VOLUME 16 ISSUE LIX

Petroleum Fund of Timor-Leste

Quarterly Report

31 March 2020

Inside This Report

INTRODUCTION

This report is produced in accordance with Article 13 of the Petroleum Fund Law which requires the Central Bank to report on the performance and activities of the Petroleum Fund of Timor-Leste, referred to in this report as the Fund unless the context suggests otherwise.

All monetary references in this report are to United States dollars as the official currency of Timor-Leste.

While every effort has been made to ensure accuracy, the information is based on management and custodial reports and has not been independently audited and is subject to change, in which case the changes will be incorporated into subsequent reports.

EXECUTIVE SUMMARY

The Petroleum Fund was formed by the enactment of the Petroleum Fund Law

Promulgated on 3 August 2005 as amended on 28 September 2011. The law gives the Central Bank of Timor-Leste the responsibility for the operational

Management of the Fund.

This report covers the period from 01 January 2020 to 31 March 2020.

Key statistics for the quarter include:

- The capital of the Fund at the end of the Current quarter was $17.03 billion while the previous quarter was $17.69 billion.
- Gross cash inflows to the fund from royalties and taxes were $181.11 million.
- An outflow for the quarter was $3.53 million for management costs. No transfers were made to the State Budget account during this quarter
- The profit for the quarter was -$843.99 million, representing a gross of fees return of -4.70% compared with the benchmark return of -4.99%.

The Fund performance for the quarter, including the performance of the relative asset classes, was as follows:

Table 1

%	QTR	FYTD	1 Year	3 Years	5 years	Since Inc
Total Fund	-4.70	-4.70	1.91	3.99	3.55	4.03
Benchmark	-4.99	-4.99	1.73	3.81	3.41	3.96
Excess	0.28	0.28	0.18	0.17	0.14	0.06
International Fixed Interest	3.95	3.95	7.53	3.92	2.68	2.91
Benchmark	4.10	4.10	7.86	4.01	2.72	2.92
Excess	-0.15	-0.15	-0.33	-0.09	-0.04	-0.01
International Equities	-21.64	-21.64	-11.00	1.81	3.37	7.12
Benchmark	-21.05	-21.05	-10.39	1.92	3.25	6.71
Excess	-0.58	-0.58	-0.61	-0.11	0.12	0.41
Private debt instrument for Petroleum Operations	1.15	1.15	n.a	n.a	n.a	4.46
Benchmark	1.15	1.15	n.a	n.a	n.a	4.46
Excess	0.00	0.00	n.a	n.a	n.a	0.00

1. INVESTMENT MANDATE

A revised Management Agreement between the Ministry of Finance and the Central Bank was signed on 25 June 2009. Annex 1 was further updated subsequently to reflect the latest developments. The latest update was on 30 July 2019 to reflect Minister's decision on introducing equity factor portfolios. The benchmarks as of March 2020 were as follows:

Table 2

	Jan-20	Feb-20	Mar-20
3 Month US Treasury Bills/Cash	5%	5%	5%
BOA Merrill Lynch 3-5 Years Treasury Bond Index	35%	35%	35%
BOA Merrill Lynch 5-10 Years Treasury Notes and Bond Index	10%	10%	10%
Barclays Global Treasury Developed Market ex US, 30% Eurozone and 10% Country Capped	10%	10%	10%
Total Fixed Income	**60%**	**60%**	**60%**
Total equity (MSCI World Index Net Dividends Reinvested)	**35%**	**35%**	**35%**
Total Private debt instrument for Petroleum Operations	**5%**	**5%**	**5%**
Total	**100%**	**100%**	**100%**

2. MARKET TRENDS DURING THE QUARTER

Global Macroeconomic Trend

The global economic growth is expected to experience a synchronized downturn in the next couple of quarters as the widespread of Coronavirus or COVID-19 has brought the global economic activities to a sudden stop. The virus has affected more than 2 million people and has claimed the lives of hundred-thousand people worldwide, according to the data compiled by the John Hopkins University. The International Monetary Fund (IMF) has released its global economy outlook showing that Global GDP is expected to contract by 3% in 2020, which is a much deeper contraction than the 0.1% recorded in the wake of the Great Financial Crisis. Moreover, this poor outcome is widespread, with worse growth expected than in 2009 in both Advanced and Emerging economies. For example, growth in the US will reach -5.9%, compared to -2.5% in 2009. Euro area growth will hit -7.5% this year compared to -4.5% in 2009. In China and in India, growth will hit 1.2% and 1.9% versus 9.4% and 8.2% in 2009. The IMF emphasized that it is challenging to quantify the magnitude of the damage done to the global economy; therefore, there are still great uncertainties around the length and the severity of the crisis.

The United States has now become the epicenter of the COVID-19 with the highest number of cases and COVID-19 –related deaths confirmed. The economies of many States in the U.S are in a lockdown mode, as the authorities of the Federal and State levels urged people to stay at home to help limit the virus from propagating further. The economic implications of those measures are already significant. The weekly data from U.S Labor Department shows the number of people filing for unemployment benefits has increased dramatically. Workers who were laid off or furloughed from their jobs, which in turn filed for unemployment benefits, has increased at the pace of 4.5 million on a weekly basis, from mid-March to early April, bringing the total number to 16.6 million people in span of just three weeks. Many analysts have predicted that the unemployment rate in the U.S could increase to double digits in the coming months as more and more states are ordering the businesses to suspend their activities and people to stay at home to minimize the spread of the virus. The U.S economic growth is projected to contract 5.9% this year, after 2.3% growth in 2019, before returning to a 4.7% growth in 2021, IMF said.

