significant contributions to the global growth rate, which is estimated at 5.2% for 2007. Commodity prices displayed an upward trend, with the price of crude oil edging toward US\$100 per barrel rising to a high of US\$99.29 per barrel at the end of November 2007. High oil prices, coupled with rising global food prices display a trend toward continuing inflationary pressures on net oil importers, such as the US. The continued pressure impacted negatively on the US dollar during the year. The US Fed reduced interest rates by a cumulative 100 bps through 3 consecutive reductions from August 2007 to end the year at 4.25%.

The US Fixed Income market continued to reflect low yields as investors displayed risk-averse behaviour in a difficult credit environment. The yield on the 10-year US Treasury Bond fell below 4% in November 2007 in comparison to a start of year yield of 4.66%. The benchmark Bloomberg 5 to 7 yr Treasury Bond index presented a solid +10.62% return for the year.

### Regional Markets

Regionally, the equity markets recorded different degrees of positive movement for the year 2007, with losses made in the first half of the year reversed by positive returns in the second half.

- The TTSE Composite Index recorded a marginal +1.33% return for 2007.
- The JSE Market Index posted an annual return of +7.24%.



**Regional Markets (continued)**

- The BSE Market Index outperformed the other two regional indices with an impressive +12.61% return for 2007.

Expectations are for continued trading activity as the market is boosted by positive returns after a prolonged downward period, as well as speculative trading arising from the ongoing acquisition offers in 2008.

**Investment Portfolio**

The total earning assets of the Trust Fund produced an audited total return for the year of 9.2% net of investment management fees. This was broadly in line with the Board’s target of 9.5%, and in excess of the blended benchmark return of 5.1% for a hypothetical portfolio carrying the same target asset allocation.

**Table 1: Audited Fund Returns**

April 7, 2005	–	December 31, 2005	5.7%
January 1, 2006	–	December 31, 2006	10.4% p.a.
January 1, 2007	–	December 31, 2007	9.2% p.a.
April 7, 2005	–	December 31, 2007	9.3% p.a.

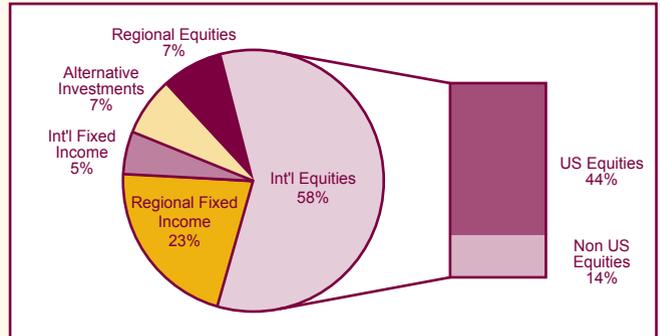
The audited total rates of return net of investment management fees show that the total earning assets of the Trust Fund returned 9.3% p.a. since receipt of funds in April 2005.

The investment allocation of the portfolio as at December 31, 2007 and the returns posted by each asset class for the year are shown in Table 2.

**Table 2: Allocation of the Portfolio and Returns by Asset Class**

Asset Class	Market Value @ Dec 31 2007 (US\$ Millions)	Allocation(%)	Time Weighted Total Return (%)
Int'l Equities	66.2	58%	11.3%
Int'l Fixed Income	6.2	5%	3.7%
Regional Equities	8.2	7%	7.7%
Regional Fixed Income	26.1	23%	6.8%
Alternative Investments	8.2	7%	7.4%
TOTAL	114.9	100%	9.2%

**Table 2: Allocation of the Portfolio and Returns by Asset Class (Continued)**



Equity was the top performing broad asset class for the year, with the International Equities asset class solidifying its position as the best performing asset class for fiscal year 2007. The asset class experienced reversal of intra-year gains toward the end of 2007 as negative credit news and continuing fall-out from the sub-prime mortgage sector, coupled with rumblings of a slowing global economy and high oil prices had an adverse impact on equity markets. The allocation to that asset class stood at 58% as at year-end with a +11.3% return versus a target of +11.5%.

The allocation to Regional Equities stood at 7% as at year end. The asset class contributed a return of 7.7% to the portfolio versus a target return of 6.2%. The positive return was concentrated to the end of the year when the regional markets experienced some increase in investor activity.

International Fixed Income returns improved in the latter part of the year as investors sought investment grade fixed income holdings in a worsening credit environment. The sector returned 3.7% in comparison to a target return of 4.8%.

Regional Fixed Income continues to perform to expected standards with an actual annual return of 6.8% broadly in line with the target of 7.0% for the period. The asset class comprises of funds held mainly in shorter-term instruments with yields within a range of 5.0% to 7.5% depending on currency and tenor. There is an allocation to longer-term debt instruments with an average annualized yield of 8.1%.



