

Minutes of Meeting

Petroleum Fund of Timor-Leste

Investment Advisory Board

Held on 15 June 2012

At the Office of the World Bank, Dili, Timor-Leste

Present:

Olgário de Castro (Chairman)
Subodh Kumar Mathur as alternate for Mrs. Sara Lobo Brites
Venancio Alves Maria as alternate for Mr. Abraao de Vasconcelos
Kevin Bailey (via teleconference)
Tørres Trovik (via teleconference)
Gualdino da Silva

In attendance:

Filipe Nery Bernardo, Petroleum Fund Analyst, Ministry of Finance
Sandra F.P. Chan Chao, Petroleum Fund Accountant, Ministry of Finance
Cosme da Costa Araujo, Petroleum Fund Analyst, Ministry of Finance
Samuel V. Robinson, Advisor, Central Bank
Craig Callum, Advisor, Central Bank
Shih-Yang Ang, Financial Risk Management Adviser, Ministry of Finance

The Chairman declared the meeting open at 15:45 hours. The Chairman welcomed and introduced Mr. Gualdino da Silva and Mr. Francisco Monteiro (absent) as two new Board members appointed by the Prime Minister on his letter No. 016/GPM/2012 dated 1 June 2012.

1. Apologies

Apologies were received from Mr. Abraão de Vasconcelos, Mrs. Sara Lobo Brites and Mr. Francisco Monteiro.

2. Approval of the agenda

The agenda for the meeting was approved.

3. Approval of the minutes of the meeting on 29 February 2012

The minutes of the meeting held on 30 March 2012 were approved. The Board decided that Item 4 and 5 of the minutes - the progress report on the implementation of the first stage implementation strategy and appointment of a new equity manager, remain confidential until it has been completed. Having this information in the public domain could prejudice the Fund's performance.

4. Business arising from the minutes not otherwise included in the agenda

Mr. Alves Maria informed the Board that the Fund's exposure to equity had reached 18% and would reach 20% by the end of June in accordance with the Board's advice to the Minister.

5. BCTL Report to IAB: Presentation by the BCTL

The March Quarterly Report was included in the materials and noted by the Board.

Mr. Alves Maria informed the Board about the PF's performance for the month of May 2012. Overall, the PF's total portfolio returned -0.92%, marginally outperforming the benchmark's return of -0.96%.

Fixed Interest portfolio returned 0.7% for the quarter, matching the benchmark return while the international equity portfolio fell -8.62%, in line with the benchmark return.

Mr. Alves Maria informed the Board that the negative outcomes of the overall PF's performance during May was mostly driven by the equity market falling significantly due to uncertainty of political direction in the Eurozone and the unfolding debt crisis in Europe. He also informed the meeting that the equity market had partially recovered in the first two weeks of June and the negative return is expected within a higher strategic asset allocation equity exposure.

The Board discussed the negative performance for May and noted the need to view short-term negative returns in the context of the Fund's long-term objectives and earlier months in the year during which above average returns were experienced. The Board suggested that these elements be part of future communications and discussions with the Fund's stakeholders.

The Board noted that the performance of all the external managers had been close to their respective benchmarks.

6. Phasing in Stage 2 – Increase equity exposure from 20% to 40% - Presentation by IAB Secretariat

Following the discussion in the IAB's workshop held on 7-8 May, the Secretariat had been requested to prepare an equity paper on the second stage of increasing the equity exposure to 40% from the June 2012 level of 20%.

Mr. Callum presented the paper which covered the issues that the Board needed to consider and decide on, such as whether to continue with increasing equity

exposure towards a 40% allocation, the implementation pace, and whether the increases in equities is through the existing passive developed market (DM) or to new strategic equity exposures (eg emerging market and factor tilts such as small, value, quality and smart beta).

Based on the paper and the ensuing discussion, the Board agreed to advise the Minister to increase the equity exposure to 40% over a period of 24 months from the June 2012 level of 20% at 0.83% per month. The Board took into account the recent developments in global markets and believed that the 40% level of exposure would give the Fund a reasonable probability of meeting a real return of 3% at an acceptable level of risk.

The Board decided to advise the Minister to continue the equity build-up in Developed Markets using the existing passive managers in the meantime which would give the Board time to develop more detailed benchmarks to capture strategic equity exposures.

The Board requested that Mr. Bailey lead a project on equity portfolio construction, with support from the IAB Secretariat. The project will enable the Board to specify the mandate parameters required by the BCTL for manager searches. The work is to be completed within 2 months of the meeting. The Secretariat recommended that meeting with fund managers directly, either in Singapore or Sydney, would speed up the process. The Board requested an estimate of costs for its consideration.

7. Work Plan for Currency Numeraire – Presentation by IAB Secretariat

As requested by the Board in its workshop on 7-8 May, the Secretariat prepared a Petroleum Fund Currency Analysis Project Plan which outlined the objectives, approaches, timelines, deliverables, and a budget of \$750 for a 1-day workshop for the Secretariat.

Mr. Araujo informed the Board that the project was aimed at producing an analysis and recommendation to the Board on the currency numeraire for the Petroleum Fund.

According to the project plan, the Secretariat would finalize and present the paper to the Board in third week of September 2012.

The Board concurred with the Project Plan and approved the budget.

8. Next IAB Workshop

The Board discussed the next IAB workshop and agreed that a workshop on Petroleum Fund investment strategy should be held in Dili with key stakeholders such as members of the new government, members of parliament, Consultative Council for the Petroleum Fund, and Civil Society.

9. Other business

Mr. Callum presented the notes and key takeaways from IAB's May workshop and the meeting reviewed progress on the follow-up actions.

Based on the notes, the Board requested the Secretariat to prepare a briefing paper on bond diversification to be tabled in the next IAB meeting.

The Board decided to hold the next meeting in two weeks time to discuss the Board's advice to Minister of Finance on the increasing of equity exposure to 40% and the bond diversification paper.

The Board noted the generosity of the World Bank in providing meeting and videoconference facilities for several years, and requested the Secretariat to send a letter of appreciation to the Bank.

As there was no other business, the Chairman declared the meeting closed at 18.00 hours.

Chairman

Secretary