



República Democrática de Timor-Leste
Ministério das Finanças



“Adeus Conflito, Bemvindo Desenvolvimento”

Revenue Management in Timor-Leste
Roles and Duties
Government – Ministry of Finance

Vidar Ovesen
Petroleum Fund Adviser
Ministry of Finance

Petroleum Fund Management Seminar
10-11 May 2010

Key Petroleum Fund Principles

- All petroleum revenues flow into the Fund (receipts and return).
- Long term financial saving mechanism to ensure petroleum revenues benefitting current and future generations.
- The savings invested only in the international financial market based on diversification and a long term investment horizon.
- The fund integrated with the state budget and resources spent domestically are subject to decisions made by the Parliament.
- The Fund managed with a high level of transparency.

The PF Law does not prevent the Government from pursuing its political objectives to promote domestic investments and economic growth.

The Management and Investment Policy 2005-2010

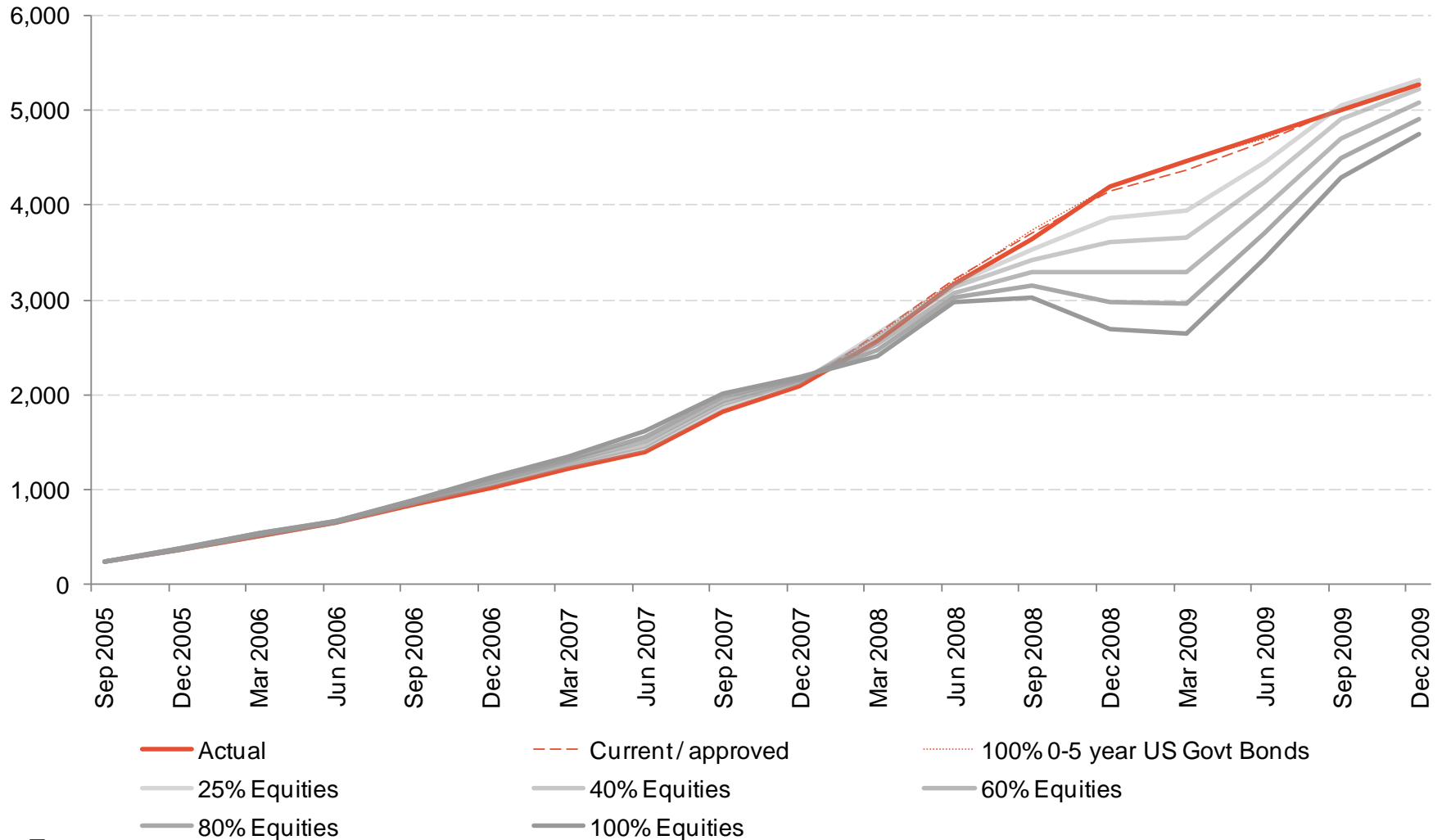
- US Government bonds from the outset
 - due to lack of knowledge about the international financial market, a simple and prudent investment strategy was required to avoid exposure to risk and volatility at the first stage
 - A requirement to review the investment strategy after 5 years was included in the PF Law envisaging a need for further flexibility after 5 years