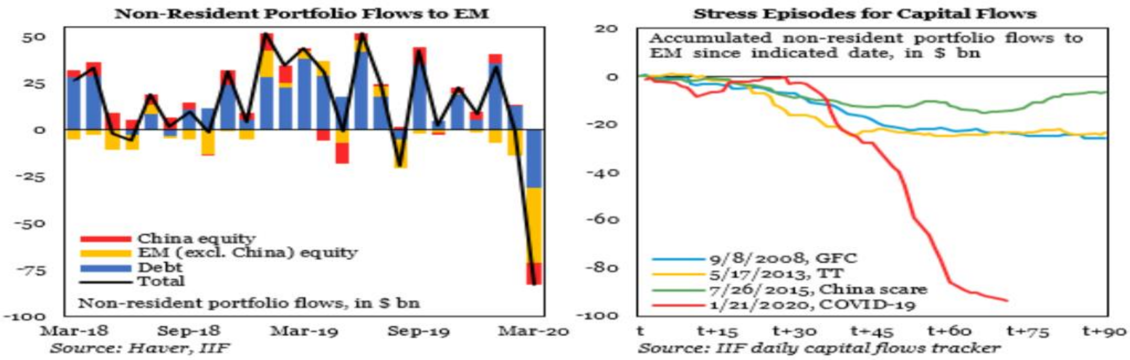
In light of the disturbance to the economic activities caused by COVID-19, Governments and the central banks in advanced economies have acted complementarily to help businesses and workers navigate through this difficult time. The U.S policy makers have responded with waves of fiscal policy targeting the businesses and the employees who are most affected by the situation. The U.S Congress approved a fiscal policy called the CARE Act totaled of $2.1 trillion dollars on 27 March 2020. This bill aims to help small business with subsidies, and individuals with unemployment insurance. The U.S Federal Reserve called for two emergency meetings in March, and reduced its monetary policy rate twice, from 1.50 – 1.75% to a range of 0.0 – 0.25% in hopes of spurring consumer spending and making it easier for Americans to take out low-cost loans. Similarly, low interest rates make it easier for businesses to borrow money and then use this money to grow their companies. In addition, the Fed introduced a new $750 billion round of quantitative easing by purchasing U.S. Treasuries and Corporate Bonds. The goal is to fuel economic growth since money funneled into the economy should allow people to more comfortably make purchases. This can potentially have a trickledown effect on both the consumer and business communities, leading to increased stock market performance and GDP growth.

The Eurozone economies were doing relatively well before the outbreak of COVID-19 pandemic. Industrial production in Germany rose 3.2% in January and 0.3% in February respectively despite the supply chain disruptions in China within those months. However, these numbers are old news now as the Coronavirus has brought devastating consequences to the health of people while disturbing the economic activities across the region. Italy is the country in the region that was hit hardest, as the government applied the national lockdown earlier on 9 March to contain the spread of the virus. The data for March will most likely show a sharp decline in the industrial production as many factories were ordered to shut down since the first half of the month. The IMF projected that the economy in euro zone as a whole would decline by 7.5% in 2020. On the other hand, the economy of the United Kingdom was weak even before COVID-19 crisis. The U.K's month on month economic growth was flat in January and contracted by 0.1% in February brought about by the disruption of the supply chains in China, where the government imposed lockdown since January to February to contain the COVID-19. Governments across the region and European Union Commission already announced fiscal measures to battle the crisis bring about by the pandemic outbreak. In addition, the European Central Bank has introduced an asset-purchasing program amounting to €750 billion to help businesses navigate through the crises.

Countries in Asia Pacific and Emerging markets are also battling the spread of the virus by implementing the same measures such as national lockdowns, and ban on international arrivals. These measures are devastating to those countries in the region that are highly dependent on tourism sector. According to the newly released IMF global economic outlook the Asia region economies will experience no growth in 2020 followed by more uncertainties in 2021 due to the coronavirus. In terms of economic data, it varied across the countries in the region. Data from China in February showed the industrial production, retail sales and fixed assets investment all decline by double digits, reflecting the restrictions the country put in place during that period to contain the spread of COVID-19. However, those data has improved slightly in March since factories are reopened and workers return to resume the employment after the lockdown. Nevertheless, given the ongoing crisis in other parts of the world and uncertainties around the second wave of the virus in China itself, China's economy is far from returning to the pre-COVID-19 level. The severity of the economic damage from the COVID-19 crisis on other Asian and Pacific countries such as Japan, Australia, New Zealand, and South Korea should be expected in later months as those countries just put the restrictions to economic activities in mid to late March.

