

## **Minutes of Meeting**

### **Petroleum Fund of Timor-Leste**

# **Investment Advisory Board**

*Held on 02 December 2011*

*At the office of Bank for International Settlements, Hong Kong*

**Present:**

Kevin Bailey (Chairman)  
Sara Lobo Brites  
Tørres Trovik (via videoconference)  
Fernando da Silva, Alternate for Mr. de Vasconcelos (by teleconference)  
Simen Bjornerud, Alternate for Mr. Olgário de Castro

**In attendance:**

Torgim Roll, PF Advisor, Central Bank  
Samuel V. Robinson, Advisor, Central Bank  
Venancio Alves Maria, Executive Director, Central Bank  
Subodh Kumar Mathur, Treasury Advisor, Ministry of Finance  
Cosme da Costa Araujo, Petroleum Fund Analyst, Ministry of Finance  
Gastao de Sousa, Secretary, Central Bank

The Chairman declared the meeting open at 15:00 hours.

#### **1. Apologies**

Apologies were received from Mr. Olgário de Castro and Mr. Abraão de Vasconcelos.

#### **2. Approval of the agenda**

The agenda for the meeting was approved.

It was agreed to include an update on the signing of MoU between Ministry of Finance and LGT under agenda item 6.

### 3. Approval of the minutes of the meeting on 7 October 2011

The minutes of the previous meeting were approved.

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

Mr. Venancio updated the Board on operational developments of the Petroleum Fund at the Central Bank. He advised that the contract negotiation with State Street Global Advisors had been finalized and was moving to the implementation phase. The restructured mandates of BIS and BCTL would soon be implemented. He advised that Transition Management Agreement had been signed with two of the three members of the Transition Management Panel.

### 5. Strategic Asset Allocation (SAA):

- Short-term equity target

Following the amendments to the Petroleum Fund law, the Board considered that it was appropriate to increase the exposure of the Petroleum Fund to equities. Following discussions based on a workshop held the previous day, the Board concluded that the exposure to global developed markets equities should be increased to 20% as a first priority. The increase from 4% to 20% equity exposure would increase the volatility of the Petroleum Fund from 2.6% to 3.9%. The Board agreed that this was an acceptable level of risk given the increase in expected longer-term returns. The Board discussed the possibility of implementing the 20% exposure to equities at least within the first three month of 2012. Mr. Venancio commented that this would depend on the number of managers the Board wish to employ and how the Board would like this to be implemented. The implementation could be within weeks should the Board wish to simply increasing the existing manager's portfolio size. Should it required appointment of managers, this may take some times.

The Board agreed that the implementation should be effected in a series of small tranches with the expectation of achieving the 20% target by June 2012. The process would also require the appointment of a further equity index manager.

The second stage of equity exposure from 20% to 40% would be done on a more gradual basis based on the Board's need to define the investment objectives and requirements for a more diverse range of equity exposures, and the ability of Central Bank to appoint new managers.

The Board resolved to communicate its advice on the short-term strategy to the Minister of Finance.

- Global equity benchmark

It was acknowledged that the MSCI World index, which is currently being used for PF global equity benchmark, was a robust core index for the Petroleum Fund.

When the equity exposure progressively moves from 20 % to 40 %, other benchmarks indexes would be developed to reflect the need to broaden the investment universe.

- Global fixed interest benchmark

The Board discussed the global fixed interest benchmark and decided that diversifying the fixed interest exposure was a second order priority. Nonetheless, the Board would retain the issue on its agenda going forward.

- Rebalancing strategy

The Board recognized the need for a clear philosophy and rationale for rebalancing the portfolio, and had discussed several alternative approaches at its workshop the previous day. Because a well-constructed rebalancing policy can add to the overall return of the portfolio, the Board decided that it would be appropriate to advise the Minister of Finance on a rebalancing policy in due course.

The Board requested the secretariat to carry out a research on rebalancing issue with the objective of producing a policy paper to be discussed.

## 6. Other business

- Mr. Cosme informed the Board that the MoU was signed between Minister of Finance and LGT Group on the 11<sup>th</sup> November 2011 at Ministry of Finance. The intention of the MOU was to enable cooperation and strengthen the business relationship for mutual benefit between the parties, including transfer of technical know-how and exchange of experiences.
- The Board requested the Secretariat to prepare a letter of appreciation for both Towers Watson and Bank for International Settlements (BIS) for their technical inputs and hospitality during the IAB workshop and meeting, which took place on the 1<sup>st</sup> and 2<sup>nd</sup> December 2011 in Hong Kong.
- As there was no other business the Chairman declared the meeting closed at 17.30 hours.

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**Chairman**

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**Secretary**