

Annex 1: Qualifying Instruments, Benchmark and Investment Mandate

Amendment No.4

The Management Agreement between the Ministry of Finance and Banco Central de Timor-Leste is hereby modified with effect from 16 July 2012 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:

- Merrill Lynch US Government Bond 1-3 years index 20 – x%
- Merrill Lynch US Government Bond 3-5 years index 40%
- Bank of America Merrill Lynch 5-10 Year US Treasury Notes and Bonds Index 20%
- MSCI World Index Net Dividends Reinvested 20 + x%

Where the target values for x (subject to the note below) shall be as follows:

31 July 2012	0.83%
31 August 2012	1.67%
30 September 2012	2.50%
31 October 2012	3.33%
30 November 2012	4.17%
31 December 2012	5.00%
31 January 2013	5.83%
28 February 2013	6.67%
31 March 2013	7.50%
30 April 2013	8.33%
31 May 2013	9.17%
30 June 2013	10.00%
31 July 2013	10.83%
31 August 2013	11.67%
30 September 2013	12.50%
31 October 2013	13.33%
30 November 2013	14.17%
31 December 2013	15.00%
31 January 2014	15.83%
28 February 2014	16.67%
31 March 2014	17.50%

30 April 2014	18.33%
31 May 2014	19.17%
30 June 2014	20.00%

While keeping broadly in line with these target values, for the purposes of reporting the performance of the Petroleum Fund against the global benchmark, the Central Bank may adjust the weights of the global benchmark on interim dates that reflect the progress of the implementation of the above target equity exposures in the financial markets.

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 for equities shall be determined by the composition of the equities benchmark.

External Managers are permitted to use derivative instruments as specified in individual Investment Mandate 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 1-3 years / Passive
Allocation	(20 - x ± 1.5)% of the value of the Fund, measured at the end of each month.
Benchmark	Merrill Lynch US Government Bond 1-3 years index
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 year.

Approved Manager Banco Central de Timor-Leste

MANDATE 2

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	Merrill Lynch US Government Bond 3-5 years index
Eligible Instruments	US Government fixed interest instruments
Mandate Objective	<p>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.</p> <p>The difference in the modified duration between the portfolio and the benchmark shall be less than 0.2 year.</p>
Approved Manager	Banco Central de Timor-Leste

MANDATE 3

Asset Class / Management Style	US Government Treasury Notes 5-10 years / Enhanced Passive
Allocation	(20 ± 1.5)% of the value of the Fund, measured at the end of each month.
Benchmark	Bank of America Merrill Lynch 5-10 Year US Treasury Notes and Bonds Index ("G602")
Eligible Instruments	Qualifying instruments under Article 15.1 of the Petroleum Fund Law No. 9/2005 of 3 rd 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 4

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.

Eligible Instruments Developed Markets Equity Universe as defined by MSCI, 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 5

Asset Class / Management Style MSCI Developed Market Equities / Passive

Allocation (15 + x ± 4)% of the value of the Fund, measured at the end of each month.

Benchmark MSCI World Index Net Dividends Reinvested.

Eligible Instruments Developed Markets Equity Universe as defined by MSCI, 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,

before tax and fees 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 manger shall reduce the tracking error within 30 days.

Approved Managers

State Street Global Advisors

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, 16 July 2012




Emilia Pires

Minister of Finance

Democratic Republic of Timor-Leste




Abraão de Vasconcelos

Governor

Banco Central de Timor-Leste