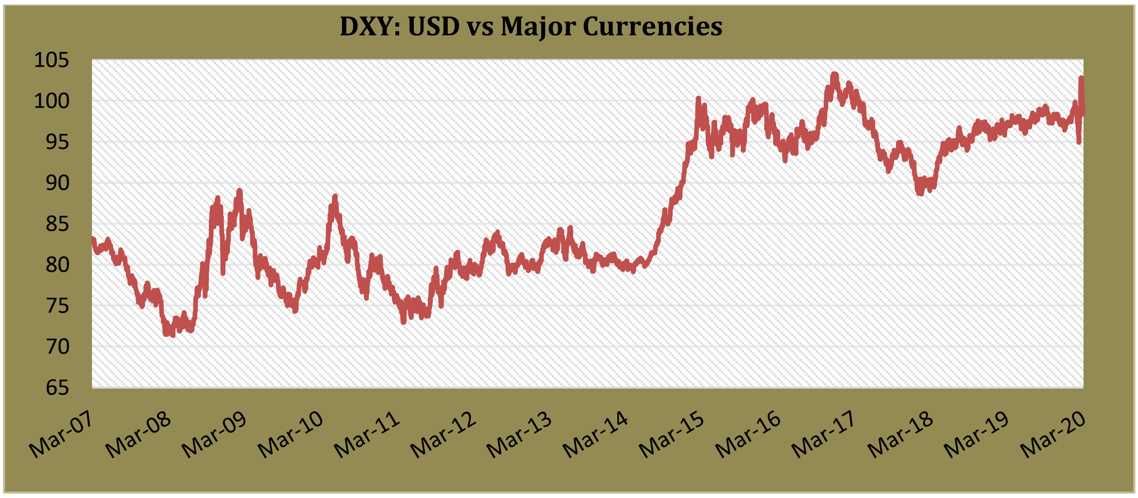
Apart from the damage done to the global economy, COVID-19 crisis has threatened the global financial stability. The heightened risk triggered massive capital movements especially capital outflows (*graph 1, right hand)* from the emerging markets and the riskier assets to the safe haven assets such as U.S Treasuries and other dollar-denominated financial instruments. This pushed the demand for the USD higher, which resulted in USD appreciation against a bucket of major currencies by 2.7% during the quarter *(graph 2)* The appreciation of USD is also an issue for other countries especially the emerging economies that have high levels of USD denominated debt as their debt expense becomes even more expensive in their local currencies. This phenomenon prompted the U.S Federal Reserve to collaborate with the central banks of the affected countries through currency swap lines agreements to make their respective currencies available.

Graph 1 : Capital Flows



The panel on the right suggests that there have been around 100 billion of outflows from EM since 1/19/2020. The Federal Reserve on March 19, 2020, revealed the establishments of temporary U.S. dollar swap lines with a larger list of central banks. The Fed put in these USD swap lines so that EM central banks can get the USD and lend it on.

Graph 2: DXY USD Index

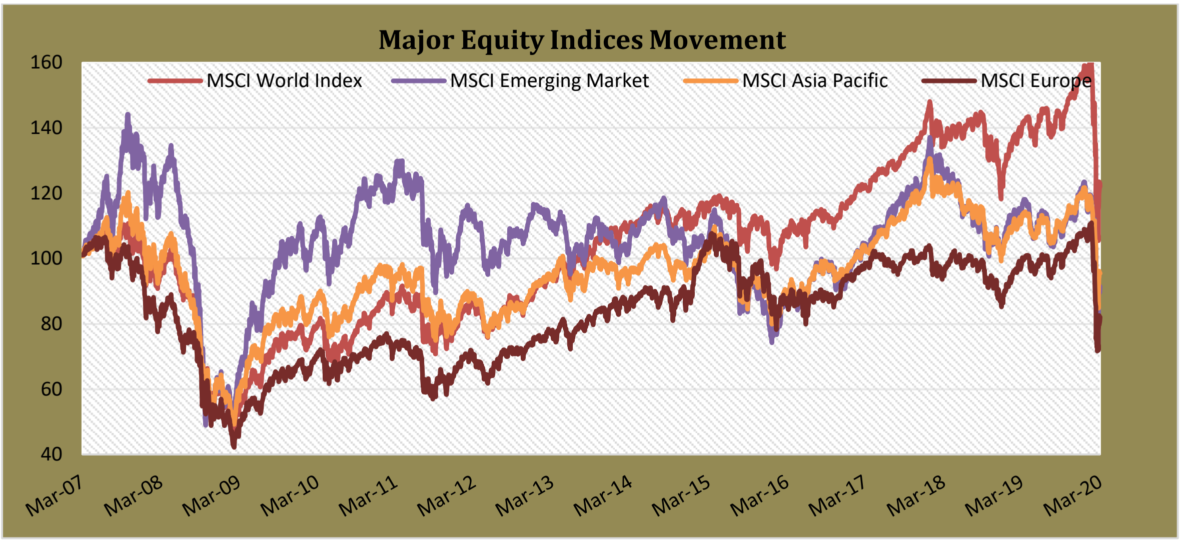


Source: Bloomberg

Global Equity Market Trends

Global equity markets started the quarter on strong footing, buoyed by the phase-one trade agreement between the U.S and China, which was officially signed by both countries on 15 January 2020. Subsequently, equity markets experienced a tremendous volatility throughout the rest of the quarter *(graph 3)*. Measures that governments put in place to control the spread of COVID-19 have put a significant pressure on the global economic activities. Consequently, the businesses lowered their prospects for earnings, thus resulting in the revaluation on their share prices. The Volatility Index (VIX), which represents the market's expectation of 30-day forward-looking volatility and measures the implied volatility of the S&P500 index, skyrocketed to a record high of 84 points in March, the level not seen since the global financial crisis in period of 2008 – 2009. The index has receded to hover around 50 points in response to the integrated fiscal and monetary responses by the governments and central banks in effort to buttress the global economic fallout caused by COVID-19.

