

Petroleum Fund of Timor-Leste

Quarterly Report

Erratum – December 2013 Quarterly report.

There were technical errors in the English version of the Quarterly Report for the period ended 31 December 2013.

- (1) Table 4:** Benchmarks weight for MSCI World Index Net Dividend Re-invested SSGA, Black Rock and actual benchmarks weight.
- (2) Table 7:** Income reclassified for Net gains/ (Losses) on Financial Assets at fair value, Net Foreign exchange gain/ (losses) in line with table 14.
- (3) Table 11:** Reclassified other cost with amount of US\$3,000 in line with expenses table 14.

Please be advised that none of these changes affect the reported Profit & Loss or Net Assets of the Petroleum Fund.

The reports for quarter December 2013 are re-published in the website with the above correction.

31 December 2013

INTRODUCTION

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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 October to 31 December 2013.

Key statistics for the quarter include:

- The capital of the Fund grew from \$14.6 billion to \$ 14.9 billion.
- Gross cash inflows to the fund from royalties and taxes were \$604.70 million.
- The profit for the quarter was \$339.33 million, representing a return of 2.33% compared with the benchmark return of 2.27%.

The performance of the Fund for the quarter was:

Table 1

Currency \$USD	QTR	FYTD	1 Year	3 Years	5 years	Since Inc
Total Fund	2.33	6.58	6.58	4.42	3.52	4.35
Benchmark	2.27	6.36	6.36	4.31	3.45	4.33
<i>Excess</i>	<i>0.06</i>	<i>0.22</i>	<i>0.22</i>	<i>0.11</i>	<i>0.07</i>	<i>0.02</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. Annex 1 was also updated on 29 August 2013 to reflect the introduction of a new allocation for non-US developed market bonds. The benchmarks as of December 2013 were as follows:

Table 2

	30-Sep-13	31-Oct-13	30-Nov-13	31-Dec-13
BOA Merrill Lynch 1-3 Years Treasury Bond Index	7.50%	6.67%	5.83%	5.00%
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 Index	10.00%	10.00%	10.00%	10.00%
Barclays Global Treasury Developed Market ex US, 30% Eurozone and 10% Country Capped	10.00%	10.00%	10.00%	10.00%
Total Fixed Income	67.50%	66.67%	65.83%	65.00%
MSCI World Index Dividends Reinvested	32.50%	33.33%	34.17%	35.00%
Total Equities	32.50%	33.33%	34.17%	35.00%
Total	100.00%	100.00%	100.00%	100.00%

2. MARKET MOVES OVER THE QUARTER

Equities

Equities actually kicked off the fourth quarter of 2013 in nervous fashion, fretting over the forced shutdown of many US government operations and a diminished global growth outlook from the International Monetary Fund. Decent enough reports on third quarter earnings soon set stocks on firmer footing again, and incoming economic data remained broadly upbeat. Investors still struggled with how they should balance firmer activity levels with the potential for reduced asset purchases, but a November 7 rate cut from the European Central Bank reminded them that even if the US Federal Reserve were to begin a taper of its quantitative easing, an explicitly oppressive rate environment was still a long way off. Share prices nonetheless turned choppy in the first two weeks of December, as President Xi Jinping of China appeared to endorse a slower growth outlook for 2014. Meanwhile, when the same US Congress that had bickered so badly in October arrived at its next budget milestone with efficient cordiality, investors fretted that the unexpected political productivity would hasten a Fed taper. Such thinking proved prescient when the formal plans to taper in

January arrived a week later, but equity investors need not have worried. The Fed reaffirmed the likelihood of low interest rates well beyond the 6.5% unemployment threshold, ensuring that financial engineering could continue fine-tuning share price mechanics into 2015 and perhaps even longer. The message was not lost on the MSCI World Index, which had its best gain of December on the 18th, kicking off 10 consecutive days of appreciation into the end of the year. MSCI World climbed 2.5% in December, 7.6% for the third quarter, and 24.1% for 2013 as a whole.

