

# Fundo Petrolífero de Timor-Leste Fundus Mina-Rai Timor-Leste nian Petroleum Fund of Timor-Leste

Relatório Trimestral  
Relatóriu Trimestráil  
Quarterly Report

Vol.10 Número XXV Junho de 2014

Vol.10 Número XXV Juñu 2014

Vol.10 Number XXV June 2014



# Petroleum Fund of Timor-Leste

## Quarterly Report For the Quarter ended 30 June 2014

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## Quarterly Report

30 June 2014

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### INTRODUCTION

This report is produced in accordance with Article 13 of the Petroleum Fund Law which requires the Central Bank to report on the performance and activities of the Petroleum Fund of Timor-Leste, referred to in this report as the Fund unless the context suggests otherwise.

All monetary references in this report are to United States dollars as the official currency of Timor-Leste.

While every effort has been made to ensure accuracy, the information is based on management and custodial reports and has not been independently audited or reviewed and is subject to change, in which case the changes will be incorporated into subsequent reports.

### EXECUTIVE SUMMARY

The Petroleum Fund was formed by the enactment of the Petroleum Fund Law promulgated on 3 August 2005 as amended on 28 September 2011. The law gives the Central Bank of Timor-Leste the responsibility for the operational management of the Fund.

This report covers the period from 1 April to 30 June 2014.

Key statistics for the quarter include:

- The capital of the Fund grew from \$15.7 billion to \$ 16.6 billion.
- Gross cash inflows to the fund from royalties and taxes were \$ 541.3 million.
- The profit/loss for the quarter was \$421.7 million, representing a gross of fees return of 2.66% compared with the benchmark return of 2.73%.

The Fund performance for the quarter, including the performance of the relative asset classes, was as follows:

Table 1

	QTR	FYTD	1 Year	3 Years	5 years	Since Inc
Total Fund	2.66	3.85	9.44	5.15	4.44	4.55
Benchmark	2.73	3.92	9.44	5.02	4.35	4.53
<i>Excess</i>	<i>-0.07</i>	<i>-0.08</i>	<i>0.00</i>	<i>0.13</i>	<i>0.09</i>	<i>0.02</i>
International Fixed Interest	1.32	2.33	2.59	1.47	2.13	3.23
Benchmark	1.38	2.38	2.60	1.40	2.09	3.24
<i>Excess</i>	<i>-0.06</i>	<i>-0.05</i>	<i>-0.01</i>	<i>0.07</i>	<i>0.04</i>	<i>0.00</i>
International Equities	4.84	6.30	24.38	12.41	n.a	13.49
Benchmark	4.86	6.18	24.05	11.81	n.a	12.64
<i>Excess</i>	<i>-0.01</i>	<i>0.12</i>	<i>0.33</i>	<i>0.60</i>	<i>n.a</i>	<i>0.85</i>

## 1. INVESTMENT MANDATE

A revised Management Agreement between the Ministry of Finance and the Central Bank was signed on 25 June 2009. Annex 1 was further updated on 21 February 2013 to incorporate the Minister's decision to increase the equity exposure gradually to 40% by June 2014. The benchmarks as of June 2014 were as follows:

Table 2

	31-Mar-14	30-Apr-14	31-May-14	30-Jun-14
BOA Merrill Lynch 1-3 Years Treasury Bond Index	2.50%	1.67%	0.83%	0.00%
BOA Merrill Lynch 3-5 Years Treasury Bond Index	40.00%	40.00%	40.00%	40.00%
BOA Merrill Lynch 5-10 Years Treasury Notes and Bond	10.00%	10.00%	10.00%	10.00%
Barclays Global Treasury Developed Market ex US, 30%	10.00%	10.00%	10.00%	10.00%
<b>Total Fixed Income</b>	<b>63%</b>	<b>62%</b>	<b>61%</b>	<b>60%</b>
MSCI World Index Dividends Reinvested	37.50%	38.33%	39.17%	40%
<b>Total Equities</b>	<b>38%</b>	<b>38%</b>	<b>39%</b>	<b>40%</b>
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## 2. MARKET TRENDS DURING THE QUARTER

### Equities

Equity markets were generally calm in the early part of May as investors looked past mixed economic news. Global equity markets had another strong month in June with the MSCI World Index up 1.8% in USD terms. For the second month in a row the major developed markets were led by Japan (5.2%) with the US following (2.1%) – both significantly outpaced Europe.