Graph 3: Global Equity Indices



Source: Bloomberg

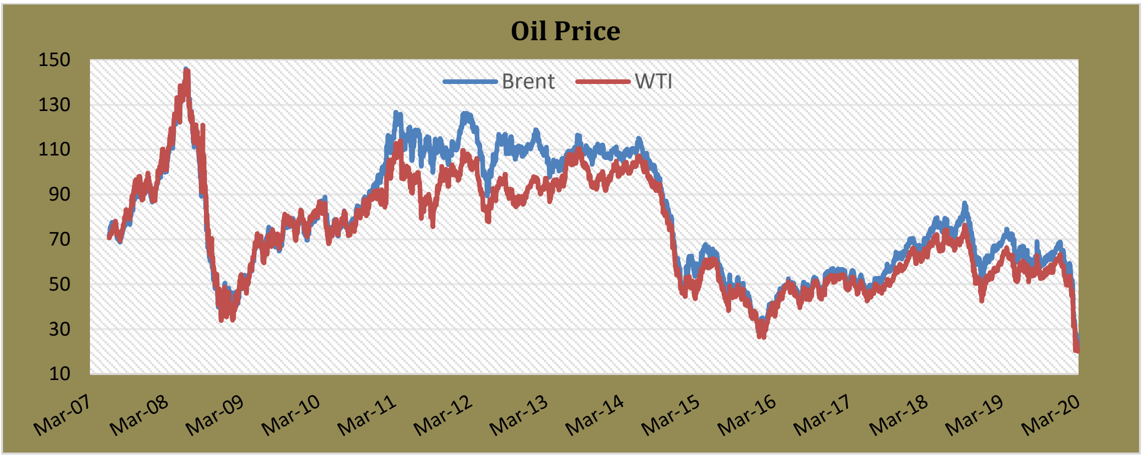
Major equity market indices in the U.S ended the quarter in the "bear market" territory, meaning the value of the indices fell more than 20% in a period. The pandemic outbreak in the country has put a strain on the economic activities as the authorities imposed a shutdown on most business activities and ordered people to stay at home to help control the spread of the virus. Several economic data for March showed the magnitude of economic damage caused by the coronavirus crisis. The retails sales in the country fell more than 8% in March, making it the biggest quarterly drop ever seen in the history of the sector. Given the consumer consumption accounts for around 70% of the U.S economy, the significant decline in the retail sales would be a huge drag on the U.S economy as a whole in quarters ahead. The forward indicator data such as consumer confidence fell to 71 for April, from above 100 levels reported in previous months: indicating more troubles to the economy going forward.

Equity markets across Europe also suffered a significant downturn in the first quarter of the year. Despite the positive data from the region for January and February, it is expected that the data for March and April will be significantly lower to reflect the sudden stop in economic activities in the region during the period. The early data has pointed to a slowdown in business activities in the region. For example, the Euro zone construction PMI index fell to 33.5 in March from 52.5 in February. This data which was collected only from a period of 12 – 31 March suggests that some data might have been received before the lockdown measures were put in place in some countries, therefore a certain deterioration in April data is expected when taking into account the restrictive measures implemented later on.

Equity markets in Asia Pacific and Emerging markets declined in the same magnitude as the rest of the world as the COVID-19 crisis put a significant downward pressure on exports, which is a major growth factor for many countries in the region. Some of the global trade flows were disrupted by the U.S-China trade disputes even before the outbreak of the COVID-19. It has become a major problem for countries such as Hong Kong, Singapore, and Vietnam, whose share of exports to GDP is above 100%. In addition, countries such as Australia, New Zealand, and Indonesia whose economies are heavily dependent on the commodity and tourism sectors have also experienced a significant economic downturn.

In terms of sectorial performance, energy, financials, industrial and transportation-related industries are the hardest hit sectors during the pandemic crisis. Industrial sectors have plummeted across the globe with the major world economies being on lockdown to fight the spread of COVID-19. The financial sectors have also suffered dramatically since a decline in the government bond yields hurt the financial institutions' profitability. Energy sector experienced a major blow as the oil price fell more than 65% *(graph 4)* during the quarter. Declining oil prices are due to reduced demand for oil during the unfolding economic recession and failure of major oil producers to curve the oil production.