- Some, but limited, flexibility to invest in non-USD instruments
 - 90% in cash deposits and high rated bonds denominated in US\$
 - 10% in equities and other financial instruments

- Portfolio diversification along with increased capacity
 - Investments in AUD, JPY, EUR and UK Government bonds from June 2009
 - Investments in global equities from 2010
 - Increased exposure to equities and further diversification as soon as the PF Law has been changed

2005-10: No other strategies would have performed better

Simulation of the historical Petroleum Fund balance under different investment strategies (USD millions)



Petroleum Fund Performance

▶ Petroleum Fund Balance:

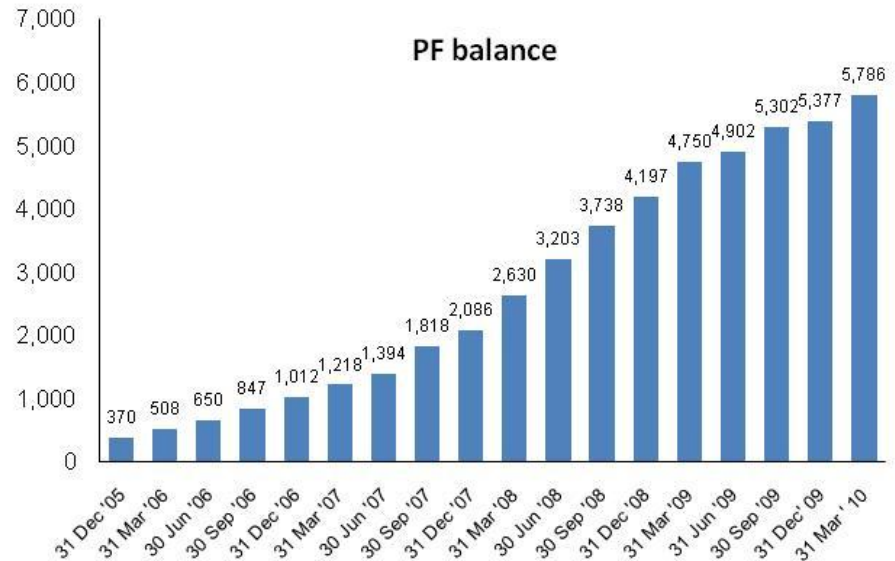
- \$6 billion
- 10 x non-oil GDP

▶ Investment Performance:

