

Minutes of Meeting

Petroleum Fund of Timor-Leste Investment Advisory Board

Held on 16th November 2007

At the Office of the Banking and Payments Authority

Present:

Abraão de Vasconcelos, General Manager of BPA (Chairman)
Cristino Gusmão, Director of Macroeconomic Unit of MoPF
Manuel Monteiro, Director of Treasury
Tørres Trovik, Norges Bank
Vidar Ovesen, Fiscal and Petroleum Advisor

In attendance:

Venancio Maria Alves, Executive Director of the PF Department, BPA
Olgário de Castro, Special Advisor to MoF
Pedro Figueirado, Treasury Advisor
Gastão de Sousa, Chief Economist, BPA (Secretary)

The Chairman declared the meeting open at 14.45 p.m.

Agenda of the meeting was approved without amendment. Update information on the PF investment management - the representative of the MoF will shortly brief the board on the correspondence letter from the Minister of Finance to the BPA.

Minutes of Previous Meeting

The Board discussed the publication of the minutes and resolves to publish the minutes of the Board since April 2006. The minutes of previous meeting held on 20th July 2007 was approved without amendment and agreed for publication.

Business arising from the minutes not otherwise include in the agenda

The Board proposed to the secretariat to prepare a draft work plan for the IAB discussion comprised the amendment for rules and procedures include the distribution of the minutes to IAB members after the meeting and the style of the minutes.

Correspondence (including requests and advice to/from Minister)

The Board note that the Minister was sent a letter to the BPA related the management investment of the PF, and request to discuss in the meeting. But there were suggestion and agreed to discuss in the agenda no 6, the update information on the PF investment management, due to the relationships of the letter with the agenda item.

Update information on the PF performance for quarter ended 30 September 2007

The Petroleum Fund Department of the BPA, perform a presentation on the performance of the petroleum fund for the quarter ended 30 September 2007. It was described that the US Treasury benchmark reference bills has been declined by 101 and 86 basis point respectively on the 3 and 6 month short-end. The 2 and 3 years T-notes declined approximately 87 basis points and the 5 years yield fell by 68 basis points.

In course of the capital, cash received during the quarter was USD 381.55 million, an increase of 23.8% compared to the last quarter. This revenue comprising petroleum tax payers' of USD 116.22 million and royalties of USD 265.33 million. The total capital as of the end of the quarter was USD 1,817.91 million.

The performance numbers for the Petroleum Fund was 268 basis points while the performance of the benchmark index was 266 basis points. The difference between the petroleum fund portfolio and the benchmark return was 2 basis points within the target mandate of ± 25 basis points.

The modified duration of PF portfolio has been maintained within the mandate of ± 0.2 years of the benchmark index.

The BPA has undertaken the operational management of the Petroleum Fund within the terms of mandate set out in the Management Agreement.

The Board discussed and notes the report and suggest to MoF to confirm the breakdown of the royalties receipt from the TSDA.

Update information on the PF investment management

The BPA updated the Board on the update information and progress on the process of the projects that undertaking by the BPA, mainly on the development of investment strategy and appointment of global custodian.

It was presented that, with the recent growth in the size of the Petroleum Fund it has become apparent that there is a need to review the existing investment mandate with a view to widening it to obtain higher investment yields.

Therefore, in mid July 2007 the BPA contracted a firm of consultants to assist with the development of a long term investment strategy, custodian appointment and workforce planning. The plan was the investment strategy review to be finalized by the end August 2007, the custodian appointment to be finalized by mid November 2007 and the Workforce planning to be finalized by the end of September 2007.

However, the delivery of the works has been delayed due to more information is required for the completeness of the projects than projected. A team of the BPA has recently visited Sydney to work with the consultants. After having discussions with the consultants, it is expected that a formal strategy will put to the Minister of Finance for consideration early in 2008, a global custodian will be appointed by January 2008 and its implementation will depend on the government's decision on the investment strategy. It is proposed to commission securities lending analysis prior the appointment of the custodian. The workforce planning will be finalized by the consultants by the end of this year and put to the BPA's Board for consideration early in 2008.

In addition, the representative of Ministry of Finance briefs the Board on the letter of the Minister of Finance to the BPA. The principles of the letter is the Minister wishes to form a dedicated working group to perform an analysis on the optimal strategic asset allocation within the limit of the Petroleum Fund Law including to suggest appropriate changes to the management agreement in order the full potential of the PF Law is utilized as quickly as seen prudent by the group and suggest changes in investment rules and qualifying instruments within the Petroleum Fund Law and the Management Agreement.

The Chairman considers the letter is addressing to the BPA and the BPA will send its responses to the Minister by next week.

The Board members note the information provided by the BPA.

Other Business

There were no other businesses the Chairman declared the meeting adjourned at 16.30 p.m.

Chairman

Minute Secretary