Graph 4: Oil Prices

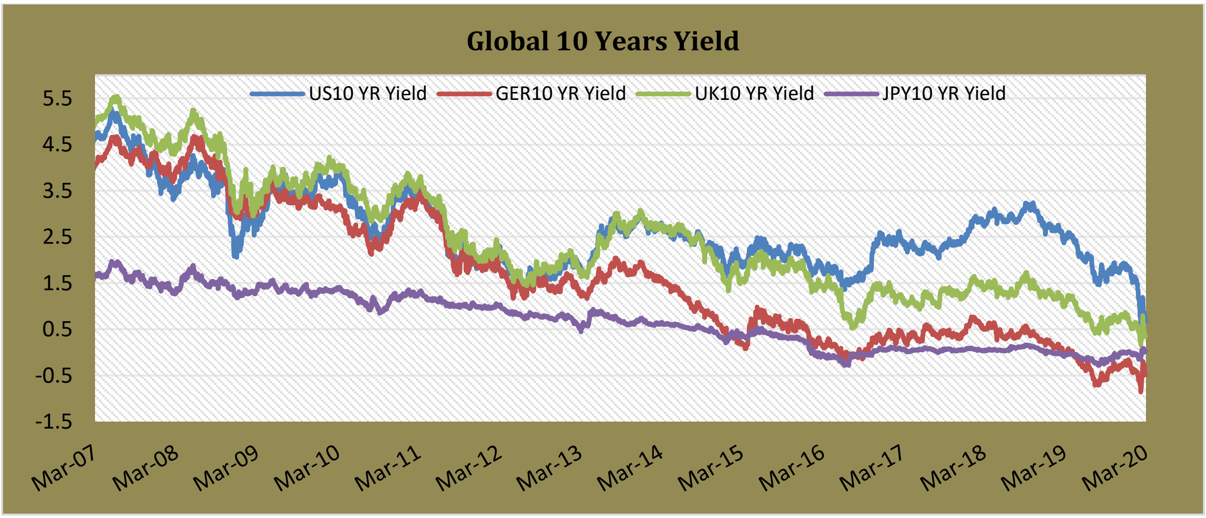


Source: Bloomberg

Global Bonds and U.S Treasuries

The graph below demonstrates the yield movement of 10-year global sovereign bonds in one-year. The yields of sovereign bonds fell across the globe except, Japan and Italy, as the major central banks cut their monetary policy rates and reintroduced quantitative easing programs to battle the global economic contraction brought about by the coronavirus outbreak.

Graph 5: 10 Years Global Sovereign Bonds Yield



Source: Bloomberg

U.S Treasury bond yields fell across the curve during the quarter. The heightened risks bring about by the COVID-19 crisis triggered massive selloff in the risky asset classes and pushed demand for the U.S Treasuries as flight to safety accelerated. The declining Treasury yields also reflect lower inflation expectations. The U.S Fed five-year forward inflation rate was at 1.5% as of March 2020, way below the Fed's target of 2%. Another factor for the declining treasury yields is the provision of massive liquidity injection by the U.S Federal

Reserve. The Fed has pledged to buy unlimited amounts of the U.S Treasury in order to minimize the liquidity crunch in the market. This policy is also in line with the current economic environment; as the economy contracts the government and businesses need to borrow and spend on a large scale, so keeping the interest rates low should be the Fed's policy goal going forward.

The yields of the sovereign bonds across Euro zone also follow a similar downward trend during the quarter, moving further to negative territory. The government and the central banks in the region have done with policy tools at their disposal to fend off the economic consequences caused by the pandemic.

The Japanese 10-year government bond, as depicted in the graph above *(graph 5, purple line)*, is flat, moving within the range of Bank of Japan's policy target.

Implications of the global financial market movement to the Petroleum Fund investment

Recent volatility in the global financial market caused fluctuations in the Petroleum Fund Investment, particularly from late February onwards during the COVID-19 outbreak crisis. The performance of the asset classes in the Petroleum Fund investment portfolios were mixed during the quarter, with the price of equity falling dramatically, while the price of fixed income portfolio rising slightly during the period. In total, the value of the Petroleum Fund portfolio dropped 4.7% during the quarter, contributing from a positive fixed income performance of 3.95% and negative performance of international equity of 21.6% during the quarter. It should be noted that this performance was after a record-breaking return of 13.25% posted by the Fund in the 2019 fiscal year. One thing that warrants attention here is the effectiveness of the Fund's diversification strategy. Due to the historical low or negative correlation between stocks and bonds, holding U.S. treasuries and Global Sovereign Bonds along in addition to the existing equity allocation minimizes the overall market risk in the Petroleum Fund. As the performance of -4.7% of the total Fund for the quarter relative to the equity market drop of - 21.7% demonstrates, the Petroleum Fund portfolio is positioned well to weather the storm during periods of market stress.

3. MANAGEMENT DURING THE QUARTER

Objectives

The Central Bank, as operational manager of the Fund, has implemented the investment mandates through a combination of internal and external management.

The following table shows how the investment mandates have been implemented.

