

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

Held on 15th April 2010

At the Office of the World Bank

Present:

Olgário de Castro (Chairman)
Sara Lobo Brites
Venancio Alves Maria, as alternate for Mr. Abraao de Vasconcelos
Tørres Trovik (via videoconference)
Kevin Bailey (via teleconference)

In attendance:

Vidar Ovesen, Fiscal Policy and Petroleum Fund Advisor, Ministry of Finance
Torgrim Roll, Advisor for PF Department, BPA
Sam Robinson, Advisor for BPA
Subodh Kumar Mathur, Treasury Advisor, Ministry of Finance
Filipe Nery Bernardo, National Adviser, Ministry of Finance
Gastao de Sousa, (Secretary)

The Chairman declared the meeting open at 08:40 hours.

1. Apologies

Apologies were received from Mr. Abraao de Vasconcelos and Mr. Venancio Alves was present as his alternate.

2. Approval of the agenda

The agenda for the meeting was approved.

3. Approval of the minutes of the meeting on 18 March 2010

The minutes of the meeting held on 18 March 2010 were approved.

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

None

5. Election of Chairman

The Chairman stated that based on Article 2.2 of the Board's Rules of Procedure, his term of office had ended, and he opened the meeting to nominations for the position.

Mr Olgário de Castro was nominated by Mr Kevin Bailey (seconded Mr Torres Trovik) and re-elected unanimously.

6. Proposal to appoint a global equity manager – recommendation to the Minister

The Board continued its consideration of the BPA's proposal for the appointment of Schroders as the external manager for the global equities mandate. It was confirmed that 3-5% of the Fund should be invested in a portfolio benchmarked to the MSCI World Index Net Dividends Reinvested index, with the permissible investment universe being the Developed Markets Equity Universe as defined by MSCI. The Board considered the proposed use of derivatives and agreed that equity index future and currency forwards should be permitted, provided that their use was restricted to reducing the risk to the portfolio from the underlying instruments or to facilitate the efficient implementation of asset exposure, that the resulting exposure be no bigger than the permissible direct exposure to the underlying assets under the mandate, and that the credit quality of the counterparties to derivative transactions should be of investment grade.

The Board considered the risk management of the proposed mandate and decided that the portfolio should be managed in an enhanced passive indexing style and maintained within a tracking error relative to the benchmark that should not normally exceed 100 basis points, and with load differences maintained within 0.5% (security level) and 2.5% (country and sector levels). The Board noted that circumstances in the financial markets could arise under which the tracking error of the portfolio could exceed 100 basis points. The Board noted that flexibility in the upper limit was needed to avoid the possibility of incurring rebalancing costs and to permit the possibility of maintaining otherwise acceptable portfolio positions during volatile market conditions, but that the flexibility was not intended to permit active position-taking by the manager. Nonetheless the Board decided that at no time should the ex ante tracking error be allowed to exceed 150 basis points.

The Board satisfied itself on the basis of the information submitted in the BPA's proposal that Schroders met the requirements of Article 12 of the Petroleum Fund law.

As a result of its discussions the Board resolved to write to the Minister supporting the appointment of Schroders and proposing a revised global mandate incorporating Schroders' investment instructions to be annexed to the Management Agreement between the Ministry of Finance and the Banking & Payments Authority.

7. Proposal to appoint fixed income manager(s) – recommendation to the Minister

The Board reviewed the BPA's proposal to appoint a manager for the fixed income mandate. The Board noted that its previous discussions on the mandate had taken place in 2008, and that the Board had subsequently spent considerable time discussing future investment options, which had formed the basis of its advice to the Minister on amendments to Articles 14 and 15 of the Petroleum Fund law. In light of those discussions the Board considered that it was appropriate to review the need for outsourcing this mandate.

The Board noted that should its advice be substantially adopted into a revision of the Petroleum Fund law due to take place within a few months, the Board would need to undertake a review of the strategic asset allocation and investment strategy of the Fund. In light of this possibility the award of the fixed interest mandate would add complexity and cost to the transition from the current strategic asset allocation to the new one.

The Board discussed the mandate in the context of financial market developments that had taken place since its original decision in 2008 as well as the outlook for fixed interest markets. The Board concluded that the case for implementing the fixed interest mandate was not as strong as it had been previously.

Accordingly the Board resolved to write to the Minister recommending that the fixed interest mandate be withdrawn with the consequence that the appointment recommended in the BPA's proposal not be made.

8. Statement of Investment Principles

Mr. Sam Robinson and Vidar Ovesen presented a new draft of the working version of the Statement of Investment Principles for the Board's consideration. They said that the document was intended to provide a transparent description of the framework that the IAB would follow in recommending the types of investment the Fund would invest in, the investment philosophy, and the types of risk that it would recommend that the Fund would adopt.

The Board agreed with the format of the document and noted that the individual policies in the document would benefit from further consideration. The Board requested the Secretariat to seek external advice on the draft proposal. The Board decided to continue its discussion of the document at its next meeting.

9. Other Business

The Board decided that its next meeting should be held on 12 May 2010.

As there was no other business the Chairman declared the meeting closed at 11.30 hours.

Chairman

Secretary