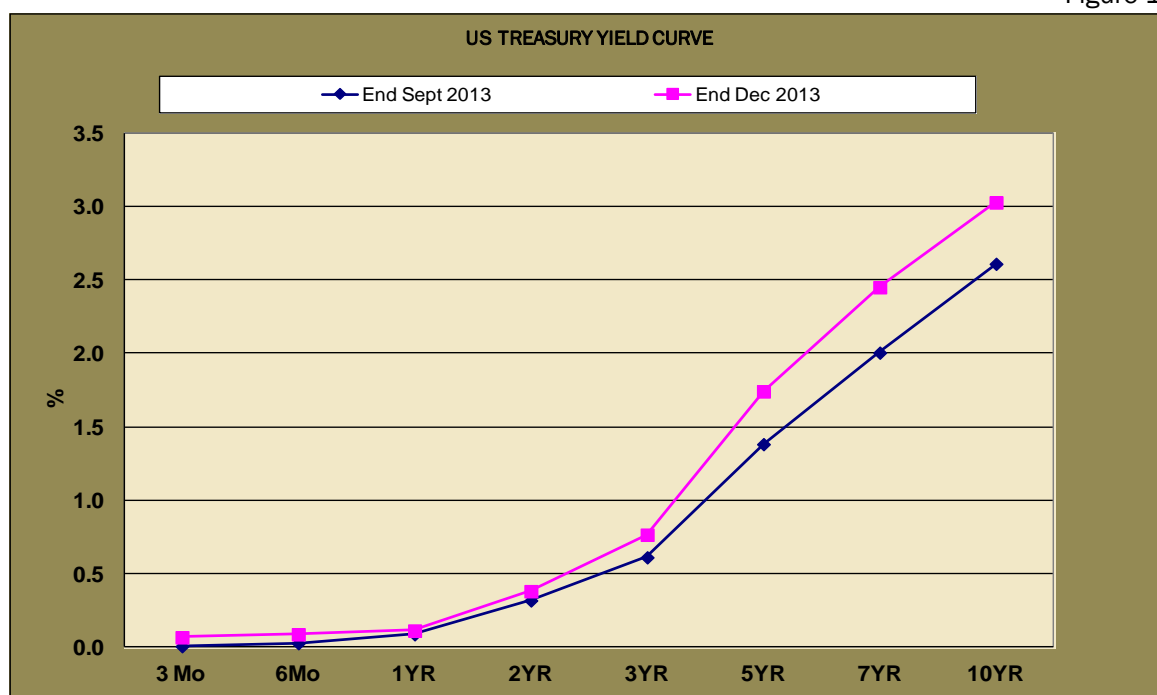
Bonds including US Treasuries

US Treasury yields rose during December, with the five-year part of the curve underperforming the rest of the curve. Five-year yields rose 37 basis points, while two-, ten- and thirty year yields rose 10, 28 and 16 basis points, respectively. In contrast to the underperformance of real yields in the June sell-off, in December real yields rose less than nominal yields, resulting in slightly wider breakeven rates of inflation. The swap curve outperformed the nominal Treasury curve, while five-year swap spreads tightened 5 basis points over the month.

In the statement released after its December meeting, the FOMC noted that economic activity is expanding at a moderate pace, that the unemployment rate has declined but remains elevated, and that inflation remains below its target. At that meeting, the FOMC stated that it would initiate a reduction in the pace of its securities purchases by USD 10 billion per month, beginning in January 2014. The FOMC also noted that it would "...likely reduce the pace of asset purchases in further measured steps at future meetings." Should projected inflation continue to be below the Committee's 2% longer-term goal, the Committee would be inclined to keep the federal funds rate at its current level well past the time that the unemployment rate declined below 6.5%.

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%. Short term yields were slightly lower by the end of the quarter, while the 10 year yield increased 42 basis points.

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 1-3 Years US Treasury Bond Index	Passive	BCTL	n/a	Nil	19-Jan-12
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	Interim 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%	7-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 1-3 Years Treasury Bond Index	BCTL	5.00%	± 1.5%	5.17%
BOA Merrill Lynch 3-5 Years Treasury Bond Index	BCTL	40.00%	± 2.5%	39.41%
BOA Merrill Lynch 5-10 Years Treasury Notes and Bond Index	Bank for International Settlements	10.00%	± 1%	9.70%
Barclays Global Treasury Developed Market ex US, 30% Eurozone and 10% Country Capped	Interim Manager	10.00%	± 1%	9.80%
Total Fixed Income		65.00%		64.08%
MSCI World Index Net Dividends Reinvested	State Street Global Advisors	30.00%	± 4.0%	18.73%
	Black Rock			11.61%
	Schroder Investment Management	5.00%	± 1.5%	5.58%
Total Equities		35.00%		35.92%