Table 3

Mandate	Management Style	Authorised Managers	Tracking Error	Outperformance Target	Commencement date
3 Month USD Treasury Bills/Cash	Passive	BCTL	n/a	Nil	14-Aug-18
BOA Merrill Lynch 3-5 Years US Treasury Bond Index	Passive	BCTL	n/a	Nil	19-Jan-12
BOA Merrill Lynch 5-10 Years US Treasury Bond Index	Enhanced Passive	Bank for International Settlements	0.50%	0.25%	15-Dec-11
Barclays Global Treasury Developed Market ex US, 30% Eurozone and 10% Country Capped	Enhanced Passive	Allliance Bernstein	0.50%	Nil	3-Jul-14
	Enhanced Passive	Wellington Management	0.50%	Nil	4-Dec-14
MSCI World Index ex Australia Net Dividends Reinvested	Equity Factor	Schroders Equity Factor	3.00%	Nil	2-Aug-19
	Equity Factor	SSgA Equity Factor	3.00%	Nil	2-Aug-19
MSCI World Index ex Australia Net Dividends Reinvested	Passive	SSgA International Equity	0.35%	Nil	18-Jan-12
	Passive	BlackRock International Equity	0.35%	Nil	21-Feb-13
MSCI Australia	Passive	BCTL	0.50%	Nil	4-Jul-16
Private debt instrument for Petroleum Operations	Passive	BCTL	n/a	Nil	10-Apr-19

Operational Implementation

The actual allocation of the capital of the Fund to the various mandates as at the end of the quarter was as follows:

Table 4

Mandate	Managers	Target Benchmark	Tolerance	Actual	Lower Boundary	Upper Boundary
3 Month US Treasury Bills/Cash	BCTL	5.000%	± 2.5%	6.210%	2.500%	7.500%
BOA Merrill Lynch 3-5 Years Treasury Bond Index	BCTL	35.000%	± 2.5%	34.401%	32.500%	37.500%
BOA Merrill Lynch 5-10 Years Treasury Notes and Bond Index	Bank for International Settlements	10.000%	± 1%	9.858%	9.000%	11.000%
Barclays Global Treasury Developed Market ex US, 30% Eurozone and 10% Country Capped	Alliance Bernstein	5.000%	± 0.5%	4.922%	4.500%	5.500%
	Wellington Management	5.000%	± 0.5%	4.923%	4.500%	5.500%
Total Fixed Income		**60.000%**		**60.314%**	**53.000%**	**67.000%**
MSCI Index ex Australia Net Dividends Reinvested	Schroders Investment Management SSgA Equity Factor	8.750%	± 1.75%	8.892%	7.00%	10.500%
MSCI Index ex Australia Net Dividends Reinvested	SSgA International Equity BlacRock	25.375%	± 6%	25.956%	19.38%	31.38%
MSCI Australia Index	BCTL	0.875%	± 0.45%	0.851%	0.425%	1.325%
Total Equities		**35.000%**		**35.699%**	**26.800%**	**43.200%**
Total Private debt instrument for Petroleum Operations	BCTL	**5.000%**	n/a	**3.987%**	0.000%	5.000%
Total		**100.000%**		**100.000%**		

4. PORTFOLIO PERFORMANCE

This section contains a number of tables and charts describing the performance of the Petroleum Fund.

The following notes are intended to assist in interpreting this information:

- The percentage figures show the return of the Fund, or a part of it, which is compared with the performance of the corresponding benchmark. The benchmark represents the investment strategy established by the Minister and is used as a goal against which the performance of the actual investments is measured. The Minister's benchmarks for the Petroleum Fund are described earlier in this report.
- The excess is the difference (which may be negative) between the benchmark and the portfolio being measured. In general a portfolio and its benchmark will respond in a similar manner to movements in the financial markets. The excess occurs because the benchmark does not recognize transaction costs, and because the actual portfolio usually contains a different mix of financial instruments to the benchmark.

GLOBAL PORTFOLIO

In the course of the quarter the Petroleum Fund balance was $17.03 billion as follows:

Table 5

Capital Account	$'000
Opening book value (01 January 2020)	17,691,816
Receipts during the period	181,111
Transfer to General State Budget	0
Investment Return	-843,994
Closing book value (31 March 2020)	**17,028,934**

The Fund was invested as follows:

Table 6

Assets	$'000
Cash and Cash Equivalents	1,126,225
Other Receivables	47,008
Financial assets held at fair value through profit or loss	15,875,925
Less:	
Payable for Securities Purchased	-12,524
Accounts Payable	-7,701
Total	**17,028,934**

The income for the quarter was as follows:

