

Minutes of Meeting

Petroleum Fund of Timor-Leste Investment Advisory Board

Held on 13th February 2009

At the offices of the World Bank

Present:

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

In attendance:

Venancio Alves Maria, Executive Director of the PF Department, BPA
Gastão de Sousa, Chief Economist, BPA (Secretary)
Vidar Ovesen, Fiscal Policy and Petroleum Fund Advisor, Ministry of Finance
Torgrim Roll, Advisor for PF Department, BPA
Sam Robinson, Advisor for BPA

The Chairman declared the meeting open at 9.10 hours.

Apologies were received from Mr. Manuel Monteiro.

The agenda for the meeting was approved.

Minutes of the meeting 27 August, 23 October, and 19 December 2008

The Board discussed the publication of the minutes and adopted the principle of declaring certain sections of the minutes confidential until the implementation of the issues discussed. The Board requested the secretariat to review the previous minutes to determine which parts should be declared confidential and submit the revised minutes to the Board for discussion. Approval of the minutes of previous meetings held on 27 August, 23 October, and 19 December 2008 was deferred pending these changes.

Business arising from the minutes not otherwise included in the agenda

The secretariat suggested that the declaration of Board member's assets and income was a matter that should be determined by the Minister as the appointing

authority rather than a matter to be determined by the Board itself. The Board agreed to leave the issue to the Minister.

Update information on the PF performance for quarter ended 31 December 2008

Mr. Venancio, the Executive Director of the Petroleum Fund Department of the BPA, gave a brief presentation on the performance of the Petroleum Fund for the quarter ended 31 December 2008. He said that US Treasury bond yields had decreased significantly during the quarter. The 3 and 6 months US treasury benchmark reference bills decreased by 83 and 135 basis points respectively, while 2 years bond yields fell by 120 basis points. The 3 and 5 years US treasury benchmark reference notes decreased by 104 and 143 basis points. The return on the PF portfolio was 3.30%, while the benchmark return was 3.36%.

Cash received during the quarter was USD 585.81 million, and the total capital as of the end of the quarter was USD 4,196.97 million. The annualized return for the last 12 months (1 January 2008 – 31 December 2008) was 6.89% for the PF and 7.06% for the benchmark.

The modified duration of the Petroleum Fund portfolio was maintained within the mandate.

The Board noted the performance report.

Letter from the Minister dated 4 February 2009 seeking the Board's advice

On 4 February 2009 the Minister wrote to the Board requesting its advice concerning a proposal from the BPA to appoint the Bank for International Settlements (BIS) as an external manager for the Petroleum Fund.

Mr. Abraao reminded the Board that the intention to outsource a portion of the Fund to non-commercial external managers had arisen in the IAB which had recommended that the BPA initiate a process of exploring non-commercial external managers. The BPA had created a committee to oversee the procurement process. As a candidate organization the BIS met the requirements of an RFI (Request for Information) that had been prepared. During the negotiations with the BIS, the BPA engaged legal counsel to assist with the contract. The process concluded on 27 January 2009 when the BPA sent a proposal to the Minister recommending the engagement of the BIS as an external portfolio manager for the PF of Timor-Leste. The Minister subsequently forwarded the proposal to the IAB to seek its advice.

The Board discussed the letter from the Minister and a document on the global benchmark prepared by Mr. Torres, with the discussion focusing on a legal issue

and the benchmark. The Board decided to postpone these two issues for further discussion at an extraordinary meeting scheduled on February 20, 2009 at 9.00 o'clock a.m.

Other Business

The Board requested the Secretariat to organize a strategy session for the IAB in relation to its next ordinary meeting, Monday 16 March 2009, in order to provide an opportunity to exchange views and discuss future development of the PF, the investment strategy, risk management and other operational issues. The purpose is to support the IAB's further advice on PF development to the Minister.

As there was no other business the Chairman declared the meeting closed at 10.30 hours.

Chairman

Secretary