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, and compare the result with the corresponding benchmark. The benchmark represents the investment strategy established by the Minister and is used to set a goal against which the performance of the actual investments is measured. The Minister's benchmarks for the Petroleum Fund mandates 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 \$14.6 billion to \$14.9 billion as follows:

Table 5

Capital Account, Quarter October-Dec 2013	\$'000
Opening book value (1 Oct 2013)	14,558,066
Receipts during the period	604,696
Transfer to General State Budget during the period	(550,000)
Gross return in the period	339,337
Closing book value (31 Dec 2013)	14,952,099

The Fund was invested as follows:

Table 6

Assets	\$'000
Cash and Cash Equivalents	70,185
Other Receivables	11,112
Financial assets held at fair value through profit or loss	14,904,679
Less:	
Payable for Securities Purchased	(31,549)
Accounts Payable	(2,328)
Total	14,952,099

The Income for the quarter was as follows:

Table 7

Income	\$'000
Interest income	43,973
Dividend income	23,098
Unit Trust distributions	1,029
Other Investment income	4
Net gains/(losses) on Financial Assets at fair value	295,462
Net foreign exchange gains/(losses)	(20,689)
Less:	
External manager, custody fees	(2,324)
Central Bank management expenses	(548)
IAB Expenses	(54)
Other expenses	(3)
Withholding taxes	(610)
Total Investment Income	339,337

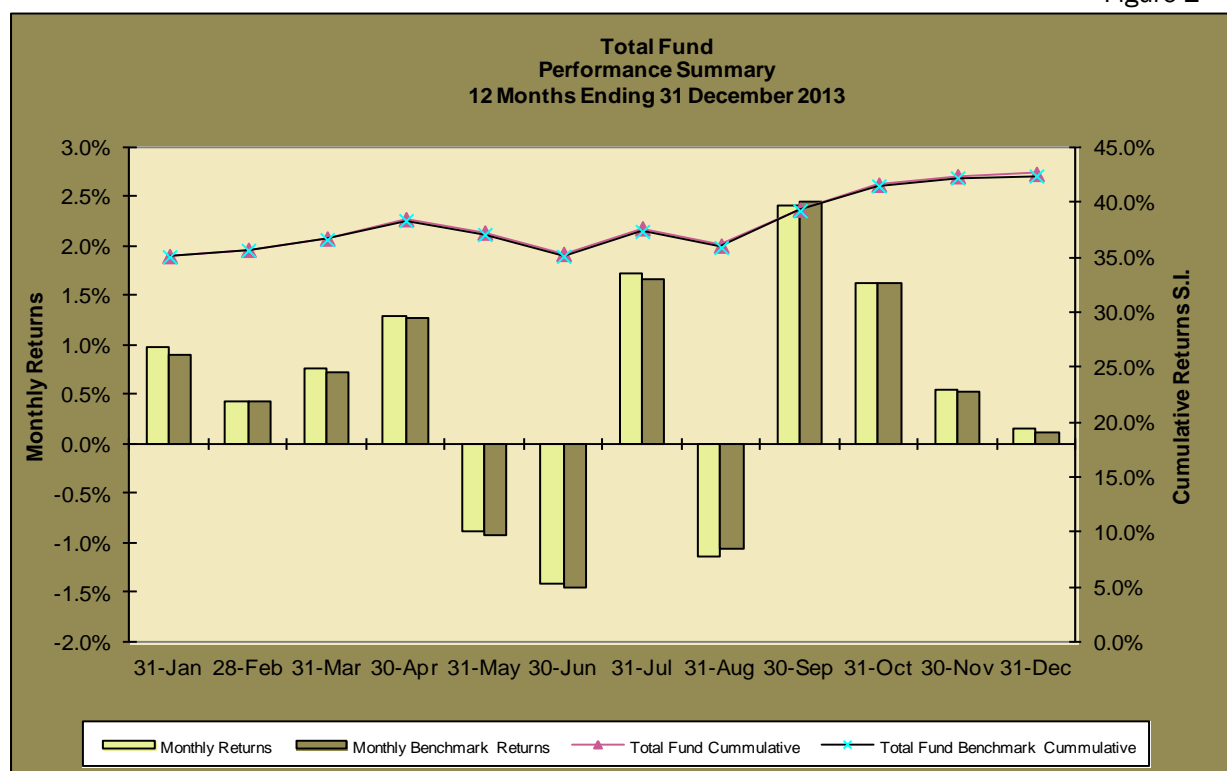
The Fund performance for the quarter, including the performance of the relative asset classes, was as follows:

