

Annex 1: Qualifying Instruments, Benchmark and Investment Mandate

Amendment No.3

The Management Agreement between the Ministry of Finance and Banco Central de Timor-Leste is hereby modified with effect from 14 December 2011 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:

- | | |
|--|-------|
| • United States Government Treasury Notes 1-3 years | 40-y% |
| • United States Government Treasury Notes 3-5 years | 40% |
| • United States Government Treasury Notes 5-10 years | 20% |
| • MSCI World Index Net Dividends Reinvested | y% |

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

<i>31 January 2012</i>	<i>10%</i>
<i>29 February 2012</i>	<i>12%</i>
<i>31 March 2012</i>	<i>14%</i>
<i>30 April 2012</i>	<i>16%</i>
<i>31 May 2012</i>	<i>18%</i>
<i>30 June 2012 and thereafter</i>	<i>20%</i>

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%
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

Manager	Banco Central de Timor-Leste (Core US treasury mandate)
Allocation	(40 ± 2.5)% of the value of the Fund, excluding amounts held for cash management purposes measured at the end of each month.
Benchmark	Merrill Lynch US Government Bond 3-5 years index
Eligible instruments	US Government fixed interest instruments
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>

MANDATE 2

Manager	Bank for International Settlements
Allocation	(20 ± 1.5)% of the value of the Fund, excluding amounts held for cash management purposes measured at the end of each month.
Benchmark	Bank of America Merrill Lynch 5-10 Year US Treasury Notes and Bonds Index (“G6O2”)
Eligible instruments	The BIS may invest the portfolio in qualifying instruments as defined in Article 15.1 of the Petroleum Fund Law.
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	(5 ± 1.5)% of the value of the Fund, excluding amounts held for cash management purposes 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.
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.

MANDATE 4

Manager	Banco Central de Timor-Leste (Liquidity Mandate)
Allocation	$(40 - y \pm 1.5)\%$ of the value of the Fund, excluding amounts held for cash management purposes measured at the end of each month.
Benchmark	Merrill Lynch US Government Bond 1-3 years index
Eligible instruments	US Government fixed interest instruments
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>

MANDATE 5

Manager	State Street Global Advisors
Allocation	$(y-5 \pm 4)\%$ of the value of the Fund, excluding amounts held for cash management purposes 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.
Objective	<p>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.</p>

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.

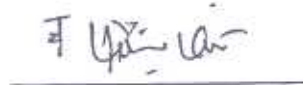
Dili, 11 April 2012



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Abraão de Vasconcelos

Governor

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