The MSCI World Value Index outperformed the Growth Index in June, and that value / growth relationship held across the US, Europe and Japan. The World Momentum Index has lagged the broader index this year while the Minimum Volatility Index has done better.

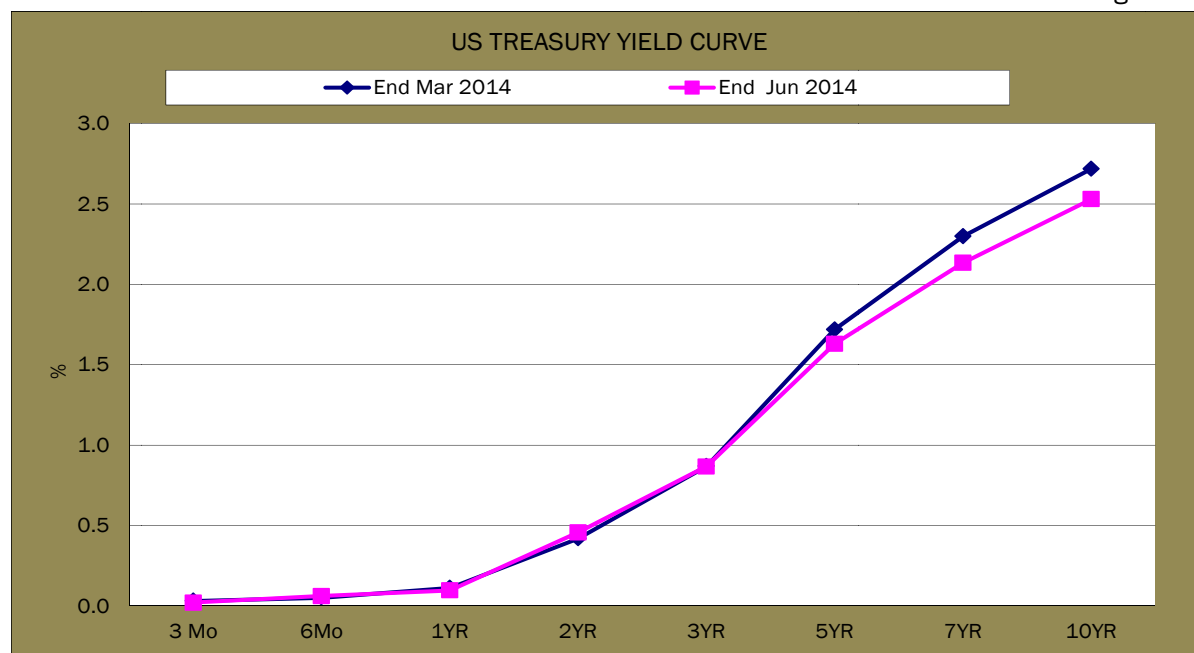
### Bonds including US Treasuries

Bond yields traded in a tight range until the middle of the month. Bond prices climbed in the first half of June as investors harbored doubts about how briskly economic activity would progress during 2014. Given the

uncertain economic outlook, bond yields found plenty of additional incentive to retreat to new 2014 lows as equities faltered.

The curve continued the slow flattening trend that has been in place year-to-date. The graph below shows the US Government yield curve out to 10 years compared to the previous quarter-end. There was no change to the US Federal Funds target rate, which remained at 0.25%. Long term yields were slightly lower by 19 basis points at the end of the quarter relative to the previous quarter, while the short term yields almost equal to the previous quarter.

