

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

**Amendment No.10**

The Management Agreement between the Ministry of Finance and Banco Central de Timor-Leste is hereby modified with effect from 12 March 2019 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.

The Sub Mandates include ranges that are reviewed by the Central Bank of Timor-Leste at the end of each month, which will trigger an automatic portfolio rebalance if breached. The Central Bank of Timor-Leste shall notify the Minister in that event. If the allocations are unable to be complied with, the Central Bank should document the breach, report it to the Minister of Finance and seek advice on how to proceed. Where the breach relates to illiquid assets, the advice may be to adjust the liquid portion of the Fund.

**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:

- 3 Month US Treasury Bills 5%
- Bank of America Merrill Lynch US Government Bond 3-5 years index 35%
- Bank of America Merrill Lynch 5-10 Year US Treasury Notes and Bonds Index 10%
- Barclays Global Treasury Developed Market ex US, 10% Country and 30% Eurozone Capped. Measured on an unhedged basis 10%
- MSCI World Index Net Dividends Reinvested 35%
- Petroleum Operations - Private Debt Instrument 5%

*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 shall be determined by the composition of the benchmarks.

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>	<b>Cash Management</b>
<b>Allocation</b>	(5 ± 2.5)% of the value of the Fund, measured at the end of each month
<b>Benchmark</b>	ICE Bank of America Merrill Lynch 3 Month US Treasury Bill Index (Bloomberg code "G001 Index")
<b>Eligible Instruments</b>	US Dollar denominated deposits or debt instruments with a maturity of less than one year and a minimum credit rating of investment grade. This includes US Government Treasury bills, US Government Treasury bonds, securities issued by supranationals, repurchase agreements and deposits with banks having an S&P short-term issuer rating of A-1.
<b>Mandate Objective</b>	The investment objective is to fund withdrawals as they are required. Liquidity is the primary consideration and returns are secondary.
<b>Approved Manager</b>	Banco Central de Timor-Leste

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**MANDATE 2**

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<b>Asset Class / Management Style</b>	<b>US Government Treasury Notes 3-5 years/ Passive</b>
<b>Allocation</b>	(35 ± 2.5)% of the value of the Fund, measured at the end of each month.
<b>Benchmark</b>	Bank of America Merrill Lynch 3-5 Year US Treasury Index (Bloomberg code "G2O2 Index")
<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

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**MANDATE 3**

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<b>Asset Class / Management Style</b>	<b>US Government Treasury Notes 5-10 years/ Enhanced Passive</b>
<b>Allocation</b>	(10 ± 1)% of the value of the Fund, measured at the end of each month.
<b>Benchmark</b>	Bank of America Merrill Lynch 5-10 Year US Treasury Index (Bloomberg code "G6O2 Index")
<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.
<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 <i>ex ante</i> tracking error within 100 basis points.



Approved Manager

Bank for International Settlements

**MANDATE 4**

<b>Asset Class / Management Style</b>	<b>Global Developed Market Sovereign Bonds / Enhanced Passive</b>
<b>Allocation</b>	2 tranches each of $(5 \pm 0.5)\%$ 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.  (Bloomberg code "BGTITRUU Index")
<b>Eligible Instruments</b>	All securities in the Benchmark index; Sovereign bonds from developed market countries that are investment grade and above, excluding the US, as defined by the index provider Barclays; Cash; and bond and interest rate futures and currency forwards.
<b>Mandate Objective</b>	The portfolio shall be managed in an enhanced passive indexing style with the objective to seek to closely match the performance benchmark with the ex-ante tracking error of the Managed Assets in comparison with the Benchmark shall be less than 50 basis points on average, over a rolling 3 year period.
<b>Approved Managers</b>	AllianceBernstein L.P.  Wellington Management Company LLP

**MANDATE 5**

<b>Asset Class / Management Style</b>	<b>MSCI Developed Market ex Australia Equities / Passive</b>
<b>Allocation</b>	$(29.75 \pm 7)\%$ of the value of the Fund, measured at the end of each month.
<b>Benchmark</b>	MSCI World Index ex Australia Net Dividends Reinvested (Bloomberg code "NDDUWXA Index").

**Eligible Instruments**

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.

**Mandate Objective**

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.

**Approved Managers**

State Street Global Advisors  
BlackRock Investment Management

**MANDATE 6**

<b>Asset Class / Management Style</b>	<b>MSCI Australian Equities / Passive</b>
<b>Allocation</b>	(0.875 ± 0.45)% of the value of the Fund, measured at the end of each month.
<b>Benchmark</b>	MSCI Australia Index Net Dividends Reinvested (MXAU) (Bloomberg code "NDDUAS Index").
<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, Australian exchange traded funds 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 <i>ex ante</i> tracking error relative to the benchmark that does not normally exceed 50 basis points. The tracking error shall be reviewed at the end of each month, and if it should exceed 50 basis points, the manager shall reduce the tracking error within 30

days.

<b>Approved Manager</b>	Banco Central de Timor-Leste
<b>MANDATE 7</b>	
<b>Asset Class / Management Style</b>	MSCI Developed Market Equities/Enhanced Passive
<b>Allocation</b>	(4.375±1.3) % of the value of the Fund, measured at the end of each month.
<b>Benchmark</b>	MSCI World Index Net Dividends Reinvested (Bloomberg code "NDDUWF").
<b>Eligible Instruments</b>	Developed market listed equities, 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 <i>ex ante</i> tracking error exceed 150 basis points.
<b>Approved Managers</b>	Schroders Investment Management Limited
<b>MANDATE 8</b>	
<b>Asset Class / Management Style</b>	Other eligible investments. Private debt instrument for Petroleum Operations
<b>Allocation</b>	5% of the value of the Fund, measured at the end of each month.
<b>Key investment terms</b>	Private debt instruments with Timor Gap, E.P. or its wholly owned subsidiaries.  Interest rate of 4.5% p.a.  18 years maturity. No repayments during the first 8 years. Amortized over the following 10 years.
<b>Benchmark</b>	Contracted interest rate of 4.5% p.a.

**Eligible Instruments**

Private Debt Instrument issued by Timor Gap, E.P. or its wholly owned subsidiaries for Investments in Petroleum Operations through Timor Gap, E.P. according to the Petroleum Activities Law No. 13/2005 as amended by Law No. 1/2019. Timor Gap E.P.'s investments are governed by the Rules and Criteria approved by the Ministerial Diploma No.4/2019, as of 1 March.

**Mandate Objective**

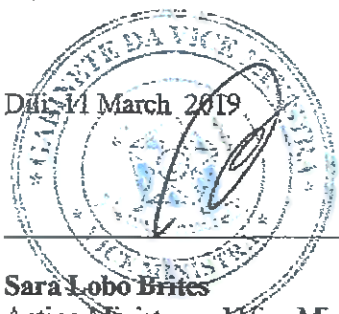
Financing the acquisition by the State of participating interests in Petroleum Operations.

The financial return from the Petroleum Fund's investment accounts for the development objectives listed in the Rules and Criteria approved by the Minister of Finance.

**Approved Manager**

Banco Central de Timor-Leste

Dili, 11 March 2019



**Sara Lobo Brites**  
Acting Minister and Vice Minister  
Ministry of Finance

**Nur-Aini Djafar Alkatiri**  
Acting Governor  
Banco Central de Timor-Leste