Table 8

Currency \$USD	(%)					
	QTR	FYTD	1 Year	3 Years	5 Years	Since Inc
Total Fund	2.33	6.58	6.58	4.42	3.52	4.35
Benchmark	2.27	6.36	6.36	4.31	3.45	4.33
<i>Excess</i>	0.06	0.22	0.22	0.11	0.07	0.02
International Fixed Interest	-0.44	-1.37	-1.37	1.19	1.53	3.15
Benchmark	-0.50	-1.43	-1.43	1.13	1.49	3.14
<i>Excess</i>	0.06	0.06	0.06	0.06	0.04	0.00
International Equities	8.09	27.08	27.08	12.33	n.a	13.56
Benchmark	8.00	26.68	26.68	11.49	n.a	12.62
<i>Excess</i>	0.09	0.41	0.41	0.84	n.a	0.94

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 9

Currency \$USD	QTR	FYTD	1 Year	3 Years	5 Years	Since Inc
International Fixed Interest	-0.44	-1.37	-1.37	1.19	1.53	3.15
Benchmark	-0.50	-1.43	-1.43	1.13	1.49	3.14
<i>Excess</i>	0.06	0.06	0.06	0.06	0.04	0.00
BCTL 1-3 yr US Treasury	0.05	0.36	0.36	n.a	n.a	0.43
Benchmark	0.06	0.36	0.36	n.a	n.a	0.37
<i>Excess</i>	-0.01	0.00	0.00	n.a	n.a	0.05
BCTL 3-5 yr US Treasury	-0.26	-0.82	-0.82	n.a	n.a	0.40
Benchmark	-0.35	-0.91	-0.91	n.a	n.a	0.28
<i>Excess</i>	0.08	0.09	0.09	n.a	n.a	0.12
Bank for International Settlement	-1.47	-4.39	-4.39	n.a	n.a	-0.21
Benchmark	-1.49	-4.44	-4.44	n.a	n.a	-0.30
<i>Excess</i>	0.02	0.04	0.04	n.a	n.a	0.09
Barclays Customised Non US Sovereign	-0.37	n.a	n.a	n.a	n.a	2.37
Benchmark	-0.40	n.a	n.a	n.a	n.a	2.75
<i>Excess</i>	0.03	n.a	n.a	n.a	n.a	-0.38

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 10

Currency \$USD	QTR	FYTD	1 Year	3 Years	5 Years	Since Inc
International Equities	8.09	27.08	27.08	12.33	n.a	13.56
Benchmark	8.00	26.68	26.68	11.49	n.a	12.62
<i>Excess</i>	0.09	0.41	0.41	0.84	n.a	0.94
Schroder Investment Management	8.40	28.18	28.18	12.86	n.a	13.99
Benchmark	8.00	26.68	26.68	11.49	n.a	12.62
<i>Excess</i>	0.40	1.51	1.51	1.37	n.a	1.37
SSgA International Equity	8.02	26.86	26.86	n.a	n.a	19.55
Benchmark	8.00	26.68	26.68	n.a	n.a	19.12
<i>Excess</i>	0.02	0.19	0.19	n.a	n.a	0.43
BlacRock International Equity	8.04	n.a	n.a	n.a	n.a	21.70
Benchmark	8.00	n.a	n.a	n.a	n.a	21.53
<i>Excess</i>	0.04	n.a	n.a	n.a	n.a	0.17

5. MANAGEMENT COSTS

Payment of management fee of \$2,930,608 for operational management and accrued fee was deducted from the fund during the quarter to cover the direct external expenses and internal operational expenses.

The fee covered the following services (\$ no rounding):

External Management and Custody expenses	2,323.518
Central Bank management expenses	548.324
IAB expenses	54.491
Other Expenses	3.275
Total Cost	2,929.608

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. The amount of \$550,000,000 was transferred to the State Budget account during the quarter.