Figure 1



### 3. MANAGEMENT DURING THE QUARTER

#### Objectives

The Central Bank, as operational manager of the Fund, has implemented the investment mandates through a combination of internal and external management.

The following table shows how the investment mandates have been implemented:

Table 3

Mandate	Management Style	Authorised Managers	Tracking Error	Outperformance Target	Commencement date
BOA Merrill Lynch 3-5 Years US Treasury Bond Index	Passive	BCTL	n/a	Nil	19-Jan-12
BOA Merrill Lynch 5-10 Years US Treasury Notes & Bond index	Enhanced Passive	Bank for International Settlements	0.50%	0.25%	15-Dec-11
Barclays Global Treasury Developed Market ex US, 30% Eurozone and 10% Country Capped	Passive	Transition Manager	0.10%	Nil	26-Aug-13
MSCI World Index Net Dividends Reinvested	Passive	State Street Global Advisors	0.35%	Nil	18-Jan-12
		Black Rock	0.35%	Nil	21-Feb-13
	Enhanced Passive	Schroder Investment Management	1.00%	1.00%	07-Oct-10

Cash received by the Fund is invested or assigned to external managers in a timely manner, with the Central Bank being accountable for the returns on overnight investments.

### *Operational Implementation*

The allocation of the capital of the Fund to the various mandates as at the end of the quarter was as follows:

Table 4

	Managers	Benchmark	Tolerance	Actual
BOA Merrill Lynch 3-5 Years Treasury Bond Index	BCTL	40%	± 2.5%	40.06%
BOA Merrill Lynch 5-10 Years Treasury Notes and Bond Index	Bank for International Settlements	10%	± 1%	10.05%
Barclays Global Treasury Developed Market ex US, 30% Eurozone and 10% Country Capped	Interim Manager	10%	± 1%	10.08%
<b>Total Fixed Income</b>		<b>60%</b>		<b>60%</b>
	State Street Global Advisors			17.90%
	Black Rock	35%	± 4.0%	16.58%
MSCI World Index Net Dividends Reinvested	Schroder Investment Management	5%	± 1.5%	5.33%
<b>Total Equities</b>		<b>40%</b>		<b>40%</b>

The BCTL's mandate of 1-3 Years US Treasury used for funding the equity exposure is abolished in June 2014 since the fund reached 40% equities target.

## **4. PORTFOLIO PERFORMANCE**

This section contains a number of tables and charts describing the performance of the Petroleum Fund.

The following notes are intended to assist in interpreting this information:

- The percentage figures show the return of the Fund, or a part of it, which is compared with the performance of the corresponding benchmark. The benchmark represents the investment strategy established by the Minister and is used as a goal against which the performance of the actual investments is measured. The Minister's benchmarks for the Petroleum Fund are described earlier in this report.
- The excess is the difference (which may be negative) between the benchmark and the portfolio being measured. In general a portfolio and its benchmark will respond in a similar manner to movements in the financial markets. The excess occurs because the benchmark does not recognise transaction costs, and because the actual portfolio usually contains a different mix of financial instruments to the benchmark.

## GLOBAL PORTFOLIO

In the course of the quarter the Petroleum Fund increased from \$15.7 billion to \$16.6 billion as follows:

Table 5

Capital Account, Quarter Apr-Jun 2014	\$'000
Opening book value (1 Apr 2014)	15,670,695
Receipts during the period	541,301
Transfer to General State Budget during the period	-
Return in the period	421,726
<b>Closing book value (30 June 2014)</b>	<b>16,633,722</b>

The Fund was invested as follows:

Table 6

Assets	\$'000
Cash and Cash Equivalents	62,787
Other Receivables	21,395
Financial assets held at fair value through profit or loss	16,554,585
Less:	
Payable for Securities Purchased	-1,130
Accounts Payable	-3,916
<b>Total</b>	<b>16,633,722</b>

