

**Minutes of Meeting**  
**Petroleum Fund of Timor-Leste**  
**Investment Advisory Board**

*Held on 18 May 2011*

*At the Office of the World Bank*

Present:

Olgário de Castro (Chairman)  
Sara Lobo Brites  
Kevin Bailey (via teleconference)  
Samuel V. Robinson as alternate for Mr. Abraao de Vasconcelos  
Tørres Trovik (via video conference)

In attendance:

Simen Bjornerud, Fiscal Policy and Petroleum Fund Advisor, Ministry of Finance  
Fernando da Silva, Chief Accounting, BPA  
Torgrim Roll, PF Advisor, BPA  
Filipe Nery Bernardo, Petroleum Fund Analyst, Ministry of Finance  
Subodh Kumar Mathur, Treasury Advisor, Ministry of Finance  
Sandra F.P. Chan Chao, Petroleum Fund Accountant, Ministry of Finance  
Jose Ximenes, Chief of Risk Management Division  
Gastao de Sousa, (Secretary)

The Chairman declared the meeting open at 16:00 hours.

**1. Apologies**

An apology was received from Mr. Abraao de Vasconcelos. Mr. Robinson was present as alternate for Mr. De Vasconcelos

**2. Approval of the agenda**

The agenda for the meeting was approved.

**3. Approval of the minutes of the meeting on 4 March 2011**

The minutes of the meeting held on 4 March 2011 were adopted and approved for publication.

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

The Board raised an issue related to the roadmap on the plan to develop a scholarship program to increase capacity to manage the Petroleum Fund.

#### 5. IAB Work Plan

The Board discussed the work plan and suggested holding a workshop to elaborate on the roadmap, including on issues related to the PF Law amendments. The chairman suggested the Secretariat draft a letter to the Minister conveying the expected risk-return trade-offs at different PF asset allocations to facilitate discussions in the Council and Parliament.

#### 6. Proposal for the changes of the benchmark for the BIS mandate

Following the Board's request at its previous meeting, the Secretariat presented a report on changes to the benchmark for the BIS mandate. The Secretariat informed that the paper had been reviewed by BIS, Towers Watson, and the Ministry of Finance in Norway.

The report makes two main proposals; *first*, limiting the BIS investment universe to the qualifying instruments in Article 15 of the Petroleum Fund law and *second*, increasing the duration of the BIS benchmark. The rationale for the first proposal is to make room for the new equity mandate. The rationale for the second proposal is to improve the present sub-optimal risk return trade-off.

The Board resolved that the BIS should be given a new mandate with the 5-10 year US Treasury index as the benchmark, with the same risk parameters as the existing mandate. The Board requested the Secretariat to formalize the Board resolution to change the benchmark in a letter to the Minister.

Further to this decision, the Board asked the Secretariat to prepare a progress report on developing the BPA internal mandate.

IAB advice and action to be taken: 1) BIS shall employ 5-10 year US Treasury index as benchmark. 2) The Secretariat formalizes the decision in a letter to the Minister. 3) The Secretariat prepares a progress report on the possible development of the BPA mandate.

#### 7. Transition Managers

The Board discussed a letter received from the Minister containing a proposal from the BPA dated 31 March 2011 to engage three firms to form a transition panel for the PF. The three firms are Russell Investment Group Pte Ltd, State Street Global Markets, and Citigroup Global Markets Australia Pty Ltd.

The Board reviewed the proposal from the BPA and resolved to advise the Minister that each of the proposed managers met the stipulations in article 12.2 of the PF Law, and that the BPA had followed due process in accordance with article 12.3 of the Law, and that the BPA's proposal could be approved.

IAB advice and action to be taken: The Board approves the Panel put forward by the BPA that may manage assets of the Petroleum Fund on an interim basis. The Secretariat drafts the letter with the advice to the Minister.

#### **8. Update information on the PF performance of quarter ended 31 March 2011**

Mr. Fernando reported that the return on the PF portfolio in the quarter ended 31 March 2011 had been 0.31% while the return on the benchmark had been 0.35%. Cash received during the quarter was USD 819.23 million while the outflows were USD 0.79 million which had been all to cover the management costs. There had been no transfer to the general budget during the quarter. The capital of the Fund reached USD 7,745.25 million at the end of the quarter. The annualized returns for the previous 12 months had been 3.29% for the PF and 3.31% for the benchmark. The modified duration of the Petroleum Fund portfolio had been maintained within the mandate.

The Board noted the performance report for the quarter ended 31 March 2011.

#### **9. Other Businesses**

Mr. Sam Robinson advised the Board that the BPA was in the process of implementing a programme to introduce best practices based on international standards for asset management to further strengthen the operational management of the Fund. He said that in addition to identifying the control objectives for the management of the Fund, it would also contribute to the BPA's capacity development plan.

The Board noted the issue and advised to utilize the available recourses (the management fee of the Fund) to develop training or relationship with other funds in capacity building development, including the capacity building of Board members.

It was agreed that the next meeting would take place at the end of June 2011.

As there was no other business the Chairman declared the meeting closed at 18.10 hours.

---

**Chairman**

---

**Secretary**