

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

Held on 04th February 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
Gastao de Sousa, Chief Economist, BPA (Secretary)

Peter Ryan-Kane CFA, Head of Portfolio Advisory, Towers Watson attended item 7 by teleconference.

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 without amendment.

3. Approval of the minutes of the meetings on 15 December 2009

The minutes from the meeting of 15 December 2009 were approved.

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

None

5. Investment Philosophy

A draft document containing Key Beliefs and Investment Principles for the Petroleum Fund was discussed by the IAB. The draft document was based on input from members of the Board and work done by the Secretariat.

The draft document was intended to provide a transparent description of the Investment Principles, philosophy and key beliefs framework of the Petroleum Fund and the types of investments the Fund will invest in, the investment philosophy and the types of risks that the Fund will adopt.

The Board discussed the document provided and requested the Secretariat to review further for discussion in the next meeting.

6. Revision of Rules of Procedures for the IAB

The board recognized that there is a range of documents typically handled by the Board, some of them being public documents while the others are confidential. There is also the potential for conflicts of interest for the members of the Board.

The Board considered that both these matters should be incorporated into its Rules of Procedures.

The Secretariat provided a draft revision of the Rules of Procedures which the Board commenced a discussion.

The board deferred the remainder of its discussion to the next meeting, and requested the Secretariat to seek legal opinion on the draft amendments in the mean time

7. Investment Mandate - TIPS

Mr. Peter Ryan-Kane, Head of Portfolio Advisory in Towers Watson joined the meeting by teleconference at this point.

Towers Watson (previously Watson Wyatt) has assessed the operational ability of the BPA to manage an investment mandate for US TIPS, including a review of operational procedures, capacity and systems. Conclusions are provided in its report "Review of the BPA's capability to manage US TIPS" which was circulated to the Board in December 2009.

Upon request by the IAB Secretariat they have also provided advice on certain issues related to a potential TIPS mandate. The report "Advice regarding potential TIPS mandate" was distributed prior to the IAB meeting. Mr. Ryan-Kane of Towers Watson, attended through teleconference call, and presented the conclusions from the reports.

The IAB noted the conclusions and advice provided by Towers Watson and discussed whether it is appropriate for the Petroleum Fund to include US TIPS in the portfolio.

The Board agreed to further discuss the TIPS matter in the next meeting.

8. Update information on the PF performance of quarter ended 31 December 2009

Mr. Venancio Alves reported that the return on the PF portfolio in the quarter ended 31 December 2009 had been -0.10% while the return on the benchmark had been -0.10%. Cash received during the quarter was USD 394.03 million while the outflows were USD 313.34 million in which USD 312 million for transfer to the State Budget and USD 1.34 million to cover the internal and external management cost. The capital of the Fund therefore reached USD 5,376.63 million in the quarter, which 20.20% was under the BIS management. The annualized returns for the previous 12 months were 0.60% for the PF and 0.67% 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 December 2009.

9. Other Business

It was resolved that the next meeting would be held on March 4, 2010.

As there was no other business the Chairman declared the meeting closed at 12.25 hours.

Chairman

Secretary