

Minutes of Meeting

Petroleum Fund of Timor-Leste

Investment Advisory Board

Held on 07 October 2011

At the Banco Central de Timor-Leste (BCTL)

Present:

Olgário de Castro (Chairman)
Sara Lobo Brites
Kevin Bailey
Abraao de Vasconcelos
Tørres Trovik (via tele conference)

In attendance:

Simen Bjornerud, Fiscal Policy and Petroleum Fund Advisor, Ministry of Finance
Torggrim Roll, PF Advisor, Central Bank
Filipe Nery Bernardo, Petroleum Fund Analyst, Ministry of Finance
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
Peter Ryan-Kane, Head of Portfolio Advisory, Asia Pacific, Towers Watson
Paul Colwell, Investment Consultant, Asia Pacific, Towers Watson

The Chairman declared the meeting open at 09:00 hours.

1. Apologies

Apology was received from Mr. Torres Trovik who could not join the morning session due to time difference. He joined the second half of the meeting in the afternoon via teleconference.

2. Approval of the agenda

The agenda for the meeting was approved with minor amendments.

Mr. Kevin Bailey requested to include a progress report on the transition panel and the new equity manager under agenda item 5.

The Board agreed to include a letter from Minister of Finance seeking the Board's opinion on a draft Memorandum of Understanding between Ministry of Finance and LGT Group Foundation under agenda item 7.

3. Approval of the minutes of the meeting on 18 May and 14 September 2011

The two minutes were approved. The Board resolved that item 6 and 7 of minutes of the meeting held on 18 May 2011 and item 5 of the meeting held on 14 September 2011 should be declared confidential until the arrangements have been implemented.

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

None

5. Update from BCTL on the implementation of the new equity mandate

Mr. Venancio informed that the Minister of Finance has approved the appointment of State Street Global Advisory (SSgA) as the new equity manager. BCTL is in the process of negotiating the contract. This process is expected to be finalized by the end of October 2011 at which point the equity mandate is ready for implementation.

Mr. Venancio informed that the BCTL is also in the process of finalizing the negotiation with the transition panel consisting of Russell Investment Group Pte Ltd, State Street Global Markets and Citigroup Markets Australia Pte Ltd.

Mr. Venancio informed that BCTL is in the process of finalizing legal amendments to the agreement with BIS, in line with the restructured mandate.

6. Proposal for restructuring the BCTL-mandate: Presentation by the IAB Secretariat

Further to a request from the IAB, a discussion paper was prepared by the Secretariat to analyze the BCTL mandate. The paper addresses the low returns especially in the short end of the US Treasury yield curve, and the relative steepness of the Treasury curve. Three main points are:

- a. When restructuring the BCTL mandate, consideration should be given to the likely short to medium term need for cash when increasing the portion of equities or other securities. The paper recommends that given the unusually low short-end yields to define 1-3 year segment as cash. This portfolio could be hold to maturity and be benchmarked against the Merrill Lynch (1-3)year Treasury bill index.
- b. Given the current situation with an unusually steep yield curve, the return from higher duration is being particularly rewarded. The paper suggests, by technically assuming an equity portion of 35 %, this environment may give rise to higher expected return which has not historically does increase risk volatility in the fund due to the diversification.
- c. The paper further concludes that a long-duration bond portfolio has better diversifying properties coupled with equities than a short bond portfolio.

Taking into account the overall management of the global portfolio, the Board resolved to advise the Minister that the BCTL should be given two mandates.

First, a US Treasury Notes mandate for 40% of the Petroleum Fund benchmarked to the Merrill Lynch 3-5 year US Treasury Index, replacing the existing 0-5 year US Treasury mandate.

Second, a short duration mandate for liquidity purposes for the balance of the Fund not otherwise invested in specific mandates benchmarked to 1-3 year US Treasury Index.

7. Other business

Further to the discussions in the Workshop for the Executive held on 6 October 2011, the Board requested TW to provide input on the topics of pace of phasing-in and rebalancing, for the Board to discuss in its next workshop.

The Chairman closed the morning session and informed that the meeting adjourned to 15:30 hours in the afternoon.

Afternoon Session

The meeting resumed at 15.30 in order to accommodate inputs from Mr. Tørres Trovik via teleconference.

1. The Board reviewed the draft letter to Minister of Finance discussed in the item 6 above and unanimously approved the letter.
2. The Board discussed the letter from Minister of Finance dated 7 October 2011 re draft Memorandum of Understanding between Ministry of Finance and LGT Group Foundation.

The Board noted 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 also noted the possible visit of H.S.H. Prince Philipp of Liechtenstein, Chairman of LGT Group Foundation when the proposed MOU is expected to be signed by both parties.

The Board's opinion on an MOU was that it should not create any legally binding obligation for both parties and it cannot over-rule procedures and mechanism stipulated in the Petroleum Fund Law.

On that basis, the Board resolved to send a letter to Minister of Finance advising her to consider the above-mentioned issues and redrafted the MOU accordingly.

3. The Board agreed to hold another workshop and meeting which should take place before the end of the year.

As there was no other business the Chairman declared the meeting closed at 17.00 hours.

Chairman

Secretary