

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

Held on 04th March 2010

At the Office of the World Bank

Present:

Olgário de Castro (Chairman)
Abraao de Vasconcelos
Tørres Trovik (via videoconference)
Kevin Bailey (via teleconference)

In attendance:

Vidar Ovesen, Fiscal Policy and Petroleum Fund Advisor, Ministry of Finance
Venancio Alves Maria, Executive Director of Petroleum Fund
Filipe Nery Bernardo, National Adviser, Ministry of Finance
Torgrim Roll, Advisor for PF Department, BPA
Sam Robinson, Advisor for BPA
Epifanio Martins, Ministry of Finance

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

1. Apologies

Apologies were received from Mrs. Sara Lobo Brites.

2. Approval of the agenda

The agenda for the meeting was approved.

3. Approval of the minutes of the meeting on 4 February 2010

The minutes of the meeting held on 4 February 2010 were approved.

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

The Chairman reported that a letter had been received from the Minister dated 23 February 2010 requesting advice on the BPA's recommendation to appoint external managers and suggested the issue be included on the agenda for the next meeting of the Board. He requested that questions and comments from Board members on the

BPA's proposal be directed to the Secretariat in order to ensure they could be addressed prior to the next meeting.

He also informed the Board that the Government had received a letter from one of the candidates that the BPA had not shortlisted during the selection process raising concerns about the process. The Board was informed that the candidate had not raised the matter directly with the BPA. He informed the Board that the Minister planned to attend to the issue before approving the appointment.

5. Progress Report on Investment Philosophy

The Secretariat gave a progress report on the work related to the draft paper on Investment Principles, in light of the previous discussions in the Board on this issue. The Secretariat said that it needed additional time to finalize the draft taking into account previous input from various Board members. The Secretariat had reviewed the draft paper both in terms of structure of the document itself as well as its content.

Board members underlined the urgency of finalizing the document, as it would provide important guidance for the Board when providing advice to the Minister in terms of future investment mandates and appointments of external managers.

6. Revision of Rules of Procedures for the IAB

In accordance with the Board's request in the previous meeting the BPA had sought advice from its legal advisor on the draft revisions of the Board's Rules of Procedure. The legal opinion had been circulated to the Board the day prior to the meeting.

Due to the content of the legal opinion the meeting agreed to defer the matter until the Secretariat had been able to review the opinion and discuss it with the legal advisor. The draft proposal would then be adjusted in accordance with the legal opinion.

7. Investment Mandate - TIPS

The Board had discussed this matter in several meetings and had received input from the consultant company Towers Watson, both in terms of the BPA's ability to manage TIPS and eventually how a TIPS mandate can be designed.

The BPA tabled a memo outlining a number of reasons why it considered it would be preferable to defer the decision to implement a TIPS mandate. Other members of the Board provided their view on the issue in the ensuing discussion.

After reviewing all input and discussions in the Board, the Board decided not to recommend investing in TIPS in the immediate future due to the following reasons:

- 1) The total Petroleum Wealth of Timor-Leste had already a degree of inflation protection in place through the oil price. While a majority of the country's Petroleum Wealth remained under the seabed in Timor Sea, the need for inflation

protection would be less than if all resources had already been transferred to the Fund.

- 2) An allocation to TIPS would give protection against higher inflation in the short and medium term. IAB has not identified a sufficiently strong case for inflation protection through a strategic position in TIPS at this stage.
- 3) There was a strong preference for defining the overall asset allocation of the Fund in light of changes in the Petroleum Fund Law before a decision on allocation to TIPS as a new asset class could be fully justified.
- 4) Priority should be given to the other mandates already approved.

8. Work Plan and Meeting Schedule for 2010

The Secretariat presented a draft Work Plan and Meeting Schedule for 2010 to the Board.

In addition to review of the Petroleum Fund performance on a quarterly basis and issues already discussed or raised in the Board so far in 2010, the draft included the following three main tasks for 2010:

- Overall Strategic Asset Allocation for the post-PF Law-review period
- A framework for monitoring and reviewing the Fund's managers
- A framework for a regular review of the asset allocation and investment mandates

The Secretariat suggested that two Board meetings be held every quarter in 2010 in order to attend to the quantity of business in the Work Plan.

The proposal from the Secretariat with the Meeting Schedule was adopted by the Board.

9. Other Business

The Chairman referred to the Rules of Procedure regarding the Chairman's tenure of office and suggested that an election of the Chairman be included in the agenda for the Board's next meeting.

As there was no other business the Chairman declared the meeting closed at 12.10 hours.

Chairman

Secretary