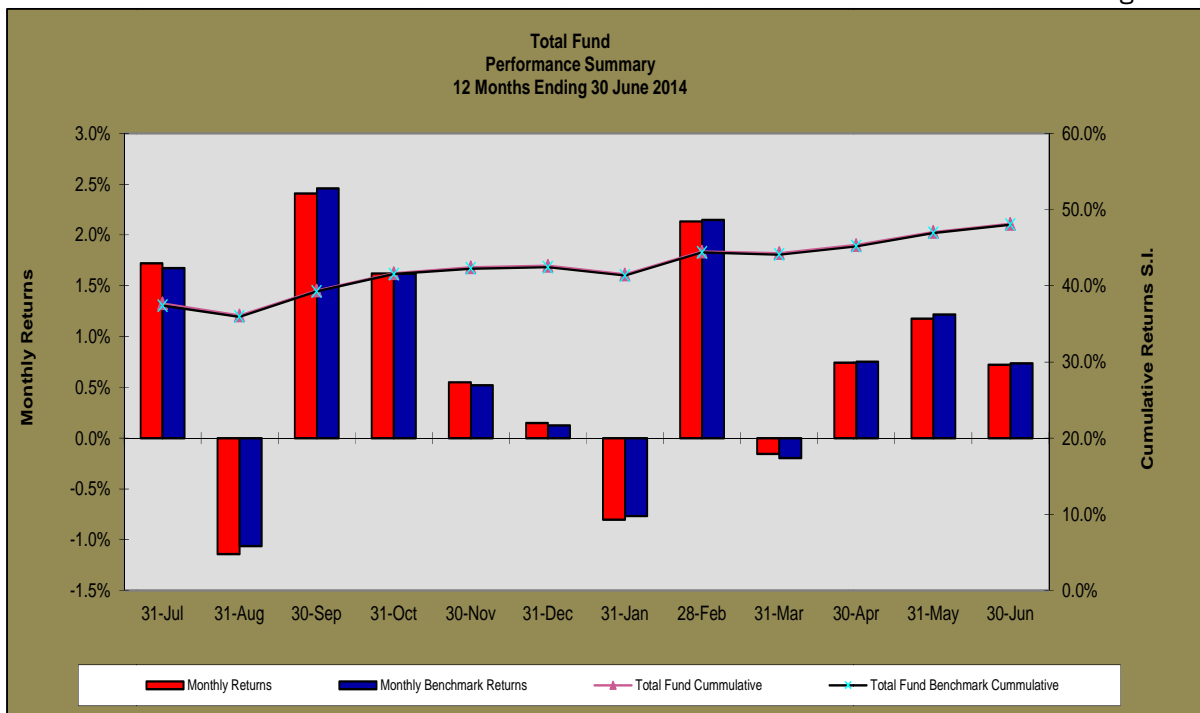
The income for the quarter was as follows:

Table 7

Income	\$'000
Interest income	35,282
Dividend income	81,854
Unit Trust distributions	2,306
Other Investment income	7
Net gains/(losses) on Financial Assets at fair value	279,557
Net foreign exchange gains/(losses)	32,040
Less:	
External manager, custody fees	-2,707
Central Bank management expenses	-1,059
IAB Expenses	-
Other expenses	-101
Withholding taxes	-5,453
<b>Total Investment Income</b>	<b>421,726</b>

The cumulative performance of the Petroleum Fund compared with the performance of the Global Benchmark over the same period is shown in the following graph.

