

Minutes of Meeting

Petroleum Fund of Timor-Leste

Investment Advisory Board

Held on 16th March 2009

At the Offices of the World Bank, Dili

Present:

Olgário de Castro (Chairman)
Abraão de Vasconcelos
Tørres Trovik (by video conference)
Kevin Bailey

Absent:

Manuel Monteiro

In attendance:

Venancio Alves Maria, Executive Director of the PF Management , BPA
Vidar Ovesen, Fiscal Policy and Petroleum Fund Advisor, Ministry of Finance
Torgrim Roll, Advisor for PF Department, BPA
Sam Robinson, Advisor for BPA (by teleconference)
Hugo Nogueira Campaniço, Legal Advisor for BPA
Francis Ssekandi, Legal Advisor for Minister of Finance

The Chairman declared the meeting open at 8.30 hours.

The agenda for the meeting was approved without amendment.

1. Minutes of the meeting 27 August, 23 October, 19 December 2008 and 13 February 2009

Based on the Board's request in the previous meeting, the Secretariat had identified sections to be declared confidential under Article 32 of the Petroleum Fund Law and submitted for the Board's discussion. The Board discussed the revised minutes of 27 August, 23 October, 19 December 2008 and the minutes of 13 February 2009 and adopted the minutes for publication excluding the sections declared confidential.

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

None.

3. Letter from the Minister dated 4 February 2009 regarding proposal of engaging Bank for International Settlements (BIS) as an external portfolio manager for the Petroleum Fund

The Board continued its discussion about the draft letter from the Board to the Minister provided by the Secretariat prior to the Board's previous meeting on 13 February 2009 regarding the recommendation of approving the BPA's proposal to hire the BIS as an external manager of the Petroleum Fund.

The Board noted that suggested amendments to the draft letter were circulated to the Board members prior to the meeting. Moreover, the BPA advised it had sent a letter to the Prime Minister's Office seeking an independent legal opinion on matters of concern which had been raised by the Ministry of Finance.

The Board exchanged views on various issues related to the recommendation from the BPA and discussed the draft letter from the Board to the Minister. The following issues were highlighted in the discussion:

- The BPA has followed due process in accordance with Article 12.3 of the Petroleum Fund Law and noted that the BPA's external legal counsel, Clifford Chance, has reviewed and signed off the draft contract. The Board discussed the BIS' standard of care as set out in the proposed contract and the Board noted that in the course of negotiations spanning several months various standards of care had been considered by both parties, the BPA taking note of advice received from its external legal counsel. Moreover, the Board noted that the BIS is a non-commercial institution of the highest reputation owned by the world's central banks.
- The Board noted that the provisions in the draft contract regarding the use of derivatives comply with the Petroleum Fund Law. The Board noted that the BIS intends to use only interest rate swaps, forward bond futures and bonds swaps that the Investment Guidelines in the contract with the BIS could be limited to those instruments that actually are going to be used, without limiting the investment universe negotiated with the BIS.
- The Board discussed and agreed that the global benchmark included in the Management Agreement (MA) between the MoF and the BPA should be determined by a fixed ratio between the underlying benchmarks and followed by a rebalancing regime. However, the final ratios cannot be determined until the market value of Petroleum Fund is known as of the transaction date.

The Board resolved to advise the Minister that the BPA's proposal complies with the Petroleum Fund Law. As the use of derivatives was part of the investment guidelines negotiated between MoF and the BIS, the IAB wished to suggest that the MoF seek to include explicit wording on what type of derivatives should be allowed in the contract, without limiting the investment universe negotiated with the BIS. The Board's opinion was that the stipulations in Article 12.2 of the Petroleum Fund Law had been fulfilled. Hence, the Board resolved to recommend that the Minister of Finance approve the

proposal put forward by the BPA, with the suggested amendments, to appoint the BIS as an external manager of the Petroleum Fund and outsource an initial amount of US\$1 billion in accordance with the final negotiated investment guidelines as presented in the BPA's proposal.

Furthermore, the Board resolved to recommend to the Minister that the Management Agreement (MA) between the Ministry of Finance and the BPA be amended to reflect these arrangements. The global benchmark, included in Annex 1 of the Management Agreement (MA), should be determined by a fixed ratio between the underlying benchmarks included in the two sub mandates and in accordance with the ratio at the time of transfers of funds to the BIS. These fixed ratios should be implemented with a rebalancing regime, to ensure that the BPA has a mechanism to allocate new funds and to reallocate existing funds, subject to changes in the relative market value of the two sub portfolios as well as due to cash transfers to and from the Fund, to adhere to the fixed ratio determined in the global mandate.

Other Business

As there was no other business the Chairman declared the meeting closed at 11.15 hours.

Chairman

Secretary