Table 7

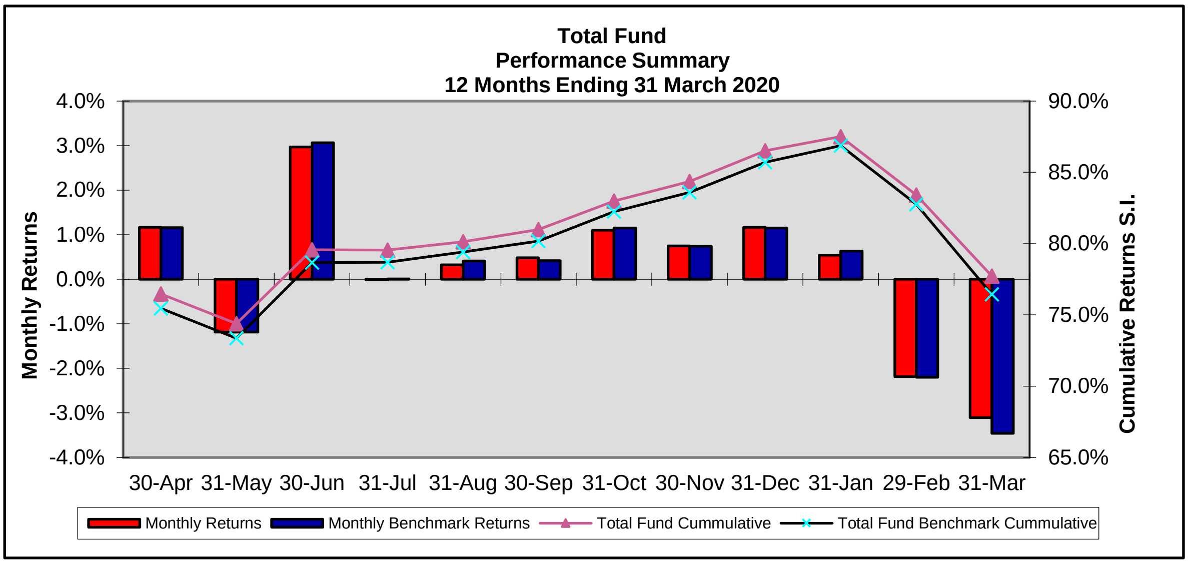
Income	$'000
Interest income	61,746
Dividend income	38,938
Unit Trust distributions	1,525
Other Investment income	0
Net gains/(losses) on Financial Assets at fair value	-938,077
Net foreign exchange gains/(losses)	-2,832
Less:	
External manager, custody fees	-864
Central Bank management expenses	-1,758
IAB Expenses	-13
Other expenses	-894
Withholding taxes	-1,764
Total Investment Income	**-843,994**

The following notes are intended to assist in interpreting this information:

- Unit trust distribution is the income received from listed property investment entities.
- Other expenses relate to derivative trading costs which are deducted directly from the Fund.

Global Benchmark over the same period is shown in the following graph.

Graph 6 Total Performance



FIXED INTEREST

The performance of the investments in Fixed Interest for the quarter, including the performance of the managers responsible for those investments, was as follows:

Table 8

%	Qtr	FYTD	1 Year	3 Years	5 Years	Since Inc
International Fixed Interest	3.95	3.95	7.53	3.92	2.68	2.91
Benchmark	4.10	4.10	7.86	4.01	2.72	2.92
Excess	-0.15	-0.15	-0.33	-0.09	-0.04	-0.01
BCTL Cash Management (TLCM)	0.30	0.30	1.91	n.a	n.a	1.61
3 Month USD Treasury Bills	0.57	0.57	2.26	n.a	n.a	2.11
Excess	-0.27	-0.27	-0.35	n.a	n.a	-0.50
BCTL 3-5 yr US Treasury	5.26	5.26	8.85	4.07	2.78	2.23
BoA Merrill Lynch 3-5 Years US Treasury Passive	5.36	5.36	9.13	4.14	2.86	2.24
Excess	-0.10	-0.10	-0.28	-0.07	-0.08	0.00
Bank for International Settlements	8.58	8.58	13.97	6.21	4.01	3.32
BoA Merrill Lynch 5-10 Years US Treasury Enhanced Passive	8.79	8.79	14.09	6.18	4.00	3.31
Excess	-0.21	-0.21	-0.12	0.03	0.01	0.01
Alliance Bernstein	-3.10	-3.10	0.02	2.33	1.35	-0.71
Barclays Global Treasury DM ex US Enhanced Passive	-3.02	-3.02	0.25	2.44	1.42	-0.70
Excess	-0.08	-0.08	-0.24	-0.11	-0.07	-0.01
Wellington Management	-3.14	-3.14	0.27	2.46	1.40	0.33
Barclays Global Treasury DM ex US Enhanced Passive	-3.02	-3.02	0.25	2.44	1.42	0.36
Excess	-0.12	-0.12	0.02	0.02	-0.03	-0.03

INTERNATIONAL EQUITIES

The performance of the investments in global developed market equities for the quarter, including the performance of the managers responsible for those investments, was as follows:

Table 9

	Qtr	FYTD	1 Year	3 Years	5 Years	Since Inc
International Equities	-21.64	-21.64	-11.00	1.81	3.37	7.12
Benchmark	-21.05	-21.05	-10.39	1.92	3.25	6.71
Excess	-0.58	-0.58	-0.61	-0.11	0.12	0.41
Schroders Investment Management*	-21.28	-21.28	n.a	n.a	n.a	-13.59
MSCI World Index ex Net Australia dividends Reinvested	-20.77	-20.77	n.a	n.a	n.a	-13.27
Excess	-0.51	-0.51	n.a	n.a	n.a	-0.32
SSgA Equity Factor**	-21.01	-21.01	n.a	n.a	n.a	-14.58
MSCI World Index ex Net Australia dividends Reinvested	-20.77	-20.77	n.a	n.a	n.a	-13.27
Excess	-0.24	-0.24	n.a	n.a	n.a	-1.31
SSgA International Equity	-21.46	-21.46	-10.47	2.22	3.54	7.62
MSCI World index ex Australia Passive	-20.77	-20.77	-10.01	2.16	3.36	7.36
Excess	-0.69	-0.69	-0.46	0.06	0.18	0.26
BlackRock Investment Management	-21.28	-21.28	-10.33	2.31	3.60	6.44
MSCI World index ex Australia Passive	-20.77	-20.77	-10.01	2.16	3.36	6.20
Excess	-0.51	-0.51	-0.32	0.15	0.24	0.24
BCTL Australia Equity	-34.14	-34.14	-27.33	-8.30	n.a	-2.45
MXAU AU Index Passive	-33.25	-33.25	-26.34	-7.93	n.a	-2.12
Excess	-0.89	-0.89	-0.99	-0.36	n.a	-0.33