Figure 2



### FIXED INTEREST

The performance of the investments in Fixed Interest investments for the quarter, including the performance of the managers responsible for those investments, was as follows:

Table 8

	Qtr	FYTD	1 Year	3 Years	5 Years	Since Inc
<b>International Fixed Interest</b>	1.32	2.33	2.59	1.47	2.13	3.23
Benchmark	1.38	2.38	2.60	1.40	2.09	3.24
<i>Excess</i>	<i>-0.06</i>	<i>-0.05</i>	<i>-0.01</i>	<i>0.07</i>	<i>0.04</i>	<i>0.00</i>
<b>BCTL 1-3 yr US Treasury</b>	0.14	0.33	0.65	n.a	n.a	0.47
Benchmark	0.27	0.41	0.76	n.a	n.a	0.46
<i>Excess</i>	<i>-0.13</i>	<i>-0.08</i>	<i>-0.11</i>	<i>n.a</i>	<i>n.a</i>	<i>0.01</i>
<b>BCTL 3-5 yrs US Treasury</b>	0.91	1.39	1.84	n.a	n.a	0.88
Benchmark	0.94	1.37	1.71	n.a	n.a	0.77
<i>Excess</i>	<i>-0.03</i>	<i>0.02</i>	<i>0.14</i>	<i>n.a</i>	<i>n.a</i>	<i>0.11</i>
<b>Bank for International Settlements</b>	1.90	3.56	2.47	n.a	n.a	1.19
Benchmark	1.96	3.68	2.49	n.a	n.a	1.17
<i>Excess</i>	<i>-0.06</i>	<i>-0.12</i>	<i>-0.03</i>	<i>n.a</i>	<i>n.a</i>	<i>0.03</i>
<b>Barclays Customised Non US Sovereign Bond</b>	2.65	5.57	n.a	n.a	n.a	8.07
Benchmark	2.74	5.76	n.a	n.a	n.a	8.67
<i>Excess</i>	<i>-0.09</i>	<i>-0.19</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	<i>-0.60</i>



## INTERNATIONAL EQUITIES

The performance of the investments in global developed market equities for the quarter, including the performance of the managers responsible for those investments, was as follows:

Table 9

	Qtr	FYTD	1 Year	3 Years	5 Years	Since Inc
<b>International Equities</b>	4.84	6.30	24.38	12.41	n.a	13.49
Benchmark	4.86	6.18	24.05	11.81	n.a	12.64
<i>Excess</i>	<i>-0.01</i>	<i>0.12</i>	<i>0.33</i>	<i>0.60</i>	<i>n.a</i>	<i>0.85</i>
<b>Schroder Investment Management</b>	4.46	6.27	24.81	12.93	n.a	13.85
Benchmark	4.86	6.18	24.05	11.81	n.a	12.64
<i>Excess</i>	<i>-0.40</i>	<i>0.09</i>	<i>0.76</i>	<i>1.12</i>	<i>n.a</i>	<i>1.21</i>
<b>SSgA International Equity</b>	4.89	6.31	24.30	n.a	n.a	18.22
Benchmark	4.86	6.18	24.05	n.a	n.a	17.82
<i>Excess</i>	<i>0.04</i>	<i>0.14</i>	<i>0.25</i>	<i>n.a</i>	<i>n.a</i>	<i>0.40</i>
<b>Black Rock Investment Management</b>	4.92	6.29	24.29	n.a	n.a	19.92
Benchmark	4.86	6.18	24.05	n.a	n.a	19.72
<i>Excess</i>	<i>0.07</i>	<i>0.11</i>	<i>0.25</i>	<i>n.a</i>	<i>n.a</i>	<i>0.20</i>

## 5. MANAGEMENT COSTS

A management fee of \$3,867 thousands for operational management costs was deducted from the fund during the quarter.

The fee covered the following services (in thousands \$):

Table 10

External Management and Custody expenses	2,707
Central Bank management expenses	1,059
IAB expenses	-
Other Expenses	101
<b>Total Cost</b>	<b>3,867</b>

## 6. TRANSFERS TO STATE BUDGET

According to Article 7.1 of the Petroleum Fund Law transfers from the Fund may only be made to the credit of a single State Budget account. There was no transfer made to the State Budget account during the quarter.

## 7. COMPLIANCE STATEMENT

Banco Central de Timor-Leste asserts the following statements relating to compliance with the mandates given by the Minister.

