Annex 1: Qualifying Instruments, Benchmark and Investment Mandate

<u>Amendment №. 2</u>

The Management Agreement between Ministry of Finance and Banking and Payments Authority of Timor-Leste is hereby modified with effect from 8 October 2010 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 BPA is responsible for the operational management of the aggregate Fund according to the following mandate:

Aggregate Benchmark

The benchmark for the global mandate is the weighted ratio of the three benchmarks as follows:

- 76 per cent of the benchmark defined under Mandate 1
- 20 per cent of the benchmark defined under Mandate 2
- 4 per cent of the benchmark defined under Mandate 3

Eligible Instruments

Asset Class	Allocation
A. Qualifying Fixed Interest Investments under Article 15.1 of the Petroleum Fund Law	Up to 100%
B. Fixed Interest and Equity Instruments meeting the conditions in Article 14 of the Petroleum Fund Law	No more than 10%

Eligible currencies for fixed interest investments shall be United States dollars, Australian Dollars, Euro, Great Britain Pounds, and Japanese Yen.

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

Fixed Income External managers shall be permitted to use derivative instruments, provided it complies with Article 15.4 of the Petroleum Fund Law.

Equity derivatives may be used solely for risk management and efficient implementation purposes.

B. Sub mandates

MANDATE 1

Manager	Banking & Payments Authority of Timor-Leste
Allocation	74-78% of the value of the Fund, excluding amounts held for cash management purposes.
Benchmark	Merrill Lynch US Government Bond 0-5 years index
Eligible instruments	US Government fixed interest instruments
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.

MANDATE 2

Manager	Bank for International Settlements
Allocation	19-21% of the value of the Fund, excluding amounts held for cash management purposes.
Benchmark	The following group of indexes will, together, form the composite benchmark for the Portfolio: (a) 52% Merrill Lynch 0-5 Years US Treasury Notes and Bonds Index ("GVQA"); (b) 10% Merrill Lynch 5-10 Year US Treasury Notes and Bonds Index ("G6O2"); (c) 7% Merrill Lynch Australian Governments Index ("G0T0"); (d) 7% Merrill Lynch EMU Direct Government Index ("EG00"); (e) 2% Merrill Lynch U.K. Gilts Index ("G0L0"); (f) 2% Merrill Lynch Japanese Governments Index ("G0Y0"); (g) 13% Merrill Lynch US Dollar Foreign Government and Supra National, AAA Rated Index ("GS10"); and

	(h) 7% Merrill Lynch US Dollar Foreign Government and Supra National, AA Rated Index ("GS20").
Eligible instruments	The BIS must invest at least 80 % of the portfolio in accordance with the qualifying instruments defined in Article 15.1 of the Petroleum Fund Law. The BIS may invest a maximum of 20% of the Portfolio in deposits with, or debt instruments denominated in Australian Dollar (AUD), Euro (EUR). Japanese Yen (JPY) and Pounds Sterling (GBP) and issued by, entities that have been designated with a long-term foreign currency rating of Baa3 or higher by the Moody's rating agency or BBB- or higher by the Standard & Poor's rating agency, provided that the debt instruments are issued outside of Timor-Leste, are liquid and transparent, and traded in a financial market of the highest regulatory standard.
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.

MANDATE 3

Manager	Schroder Investment Management Limited
Allocation	3-5% of the value of the Fund, excluding amounts held for cash management purposes.
Benchmark	MSCI World Index Net Dividends Reinvested. Ticker NDDUWI.
Eligible instruments	All equities listed on developed markets exchanges (i.e. in countries belonging to developed markets as defined by the MSCI market classification framework). The fund may also invest in equity index futures and currency forwards.
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.

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.

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

Dili, 08 October 2010

Emilia Pires

Minister of Finance
Democratic Republic of Timor-Leste

Abraão de Vasconselos

General Manager
Banking and Payments Authority of Timor-Leste