

Annex 1: Qualifying Instruments, Benchmark and Investment Mandate

Amendment No. 7

The Management Agreement between the Ministry of Finance and Banco Central de Timor-Leste is hereby modified with effect from 1 July 2014 by replacing Annex 1 with the following:

This mandate has a hierarchical structure.

The Global Mandate describes the Minister's overall investment strategy for the Petroleum Fund in terms of a benchmark and eligible instruments, including applicable constraints and limitations.

The Sub Mandates describe in more detail the manner in which the Minister expects the investment of the Fund to be implemented. They describe the management structure of investment portfolios that shall be created, including the style of investment management, risk tolerances, and benchmark against which the performance of each sub-mandate shall be measured and reported, and as at the date of the Management Agreement, the managers appointed to manage the sub-mandates.

A. Global Mandate

The Central Bank of Timor-Leste is responsible for the operational management of the aggregate Fund according to the following mandate:

Aggregate Benchmark

The benchmark for the global mandate shall be as follows:

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| • Bank of America Merrill Lynch US Government Bond 3-5 years index | 40% |
| • Bank of America Merrill Lynch 5-10 Year US Treasury Notes and Bonds Index | 10% |
| • Barclays Global Treasury Developed Market ex US, 10% Country and 30% Eurozone Capped. Measured on an unhedged basis | 10% |
| • MSCI World Index Net Dividends Reinvested | 40% |

Eligible Instruments

Asset Class	Allocation
A. Qualifying Fixed Interest Investments under Article 15.2 of the Petroleum Fund Law	Up to 100% but no less than 50%
B. Equity Instruments meeting the conditions in Article 15.3 of the Petroleum Fund Law	No more than 50%
C. Qualifying other investments under Article 15.4 of the Petroleum Fund law	No more than 5%

Eligible currencies shall be determined by the composition of the benchmarks.

External Managers are permitted to use derivative instruments as specified in individual Investment mandates and in compliance with Article 15.7 of the Petroleum Fund law.

B. Sub mandates

MANDATE 1

Asset Class / Management Style	US Government Treasury Notes 3-5 years / Passive
Allocation	(40 ± 2.5)% of the value of the Fund, measured at the end of each month.
Benchmark	Bank of America Merrill Lynch 3-5 Year US Treasury Index (Bloomberg code "G202")
Eligible Instruments	US Government fixed interest instruments
Mandate Objective	The investment objective shall be to passively manage the portfolio close to the benchmark, so that in normal circumstances the objective shall be to achieve a return within 25 basis points per year of the benchmark. The difference in the modified duration between the portfolio and the benchmark shall be less than 0.2 years.
Approved Manager	Banco Central de Timor-Leste

MANDATE 2

Asset Class / Management Style	US Government Treasury Notes 5-10 years / Enhanced Passive
Allocation	(10 ± 1)% of the value of the Fund, measured at the end of each month.
Benchmark	Bank of America Merrill Lynch 5-10 Year US Treasury Index (Bloomberg code "G602")
Eligible Instruments	Qualifying instruments under Article 15.1 of the Petroleum Fund Law No. 9/2005 of 3rd August, prior to the 2011 revision.
Mandate Objective	The expected outperformance of the portfolio gross of management fees is 25 basis points over the benchmark performance, on an annual basis over a rolling three year period, while maintaining the ex ante tracking error within 100 basis

points.

Approved Manager Bank for International Settlements

MANDATE 3

Asset Class / Management Style	MSCI Developed Market Equities / Enhanced Passive
Allocation	(5 ± 1.5)% of the value of the Fund, measured at the end of each month.
Benchmark	MSCI World Index Net Dividends Reinvested (Bloomberg code "NDDUWI").
Eligible Instruments	All securities in the benchmark index, securities expected to be in the benchmark index within the next 3 months, securities that were in the benchmark index in the preceding 3 months, cash instruments, equity index futures and currency forwards.
Mandate Objective	The portfolio shall be managed 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.
Approved Manager	Schroder Investment Management Limited

MANDATE 4

Asset Class / Management Style	MSCI Developed Market Equities / Passive
Allocation	(2 tranches of 17.5 ± 4)% of the value of the Fund, measured at the end of each month.
Benchmark	MSCI World Index Net Dividends Reinvested (Bloomberg code "NDDUWI").
Eligible Instruments	All securities in the benchmark index, securities expected to be in the benchmark index within the next 3 months, securities that were in the benchmark index in the preceding 3 months, cash

instruments, equity index futures and currency forwards.

Mandate Objective The portfolio shall be managed in a passive indexing style with the objective to seek to closely match the Performance Benchmark, and maintained within an ex ante tracking error relative to the benchmark that does not normally exceed 35 basis points. The tracking error shall be reviewed at the end of each month, and if it should exceed 35 basis points, the manager shall reduce the tracking error within 30 days.

Approved Managers State Street Global Advisors
BlackRock Investment Management

MANDATE 5

Asset Class / Management Style	Global Developed Market Sovereign Bonds / Enhanced Passive
Allocation	(2 tranches of 5 ± 0.5)% of the value of the Fund, measured at the end of each month.
Benchmark	Barclays Global Treasury Developed Market ex US, with the exposure of 30% Eurozone and 10% Country Capped. Measured on an unhedged basis.
Eligible Instruments	All securities in the Benchmark index; Sovereign bonds from developed market countries that are investment grade and above, excluding the US, as defined by the index provider Barclays; Cash; and bond and interest rate futures and currency forwards.
Mandate Objective	The portfolio shall be managed in an enhanced passive indexing style with the objective to seek to closely match the performance benchmark with the ex-ante tracking error of the Managed Assets in comparison with the Benchmark shall be less than 50 basis points on average, over a rolling 3 year period.
Approved Managers	AllianceBernstein L.P. Wellington Management Company LLP

C. Cash management

Short-term liquidity may be maintained by the Fund for operational purposes but shall be limited to cash received pending investment or allocation to external managers, cash and securities in transition to or between external managers and short-term instruments held to fund appropriations to the state budget account.

For compliance purposes, amounts held for cash management purposes shall be excluded from the calculation of the total value of the Fund.

The Central Bank shall be accountable for the return on these instruments.

Dili , 6 March 2015



Santina J.R.F. Viegas Cardoso

Minister of Finance

Democratic Republic of Timor-Leste

Abraão de Vasconcelos

Governor

Banco Central de Timor-Leste