

## **Annex 1: Qualifying Instruments, Benchmark and Investment Mandate**

### **Amendment No. 6**

**The Management Agreement between the Ministry of Finance and Banco Central de Timor-Leste is hereby modified with effect from 29 August 2013 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:

- Bank of America Merrill Lynch US Government Bond 1-3 years index 20 – x%
- 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%
- MSCI World Index Net Dividends Reinvested 20 + x%
- Barclays Global Treasury Developed Market ex US, 10% Country and 30% Eurozone Capped. Measured on an unhedged basis 10%

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

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

<b>Asset Class</b>	<b>Allocation</b>
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 mandates and in compliance with Article 15.7 of the Petroleum Fund law.

## B. Sub mandates

### MANDATE 1

<b>Asset Class Management Style</b>	/ US Government Treasury Notes 1-3 years / Passive
<b>Allocation</b>	(20 - x ± 1.5)% of the value of the Fund, measured at the end of each month.
<b>Benchmark</b>	Bank of America Merrill Lynch 1-3 Year US Treasury Index (Bloomberg code "G102")
<b>Eligible Instruments</b>	US Government fixed interest instruments
<b>Mandate Objective</b>	<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 years.</p>
<b>Approved Manager</b>	Banco Central de Timor-Leste

## MANDATE 2

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<b>Asset Class Management Style</b>	/ US Government Treasury Notes 3-5 years / Passive
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<b>Allocation</b>	(40 ± 2.5)% of the value of the Fund, measured at the end of each month.
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<b>Benchmark</b>	Bank of America Merrill Lynch 3-5 Year US Treasury Index (Bloomberg code "G202")
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<b>Eligible Instruments</b>	US Government fixed interest instruments
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<b>Mandate Objective</b>	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.
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The difference in the modified duration between the portfolio and the benchmark shall be less than 0.2 years.

<b>Approved Manager</b>	Banco Central de Timor-Leste
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## MANDATE 3

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<b>Asset Class Management Style</b>	/ US Government Treasury Notes 5-10 years / Enhanced Passive
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<b>Allocation</b>	(10 ± 1)% of the value of the Fund, measured at the end of each month.
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<b>Benchmark</b>	Bank of America Merrill Lynch 5-10 Year US Treasury Index (Bloomberg code "G602")
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<b>Eligible Instruments</b>	Qualifying instruments under Article 15.1 of the Petroleum Fund Law No. 9/2005 of 3rd August, prior to the 2011 revision.
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<b>Mandate Objective</b>	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.
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<b>Approved Manager</b>	Bank for International Settlements
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## MANDATE 4

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<b>Asset Class Management Style</b>	/ MSCI Developed Market Equities / Enhanced Passive
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<b>Allocation</b>	(5 ± 1.5)% of the value of the Fund, measured at the end of each month.
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<b>Benchmark</b>	MSCI World Index Net Dividends Reinvested (Bloomberg code “NDDUWI”).
<b>Eligible Instruments</b>	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.
<b>Mandate Objective</b>	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.
<b>Approved Manager</b>	Schroder Investment Management Limited

#### MANDATE 5

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<b>Asset Class Management Style</b>	/ MSCI Developed Market Equities / Passive
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<b>Allocation</b>	(15 + x ± 4)% of the value of the Fund, measured at the end of each month.
<b>Benchmark</b>	MSCI World Index Net Dividends Reinvested (Bloomberg code “NDDUWI”).
<b>Eligible Instruments</b>	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.
<b>Mandate Objective</b>	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.
<b>Approved Managers</b>	State Street Global Advisors BlackRock Investment Management

#### MANDATE 6

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<b>Asset Class Management Style</b>	/ Global Developed Market Sovereign Bonds / Passive
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<b>Allocation</b>	(10 ± 1)% of the value of the Fund, measured at the end of each month.
<b>Benchmark</b>	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, Cash, Fixed Income Index Futures, Money Market 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 with ex-ante tracking error of 10 basis points. The tracking error will be reviewed weekly and the portfolio rebalanced whenever the tracking error target or other constraints are breached.

**Approved Managers**

Transition Manager Panel

**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.

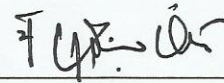
Dili, 29 August 2013



**Emilia Pires**

Minister of Finance

Democratic Republic of Timor-Leste



**Abraão de Vasconcelos**

Governor

Banco Central de Timor-Leste