

Autoridade Bancária e de Pagamentos de Timor-Leste

Banking and Payments Authority of Timor-Leste

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PETROLEUM FUND QUARTERLY REPORT

Quarter ended 31 March 2011

PRESS RELEASE

The Banking & Payments Authority (BPA) today released the Quarterly Report ended 31 March 2011 of the Petroleum Fund of Timor-Leste showing that the Capital of the fund as of 31 March 2011 was \$7,745.25 million compared to \$6,903.99 million at the end of December 2010.

The report shows that the gross capital inflows during the quarter were \$819.23 million, consisting of \$363.17 million as contributions of taxpayers to the Fund, royalty contributions from the NPA (National Petroleum Authority) of \$448.09 million and other receipts of \$7.97 million.

The net investment income of the Fund was \$22.82 million of which the coupon and interest received was \$57.30 million and the change in the market valuation of its financial assets was -\$34.48 million. This resulted in a portfolio return of the Fund for the quarter of 0.31%, while the benchmark return for the period was 0.35%. The portfolio return was -0.04% below the benchmark return.

The Petroleum Fund law specifies that the BPA, as the future central bank of Timor-Leste, is the agent responsible for the operational management of the Fund. The Ministry of Finance is responsible for setting the overall investment strategy for the Fund.

Since 2005 the BPA has worked continuously to develop reliable systems and a robust framework of controls and procedures covering the many responsibilities of managing a multi-billion dollar investment fund. An international consultancy firm retained by the Ministry of Finance reviewed the BPA's operations in December 2009 and reported to the Minister,

“Overall, we were very impressed by the investment operations of the BPA and the management of the existing nominal US Government bond portfolio. The overall process appears to be of a high quality and the historically close to benchmark performance of the nominal portfolio reflects this.”

Nonetheless, the increasing size of the Petroleum Fund and the government's proposals to widen the investment mandate bring new challenges for the BPA. Asset management is a complex business. Designing and applying strong controls at every step is important and takes time. For that reason, the BPA has recently formalized the process in its “Excellence in Management Programme”.

This program reflects the fact that the BPA is managing the Petroleum Fund assets on behalf of the Timorese. The trust given by the law to the BPA to manage these assets creates a special relationship with the Petroleum Fund's stakeholders, including the Minister, the government, the current and future citizens of Timor-Leste, and their elected representatives. Therefore, the BPA is committed to developing and implementing high standards of investment management and accountability.

The first step of the Programme involves a comprehensive internal review of the BPA's investment management procedures benchmarked to standards and guidance issued by the International Federation of Accountants, the Center for Fiduciary Excellence, the US Securities Industry and Financial Markets Association, the European Union, and the Australian and United Kingdom associations of accountants.

After five years of operational management the BPA has made significant progress towards becoming a world-class operational manager for the Petroleum Fund. The Excellence in Management Programme will further strengthen the BPA's capability to prudently manage the Petroleum Fund on behalf of the citizens of Timor-Leste.

The mandate given to the BPA has not changed, namely to manage the fund closely to the Merrill Lynch 0-5 years US Government Bond Index, while the mandate given to the BIS is to manage a diversified bond portfolio in an active manner with the objective of outperforming the benchmark while maintaining an ex-ante tracking error within 100 basis points.

The mandate given to Schroders is to manage the portfolio in an enhanced passive indexing style and maintained within a tracking error relative to the benchmark that does not normally exceed 100 basis points, and with load differences maintained within 0.5% (security level) and 2.5% (country and sector levels). At no time shall the ex-ante tracking error exceed 150 basis points.

The BPA has managed the portfolio close to the benchmark over the first 23 quarters. The difference in return between the portfolio and the benchmark since the inception of the fund in 2005 is -4 basis points.

Highlights of the XXIII Quarterly Report, which covers the period from 1 January to 31 March 2011, include:

- The capital of the Fund grew from US\$ 6,903.99 million to US\$ 7,745.25 million.
- Gross cash inflows to the fund from royalties, taxes and other receipt were US\$ 819.23 million consisting of taxpayers (\$363.17 million), royalties (\$448.09 million) and other receipts (\$7.97 million).
- Cash outflows were US\$ 0.79 million in which for direct external and internal management costs.
- Net cash inflows during the period were US\$ 818.44 million.
- The portfolio return in the period was 0.31% compared with the benchmark return for the quarter of 0.35%.

The quarterly reports, as well as the Petroleum Fund law and Management Agreement, are available from the Banking & Payments Authority's website www.bancocentral.tl.

Further information may be obtained from:

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Dili, 6 May 2011.