### Progress of the Fund

The fund grew from US\$110,201,958 at the start of the year to end the period at US\$115,010,247 of which US\$114,882,826 represented total earning assets.

**Table 3: Statement of Movement in Fund Balance – 2006 and 2007**

	2007 US\$	2006 US\$
<b>Fund at Start</b>	<b>110,201,958</b>	<b>99,758,227</b>
Capital Contributions	1,017,778	4,979,296
	<b>111,219,736</b>	<b>104,737,523</b>
Interest and Dividends	2,964,435	2,776,167
Realised Gains	3,337,375	2,636,079
Unrealised Gains	3,668,436	4,724,707
Total Income	9,970,246	10,136,953
Investment Fees	(567,934)	(565,346)
<b>Net Total Income</b>	<b>9,402,312</b>	<b>9,571,607</b>
Trust Fund Expenses	(699,566)	(570,418)
Disbursements to CCJ	(4,912,235)	(3,536,754)
	<b>3,790,511</b>	<b>5,464,435</b>
<b>Fund at End</b>	<b>115,010,247</b>	<b>110,201,958</b>

During the year, a third party capital contribution of US\$1,017,778 was received. Income earned from interest, dividends and realised capital gains totaled US\$6,301,810, whilst unrealised capital gains amounted to US\$3,668,436. Disbursements to fund the expenses of the Court and Commission were US\$4,912,235.

Investment Management fees for the period amounted to US\$567,934, whilst expenses of the Trust Fund totaled US\$699,566. Before charges for depreciation and year-end currency translation differences, the ratio of investment management fees and administrative expenses of the Trust Fund expressed as a percentage of the average fund balance was 1.0%.

### Outlook for 2008

The year ahead promises to be an extremely challenging one for the global investment community. With a slowdown in the US economy universally expected in 2008, mixed views on a US recession, and possible contagion in Western Europe as housing markets slow in the UK for the first time in five years, Asia is predicted to

be the engine of growth for the future. However, global growth is expected to slow to between 4.6% and 4.8% in the next year.

Interest rates in the US are expected to fall in 2008 as the monetary authority struggles with a floundering economy and rising inflationary pressures. The global investor market experienced a flight to quality with investors fleeing the equity market and flocking to investment grade fixed income assets. While this was positive for fixed income returns in late 2007, expectations are not as rosy in 2008 as falling interest rates and deteriorating corporate credit fundamentals place pressure on the sector.

While some investment commentators opine that there are no cheap assets, there are opportunities existing in the beleaguered equity markets. However, these opportunities are likely to be accompanied by continued volatility as weakening economic conditions and corporate earnings impact on the market. Large cap companies with global exposure are expected to fare better than small cap stocks in tight credit conditions. The global equity managers may be able to benefit from interim US dollar weakness.

Commodity markets are expected to remain strong in 2008, though there may be some short-term correction in prices. The demand for oil will continue to be high, maintaining its pressure on the price. However, there may be some pressure on this price as major economies, who are net oil importers, rebel against the US\$100 price of crude and place political pressure on oil exporting nations. Agricultural commodities are expected to perform well in the face of rising global food inflation, while views on the performance of metals are mixed.

Regionally, the modest gains in the equity markets are expected to continue into 2008. Two acquisition offers announced in 2007 are anticipated to come to fruition by mid-2008. The resulting speculative trading is likely to impact favourably on the regional equity markets. Capital markets saw some increased activity in the latter half of the year, with regional corporate debt coming to market. The introduction of the secondary bond market trading platform in Trinidad and Tobago is expected to generate

**Outlook for 2008 (Continued)**

trading in local-currency denominated debt. Rate expectations are mixed with the regional governments seeking to balance the high local liquidity conditions prevailing in buoyant regional economies, with the increased interest rate spread relative to the US.

The themes emerging for 2008 are a strong strategic allocation across a wide range of diversified asset classes. The volatility experienced in the year that has passed is expected to continue in the future, and an investment portfolio will only provide a consistent return and preserve existing capital through a widening of its asset classes to carefully position itself in uncorrelated assets. This is the driving factor for the Trust Fund's strategic reallocation for 2008.

**Appreciation**

The Trust Fund has made good progress in recording a net rate of return of 9.2% for the current year and 9.3%

annualized net return since inception. CARICOM Governments have contributed a total of US\$106.9M since inception and after total disbursements of US\$13.8 M to the Court, the audited fund balance as at December 31, 2007 is US\$115.0M. For this satisfactory state of affairs, I would like to thank the current Board of Trustees and those Trustees who have served in the past. In particular, I would like to record appreciation for the contribution of Mr. Patrick Patterson, who was appointed a Trustee in April 2004 and retired from the Board in November 2007. The Board also extends gratitude to Oppenheimer Inc., our Investment Adviser and the Management Team for their professional support.

**Dr. R. Bertrand,**  
Chairman,  
Board of Trustees  
March 17, 2008