**The Performance number of Schroder reflects the reclassification of Schroder's mandate to be factor mandate effectively implemented on 2 August 2019.*

***SSgA Equity factor performance numbers commence on 2 August 2019.*

Private debt instrument for Petroleum Operations

The performance of the investment in Private debt instrument for Petroleum Operations for the quarter, including the performance of the manager responsible for this investment, was as follow:

Table 10

%	Qtr	FYTD	1 Year	3 Years	5 Years	Since Inc
Private debt instrument for Petroleum Operations	1.15	1.15	n.a	n.a	n.a	4.46
Benchmark	1.15	1.15	n.a	n.a	n.a	4.46
Excess	0.00	0.00	n.a	n.a	n.a	0.00

5. MANAGEMENT COSTS

A management fee of $3.53 million for operational management costs was charged to the fund during the quarter. The fee covered the following services (in thousands $):

Table 11

External Management and Custody expenses	864
Central Bank management expenses	1,758
IAB expenses	13
Other Expenses	894
Total Cost	3,529

6. TRANSFERS TO STATE BUDGET

According to Article 7.1 of the Petroleum Fund Law transfers from the Fund may only be made to the credit of a single State Budget account. No transfers were made to the State Budget account during this quarter.

Table 12	In Thousand ($)
Transfer January 2020	0
Transfer February 2020	0
Transfer March 2020	0
Transfer for this Quarter	0
Total Transfers previous quarters	0
Total transfers this fiscal year to March 2020	**0**

7. COMPLIANCE STATEMENT

Banco Central de Timor-Leste asserts the following statements relating to compliance with the mandates given by the Minister.

Qualifying Instruments

The Fund was invested in instruments within the investment universes specified in the various mandates at all times during the quarter.

Modified Duration

The modified duration of the Fund's fixed interest investment portfolios remained within the mandate during the quarter.

Tracking Error

The tracking error of each mandate in the Fund's investment portfolio was within the specified range during the quarter.

External Managers

External managers' investments were within their mandates during the quarter.

Internal Audit

The provisions of Article 22 of the Petroleum Fund law no. 9/2005 require the Central Bank's Internal Auditor to perform an audit of the Fund every six months. The Internal Auditor has performed an audit up to quarter ended 31 December 2019

8. FINANCIAL INFORMATION

The following financial information is presented for the purpose of assisting the Minister to review the quarterly performance of the Petroleum Fund as set out in this report. The figures have not been audited.

Table 13

BALANCE SHEET	2020	2019
In thousands of USD	March	March
ASSETS		
Cash and Cash Equivalents	1,126,225	1,931,865
Receivables	47,008	93,117
Financial assets held at fair value through profit or loss	15,875,925	15,052,396
TOTAL ASSETS	17,049,158	17,077,378
LIABILITIES		
Payables for securities purchased	-12,524	-94,460
Accounts payable	-7,701	-2,699
TOTAL LIABILITIES	-20,224	-97,159
NET ASSETS	17,028,934	16,980,218
CAPITAL		
Opening Balance (January)	17,691,816	15,803,638
PF Law Art. 6.1 (a) Revenue receipts	70,691	99,319
PF Law Art. 6.1 (b) DA receipts	105,035	140,957
PF Law Art. 6.1 (e) Other receipts	5,386	0
PF Law Art 7.1 Transfers to State Budget	0	0
Income for the period	-843,994	936,304
CAPITAL	17,028,934	16,980,218

Table 14

STATEMENT OF PROFIT OR LOSS	QUARTER		YEAR TO DATE	
In thousands of USD	Mar-20	Mar-19	Mar-20	Mar-19
INVESTMENT INCOME				
Interest income	61,746	57,484	61,746	57,484
Dividend income	38,938	42,433	38,938	42,433
Trust income	1,525	1,432	1,525	1,432
Other investment income	0	0	0	0
Net gains/(losses) on Financial Assets at fair value	-938,077	848,724	-938,077	848,724
Net foreign exchange gains/(losses)	-2,832	-8,122	-2,832	-8,122
Total Investment Income	-838,700	941,951	-838,700	941,951
EXPENSES				
External management, fees	864	2,081	864	2,081
Internal operational management fees	1,758	1,607	1,758	1,607
IAB Expenses	13	29	13	29
Other expenses	894	284	894	284
Total expenses	3,529	4,001	3,529	4,001
Profit before tax	-842,229	937,950	-842,229	937,950
Withholding taxes on investments	1,764	1,645	1,764	1,645
Profit/loss for the period	-843,994	936,304	-843,994	936,304
Other comprehensive income	0	0	0	0
Total comprehensive income for the period	-843,994	936,304	-843,994	936,304

Notes: *The accounting policies and method of computation used to prepare the above figures are the same as disclosed in the most recent annual financial statements of the Petroleum Fund.*

Dili, 22 April 2020

Venancio Alves Maria
Deputy Governor

Abraão de Vasconselos
Governor