	In Million (\$)
Transfers October 2013	120
Transfers November 2013	280
Transfers December 2013	150
Transfers for this Quarter	550
Total Transfers previous quarters	180
Total Transfers this fiscal year to December 2013	730

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, supported by a certificate from the global custodian, 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 September 2013.

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

Tabel 13

BALANCE SHEET		
In thousands of USD	2013	2012
	December	December
ASSETS		
Cash and Cash Equivalents	70,185	60,884
Receivables	11,112	6,478
Financial assets held at fair value through profit or loss	14,904,679	11,711,145
TOTAL ASSETS	14,985,976	11,778,507
LIABILITIES		
Payables for securities purchased	31,549	811
Accounts payable	2,328	2,347
TOTAL LIABILITIES	33,877	3,158
NET ASSETS	14,952,099	11,775,349
CAPITAL		
Opening Balance	11,775,349	9,310,321
PF Law Art. 6.1 (a) Revenue receipts	1,167,261	1,612,519
PF Law Art. 6.1 (b) DA receipts	1,866,288	1,937,725
PF Law Art. 6.1 (e) Other receipts	8,287	8,877
PF Law Art 7.1 Transfers to State Budget	(730,000)	(1,494,900)
Income for the period	864,915	400,807
CAPITAL	14,952,099	11,775,349

Table14

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - QUARTER				
In thousands of USD	Quarter		Year to Date	
	Dec-13	Dec-12	Dec-13	Dec-12
INVESTMENT INCOME				
Interest income	43,973	36,511	149,016	167,150
Dividend income	23,098	15,560	105,912	54,215
Trust income	1,029	657	3,592	1,785
Other investment income	4	(5)	132	(77)
Net gains/(losses) on Financial Assets at fair value	295,462	36,482	640,007	182,327
Net foreign exchange gains/(losses)	(20,689)	(12,307)	(19,646)	2,358
Total Investment Income	342,877	76,898	879,013	407,758
EXPENSES				
External management, custody fees	2,324	2,855	6,993	4,971
Internal operational management fees	548	654	1,863	1,932
IAB Expenses	54	-	153	48
Other expenses	3	-	80	-
Total expenses	2,930	3,510	9,090	6,951
Profit before tax	339,947	73,388	869,924	400,807
Withholding taxes	610	-	5,009	-
Profit for the quarter:	339,337	73,388	864,915	400,807
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	339,337	73,388	864,915	400,807

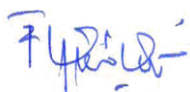
Notes:

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.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME						
In thousands of USD	QUARTER			YEAR TO DATE		
	Mar-13	Jun-13	Sep-13	Mar-13	Jun-13	Sep-13
INVESTMENT INCOME						
Interest income	36,579	34,498	33,966	36,579	71,077	105,043
Dividend income	21,428	34,745	26,641	21,428	56,173	82,814
Trust income	660	1,116	787	660	1,776	2,563
Other investment income	(5)	143	(10)	(5)	138	128
Net gains/(losses) on Financial Assets at fair value	264,410	(179,470)	246,429	264,410	84,940	331,369
Net foreign exchange gains/(losses)	(55,590)	(35,655)	105,464	(55,590)	(91,245)	14,219
Total Investment Income	267,481	(144,622)	413,278	267,481	122,859	536,137
EXPENSES						
External management, custody fees	1,423	1,758	1,489	1,423	3,181	4,670
Internal operational management fees	437	439	438	437	876	1,315
IAB Expenses	-	53	46	-	53	99
Other expenses	1	-	76	1	1	77
Total expenses	1,861	2,250	2,049	1,861	4,111	6,160
Profit before tax	265,620	(146,872)	411,229	265,620	118,747	529,976
Withholding taxes	867	3,056	476	867	3,923	4,399
Profit for the quarter:	264,753	(149,929)	410,753	264,753	114,825	525,578
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the period	264,753	(149,929)	410,753	264,753	114,825	525,578

Note: The above table is corrections for the previous three quarters. The previously published Statements of Profit and Loss for the previous quarters are hereby corrected; however it does not affect the previously reported profit and loss.

Dili, 27 January 2014



Abraão de Vasconcelos
Governor



Venancio Alves Maria
Executive Director