### Qualifying Instruments

The Fund was invested in instruments within the investment universes specified in the various mandates at all times during the quarter.

### Modified Duration

The modified duration of the Fund's fixed interest investment portfolios remained within the mandate during the quarter.

### Tracking Error

The tracking error of each mandate in the Fund's investment portfolio was within the specified range during the quarter.

### External Managers

The Central Bank has received representations from the external managers, that external managers' investments were within their mandates during the quarter.

### Internal Audit

The provisions of Article 22 of the Petroleum Fund law no. 9/2005 require the Central Bank's Internal Auditor to perform an audit of the Fund every six months. The Internal Auditor performed audit up to quarter March 2014.

## 8. FINANCIAL INFORMATION

The following financial information is presented for the purpose of assisting the Minister to review the quarterly performance of the Petroleum Fund as set out in this report. The figures have not been audited.

Table 11

BALANCE SHEET	2014	2013
In thousands of USD	June	June
<b>ASSETS</b>		
Cash and Cash Equivalents	62,787	36,797
Receivables	21,395	18,739
Financial assets held at fair value through profit or loss	16,554,585	13,583,907
<b>TOTAL ASSETS</b>	<b>16,638,767</b>	<b>13,639,443</b>
<b>LIABILITIES</b>		
Payables for securities purchased	-1,130	-13,664
Accounts payable	-3,916	-1,766
<b>TOTAL LIABILITIES</b>	<b>-5,045</b>	<b>-15,430</b>
<b>NET ASSETS</b>	<b>16,633,722</b>	<b>13,624,013</b>
<b>CAPITAL</b>		
Opening Balance	14,952,099	11,775,349
PF Law Art. 6.1 (a) Revenue receipts	415,019	663,255
PF Law Art. 6.1 (b) DA receipts	669,928	1,062,298
PF Law Art. 6.1 (e) Other receipts	-	8,287
PF Law Art 7.1 Transfers to State Budget	-	-
Income for the period	596,676	114,825
<b>CAPITAL</b>	<b>16,633,722</b>	<b>13,624,013</b>

Table 12

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - QUARTER				
In thousands of USD				
	Quarter		Year to Date	
	June-14	June-13	June-14	June-13
<b>INVESTMENT INCOME</b>				
Interest income	35,282	34,498	68,770	71,077
Dividend income	81,854	34,745	134,816	56,173
Trust income	2,306	1,116	3,227	1,776
Other investment income	7	143	8	138
Net gains/(losses) on Financial Assets at fair value	279,557	-179,470	354,187	84,940
Net foreign exchange gains/(losses)	32,040	-35,655	49,847	-91,245
<b>Total Investment Income</b>	<b>431,046</b>	<b>-144,622</b>	<b>610,854</b>	<b>122,859</b>
<b>EXPENSES</b>				
External management, custody fees	2,707	1,758	4,257	3,181
Internal operational management fees	1,059	439	2,554	876
IAB Expenses	-	53	81	53
Other expenses	101	-	102	1
<b>Total expenses</b>	<b>3,867</b>	<b>2,250</b>	<b>6,994</b>	<b>4,111</b>
Profit before tax	427,179	-146,872	603,860	118,747
Withholding taxes on investments	5,453	3,056	7,184	3,923
<b>Profit for the quarter:</b>	<b>421,726</b>	<b>-149,929</b>	<b>596,676</b>	<b>114,825</b>
Other comprehensive income	-	-	-	-
<b>Total comprehensive income for the period</b>	<b>421,726</b>	<b>-149,928</b>	<b>596,676</b>	<b>114,825</b>

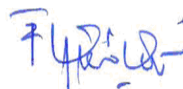
**Notes:**

The accounting policies and method of computation used to prepare the above figures are the same as disclosed in the most recent annual financial statements of the Petroleum Fund.

Dili, 24 July 2014



**Venancio Alves Maria**  
Executive Director



**Abraão de Vasconcelos**  
Governor

