

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

*Held on 04<sup>th</sup> March 2011*

*At the Office of the World Bank*

Present:

Olgário de Castro (Chairman)  
Kevin Bailey  
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  
Torgrim Roll, PF Advisor, BPA  
Filipe Nery Bernardo, National Adviser, Ministry of Finance  
Fernando da Silva Carvalho, Chief Accounting, BPA

Peter J. Ryan-Kane, CFA, Head of Portfolio Advisory for the Asia Pacific, Towers  
Watson, Hong Kong  
Paul Colwell, CFA, Market Analyst and Investment Consultant, Towers Watson,  
Hong Kong

The Chairman declared the meeting open at 15:30 hours, and welcomed everyone in the second IAB meeting in 2011.

### **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 with minor changes. Item 5 Draft report Roadmap for the Strategic Assets Allocation- Presentation by Towers Watson was moved up to as item 3.

### **3. Draft report “Roadmap for the Strategic Asset Allocation” – Presentation by Towers Watson**

The Ministry of Finance had requested Towers Watson (TW) to conduct a study on the roadmap for the implementation of a new asset allocation for the Petroleum Fund, once the proposed amendment of the PF law adopted by the Parliament. Towers

Watson presented its draft report “Roadmap for the Strategic Asset Allocation” to the Board. Key findings and recommendations of the report were:

- By far the most important policy decision is the split between bonds and equities. Typically, some 90-95% of the expected return is decided by this fundamental allocation (the benchmark), while the added potential gains from active management is accordingly small.
- TW believes that a 40% of the Funds assets should be invested in equities with the remaining 60% in bonds. This allocation should be sufficient to meet the implied return target of 3% real (60% probability). Equity exposure adds materially to the risk (volatility) of the Fund and equity exposure above 40% is not recommended. TW expects this allocation to be reached over an extended period of time, thereby reducing the impact of market timing.
- TW believes that active management can add value over time, if managed well. However, TW noted that good active management would require significant resources (either internal or external), superior process and suitable level of confidence in the manager’s ability to add value over the investment cycle.
- In the short run, TW suggested to keep the investment universe very simple with a focus on global equities (developed markets) and global sovereign bonds, keeping in mind that investment complexity must match the Petroleum Fund’s ability (resources, capacity and capability).
- TW believed that as the Fund grows (both in terms of size and ability) and the asset allocation shifts from US Government bonds in to other asset classes it could be beneficial to consider breaking global equity and bonds down in to their sub-component parts, both regionally, across sectors (in the case of bonds) and across various risk factors or exposures.

The Board thanked the Towers Watsons for the presentation of their study.

#### **4. Approval of the minutes of the meeting on 31 January 2011**

The minutes of the previous meeting held on 31 January 2011 were approved and adopted for publication.

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

None

#### **6. New Equity benchmark**

Following the Board’s request at its previous meeting, the Secretariat presented a discussion paper on the proposed benchmark for a new equity mandate.

Following a discussion of the issues, the Board resolved to send a letter to the Minister of Finance containing a recommendation for a new mandate to invest a further 4% of the Petroleum Fund in global equities.

**7. & 8. Proposal on Restructuring on BIS and BPA's Internal mandate**

Following the Board's request at its previous meeting, the Secretariat presented a progress report on the work on a new benchmark for the BIS and internal BPA mandate.

The Board requested the Secretariat to continue the analysis and to seek Towers Watsons input to the process.

**9. Work plan for 2011**

The Board postponed the agenda item until the next IAB meeting

**10. Other Business**

It was agreed that the next meeting would take place on 7 April 2011.

As there was no other business the Chairman declared the meeting closed at 19.00 hours.

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**Chairman**

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**Secretary**