

Petroleum Fund Quarterly Report

Quarter ended 30 June 2008

PRESS RELEASE

The Banking & Payments Authority (BPA) today released the **twelfth** Quarterly Report of the Petroleum Fund of Timor-Leste showing that the Capital of the fund as of 30 June 2008 was \$3,203.07 million compared to \$2,629.96 million at the end of March 2008.

The report shows that the gross cash inflows during the quarter were US\$598.81 million, consisting of taxpayer contributions to the Fund of US\$ 246.35 million and royalty contributions from the TSDA of US\$ 352.46 million.

The investment income of the Fund was \$26.59 million during the quarter, while the change in the market securities valuation was negative \$52.03 million. This resulted in a portfolio return of the Fund for the quarter of -1.00 %, while the benchmark return for the period was -1.02 %. The portfolio return for the quarter was therefore 2 basis points above the benchmark return and within the mandated target of ± 25 basis points.

An amount of US\$ 260 thousand was deducted from the Fund during the quarter for management fees.

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. The mandate given to the BPA is to manage the fund closely to the Merrill Lynch 0-5 years US Government Bond Index. The BPA has managed the portfolio close to the benchmark over the first 12th quarters. The difference in return between the portfolio and the benchmark since the inception of the fund in 2005 is -3 basis points within the target of ± 25 basis points.

Highlights of the XII Quarterly Report, which covers the period from 1 April to 30 June 2008, include:

- The Opening Balance was \$2,629.96 million.
- Gross receipts during the quarter were \$598.81 million which consisted of taxpayer receipts of \$246.35 million and royalty receipts of \$352.46 million whereof the cash outflows was 260.69 thousands for the management fees. The net cash inflow was US\$ 598.55 million.
- The portfolio return was -1.00% for the quarter while the benchmark return was -1.02% which means that the Fund's income is higher than the benchmark index. .
- Investment income during the quarter was -\$25.44 million consisting of interest income was \$26.59 million and market revaluations of -\$52.03 million.

- The closing balance was \$3,203.07 million.

The nature of the Petroleum Fund investment mandate is such that there will be quarters in which short-term market variations will produce a negative result, and the June quarter was one of these. This is an expected outcome of a Fund which invests for the long term but reports quarterly. The poor result in the June quarter is outweighed by excellent results in other quarters, such as the first quarter this year, when a very large positive result was recorded (\$64 million net income whereas \$44 million securities market valuation). Over time, the positive results will outweigh the occasional negative result.

During the quarter, the project to engage a global custodian was concluded with the appointment of JPMorgan in late May 2008 as the Fund's global custodian. This appointment is a necessary step to support the intention of the Government to diversify Petroleum Fund assets for a higher yield and to reduce the exposure of the Fund to a single asset class.

The Executive Director of the Petroleum Fund Department of the BPA continued to participate in a Working Group established by the Minister of Finance to review the optimal strategic asset allocation within the limits of the Petroleum Fund Law and to suggest appropriate changes in investment rules and qualifying instruments in the Petroleum Fund Act and correspondingly in the Management Agreement between the BPA and The Ministry of Finance..

Following inconclusive contract negotiations with the International Bank for Reconstruction & Development (IBRD-referred as the World Bank) as a non-commercial external manager, a decision was made to cease the negotiation process in June.

Contract negotiations with the Bank for International Settlements as a non-commercial external manager are continuing.

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

Further information may be obtained from:

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