



PETROLEUM FUND QUARTERLY REPORT

Quarter ended 30 September 2013

PRESS RELEASE

The Banco Central de Timor-Leste (BCTL) today released the Quarterly Report of the Petroleum Fund of Timor-Leste for the period ended 30 September 2013. The report shows that the capital of the fund as of 30 September 2013 was \$ 14.6 billion compared to \$ 13.6 billion at the end of the previous quarter.

The report shows that the gross capital inflows during the quarter were \$ 703.30 million, consisting of \$ 269.31 million as contributions of taxpayers to the Fund, and royalty contributions from the NPA (National Petroleum Authority) of \$ 433.99 million.

The gross investment income of the Fund was \$413.27 million of which the coupon and interest received was \$61.38 million and the change in the market valuation of its financial assets was \$351.89 million. This resulted in a portfolio return of the Fund for the quarter of 2.98%, while the benchmark return for the period was 3.07%.

The Petroleum Fund law specifies that the Operational Manager (Banco Central de 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 Minister's decision to progressively increase the equity exposure to 40% by 30 June 2014, the existing equities managers' exposure had been increased to 32% by the end of September 2013.

Following the Minister's decision on a new allocation of 10% of the Fund to non-US developed market sovereign bonds, the Central Bank appointed an interim manager from its standby panel to manage the mandate passively on an interim basis from 26 August. Meantime the Central Bank is conducting a tender process to select a longer-term external manager with the capability to enhance the expected return over the benchmark.

The mandate given to BIS was to manage a single US Treasury 5-10 years index with the same risk and return characteristics of outperforming the benchmark while maintaining an ex-ante tracking error within 100 basis points.

The mandate given to Schroders is to manage the portfolio 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.

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The mandate given to SSgA and Black Rock is to 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 Banco Central de Timor-Leste has managed the portfolios close to the benchmark over the first 33 quarters. The difference in return between the total portfolio and the benchmark since the inception of the fund was 1 basis point.

Highlights of the XXXIII Quarterly Report, which covers the period from 1 July to 30 September 2013, include:

- The capital of the Fund grew from US\$ 13.6 billion to US\$ \$ 14.6 billion.
- Gross cash inflows to the fund from royalties and taxes were US\$ 703.30 million.
- Cash outflows were US\$ 181.97 in which US\$ 180.00 million for transfer to State Budget and US\$ 1.97 million for direct external and internal management costs.
- Net cash inflows during the period were US\$ 521.33 million.
- The portfolio return in the quarter was 2.98 % compared with the benchmark return of 3.07%.
- Investment income during the quarter was US\$ 413.27 million consisting of interest income US\$ 61.38 million and market revaluations US\$ 351.89 million.

The quarterly reports, as well as the Petroleum Fund Law and Management Agreement, are available from the Banco Central's website www.bancocentral.tl.

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Dili, 07 November 2013.