

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

*Held on 3<sup>rd</sup> June 2009*

*At the Office of the Banking and Payments Authority*

Present:

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

In attendance:

Jose Alexandre de Carvalho, Senior Accounting Officer, Treasury, MoF  
Subodh Kumar Mathur, Treasury Advisor, Ministry of Finance  
Vidar Ovesen, Fiscal Policy and Petroleum Fund Advisor, Ministry of Finance  
Torgrim Roll, Advisor for PF Department, BPA  
Sam Robinson, Advisor for BPA  
Gastao de Sousa, Chief Economist, BPA (Secretary)

The Chairman declared the meeting open at 16.30 hours.

Apologies were received from Mr. Abraao de Vasconcelos. Mr. Venancio Alves Maria the Executive Director of the PF Department, was present as his alternate.

The agenda for the meeting was approved without amendment.

**1. Minutes of Previous Meetings**

The minutes of the previous meeting held on 16<sup>th</sup> March 2009 were approved subject to minor amendments and adopted for publication excluding the sections declared confidential. The Board resolved to review the sections previously declared confidential in earlier minutes for publication once the confidentiality was no longer applicable.

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

The secretariat reported a typographical error which had occurred in the attachment to the IAB's recommendation of 16 March 2009. The secretariat submitted a draft letter and the revised recommendation (Annex 1, Qualifying instrument) for the Board's attention for correction to the Minister.

The Board noted the memo and authorized the Chairman to sign the letter and forward it to the Minister with the corrected Annex 1.

### **3. Update information on the PF performance for quarter ended 31 March 2009**

Mr. Venancio gave a brief presentation on the performance of the Petroleum Fund for the quarter ended 31 March 2009. He said that the quarterly return of PF portfolio based on Modified Dietz Method had been 0.01%, while the return on the benchmark had been 0.02%.

Cash received during the quarter was USD 549.88 million, and the total capital at the end of the quarter was USD 4,750.08 million. The annualized return for the previous 12 months had been 6.29% for the PF and 6.33% for the benchmark. The modified duration of the Petroleum Fund portfolio had been maintained within the mandate.

Board members raised a concern related to the likely public perception of positive and negative returns and suggested that a programme be developed to describe the movement of the Fund by moving the focus from the short to the longer term, using analyses based on the experience of other countries.

The Board noted the performance report for the quarter ended 31 March 2009 given by the BPA.

### **4. Issues to be addressed by the IAB in 2009**

The Board secretariat documented several issues to be addressed by the IAB during 2009. The issues provided in the document were a summary of recent proposals, submissions and discussions in the IAB, including the strategy session held on 16 March 2009.

The secretariat requested the IAB to consider and to give guidance on its priorities taking into account the limited resources available in the BPA and the MoF.

The Board discussed the paper and determined the following priorities, respectively:

- Further diversification of the portfolio
- Investment philosophy
- Performance measurement and the fund's numeraire
- Currency policy

The first two options were determined as high priority to be addressed early in accordance with the current Law. The Board noted that the other two options would be more appropriately discussed once the PF Law has been amended.

The Board requested the BPA to report on its internal capacity to diversify the portfolio internally and to consider proper changes in its investment mandate for IAB's consideration at its next meeting.

The Board also requested Mr. Kevin to assist the Secretariat with the preparation of a paper on the investment philosophy.

Moreover, the IAB resolved to request Mr. Torres to present a draft paper on the hedging strategy for the current BIS-mandate and other related currency policy issues which are required to address within the current PF Law. Taking into account the amount of work

needed to support the Board's programme and the resources available in Ministry of Finance, Secretariat and BPA, the Board resolved to write to the Minister requesting the Minister to add more resources to facilitate the work of the IAB.

The Board requested the Secretariat to draft a suitable letter to the Minister for discussion at the next IAB meeting. Mr. Venancio, the alternate of Mr. De Vasconcelos, did not favor the approach because the law requires the BPA to support the Secretariat and provides for the BPA to recover reasonable fees for this purpose.

#### **Other Business**

Mr. Venancio informed the Board on the status of the Investment Management Agreement with the BIS, noting that the BPA had formally signed the agreement with the BIS on 3<sup>rd</sup> of June 2009. The Board noted the issue and discussed the transition period and how the BPA proposed to deal with the rebalancing issue. Mr. Venancio said that the BPA had selected JPMorgan Security Limited from a number of candidates to undertake the transition management for the BIS mandate. He said that the transition would be completed within two weeks before handover the portfolio to the BIS. The BPA had also engaged a Transition Advisor to monitor and report on the transition process.

The Board expressed satisfaction with the BPA's implementation and advised that a joint press conference between the Ministry of Finance and the BPA should take place to announce the appointment of the BIS as the first External Manager of the Fund, as suggested in the transition plan. The Board also presumed that the BPA would set up guidelines for rebalancing, and that on the date the transfer takes place the BPA and Minister of Finance would sign a new Management Agreement.

The Board also asked about the impact on the BPA's quarterly report in terms of how the performance will be reported. The Board advised the BPA and the Ministry of Finance to agree on how the performance of the various managers should be presented to the public. Mr. Venancio said that this will be discussed in due course since external managers being added to the Fund would require the BPA to assess the nature of the information to be included in the report.

It was resolved that the date of the next meetings would be on August 28, 2009 and December 02, 2009 respectively.

As there was no other business the Chairman declared the meeting closed at 19.40 hours

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**Chairman**

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**Secretary**