

Petroleum Fund Quarterly Report

Quarter ended 30 June 2009

PRESS RELEASE

The Banking & Payments Authority (BPA) today released the Quarterly Report ended 30 June 2009 of the Petroleum Fund of Timor-Leste showing that the Capital of the fund as of 30 June 2009 was \$4,901.53 million at 30 June compared to \$4,750.08 million at the end of March 2009.

The report shows that the gross capital inflows during the quarter were US\$383.98 million, consisting of taxpayer contributions to the Fund of US\$ 116.91 million and royalty contributions from the NPA (National Petroleum Authority) of US\$ 267.07 million.

The investment income of the Fund was -\$31.61 million of which the coupon and interest received was \$42.92 million and the change in the market valuation was -\$74.53 million. This resulted in a portfolio return of the Fund for the quarter of -0.76 %, while the benchmark return for the period was -0.63 %. The portfolio return for the quarter was therefore 14 basis points below the benchmark return and within the mandated target of ± 25 basis points.

The loss on market valuation represents a partial reversal of the large market valuation gains reported in recent quarters, and does not affect the long-term results of the Fund because each bond in the portfolio will generate a positive return over its life, as evidenced by the reported receipts of coupon and interest income. The revaluation loss is in line with financial market movements.

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.

Following the contract negotiations reported in previous reports, an Investment Management Agreement (IMA) was signed on 3 June 2009 with the Bank for International Settlements (BIS) to act as a non-commercial external manager, with an opening portfolio of \$1 billion. To facilitate the operational arrangements, a transition manager was engaged to execute the liquidation of US Government bonds previously managed by the BPA and to construct an opening portfolio for the BIS mandate. A transition advisor monitored the transition execution. The management of the portfolio was transferred to the BIS on 26 June 2009. As the period from 26 to 30 June is too short to produce meaningful performance statistics, the performance of the BIS has not been separately identified in the June quarterly report.

Following the placement of the funds with the BIS an updated management agreement was negotiated between the Ministry of Finance and the Banking & Payments Authority, and signed on 25 June 2009. The mandate set out in the Management Agreement reflects the new management arrangements. 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 enhanced return manner with the objective of outperforming the Benchmark while maintaining an ex ante tracking error within 100 basis points.

The BPA has managed the portfolio close to the benchmark over the first 16 quarters. The difference in return between the portfolio and the benchmark since the inception of the fund in 2005 is -9 basis points within the target of ± 25 basis points.

Highlights of the XVI Quarterly Report, which covers the period from 1 April to 30 June 2009, include:

- The Opening Balance was \$4,750.08 million.
- Net receipts during the quarter were \$383.98 million which consisted of taxpayer receipts of 116.91 million and royalty receipts of \$267.07 million. The outflows were \$200.92 million of which \$200 million was transferred to the State Budget and \$922,766 paid to the BPA to cover the operational management costs from January to June 2009. The net capital flow was \$183.06 million.
- The portfolio return was -0.76 % for the quarter while the benchmark return was -0.63 % within the mandate of ± 25 basis points.
- Investment income during the quarter was -\$31.61 million consisting of interest income was \$42.92 million and market revaluations of -\$74.53 million.
- The closing balance was \$4'901.53 million.
- BIS was appointed as first external manager for an initial \$1 billion mandate and the securities of the portfolio transferred to the BIS on 26th June 2009.

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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