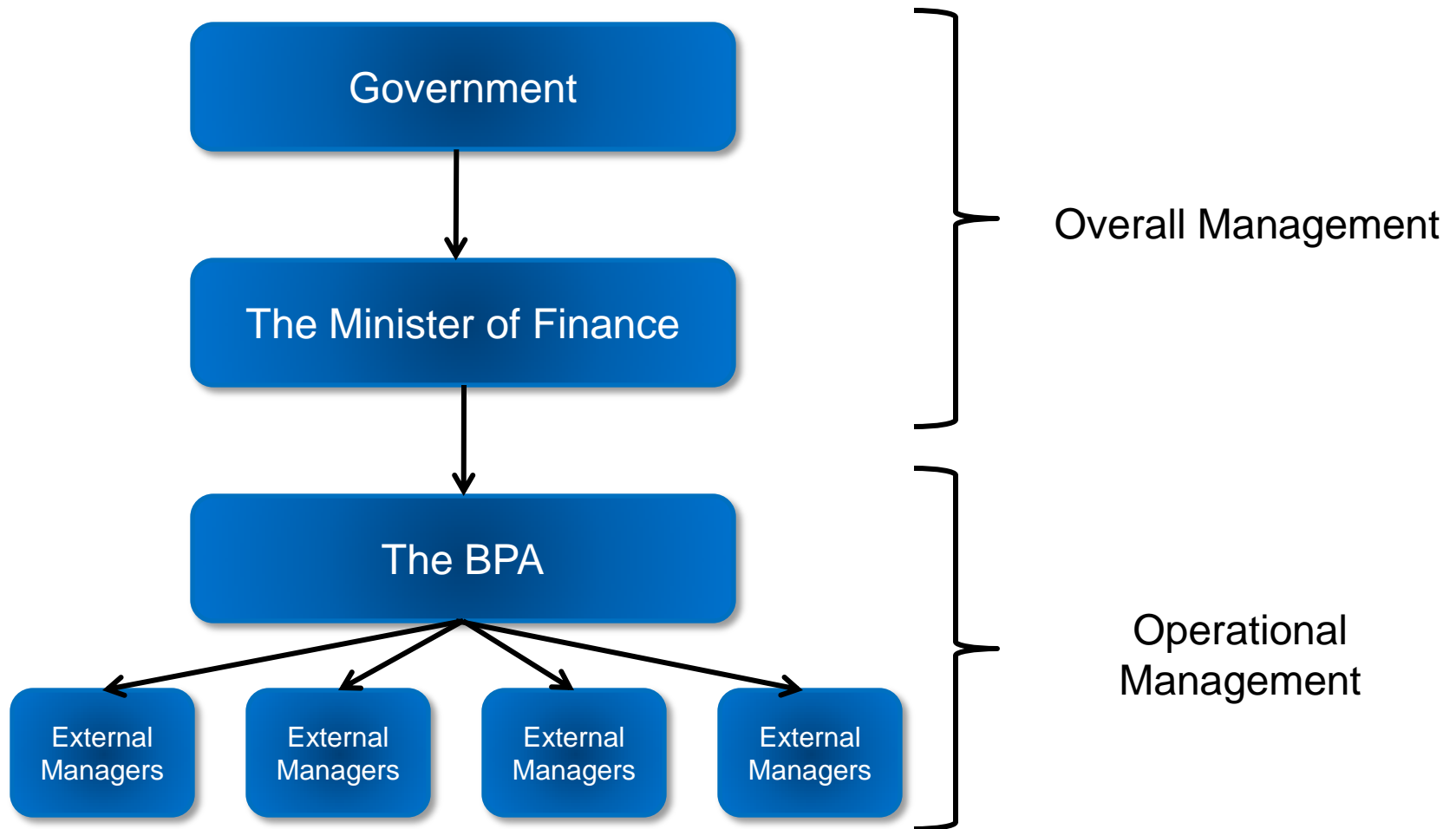
- 2005-2010: 4.4% p.a.

▶ Composition of the portfolio::

- 96% US Government bonds
- 4% AUD, JPY, EUR and UK Government bonds



Governance structure – Petroleum Fund



A clear division of duties between the overall and operational management is a fundamental Fund Management Principle (Santiago Principles)

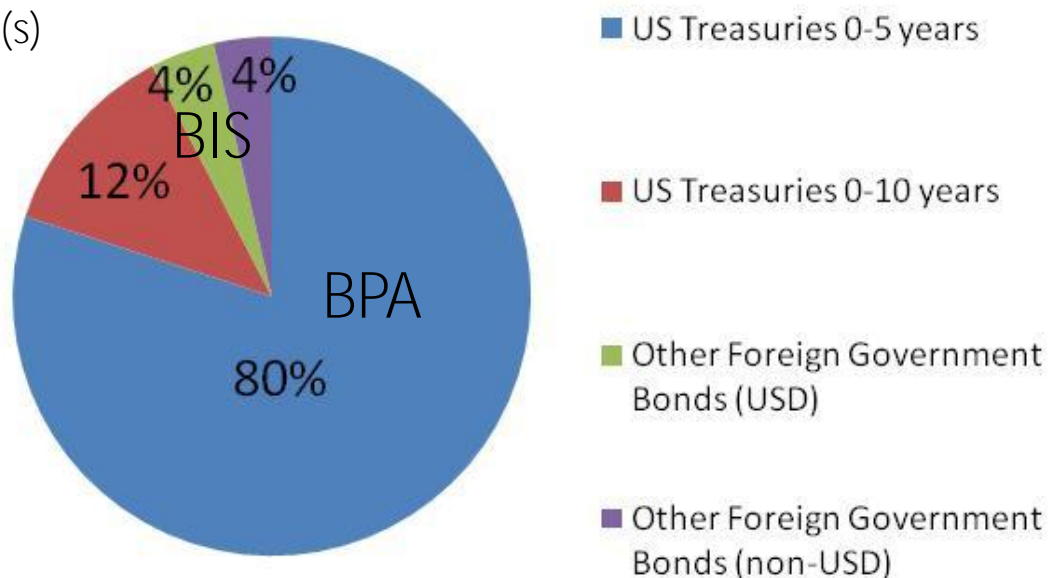
Areas of responsibility – Govt & MoF

- 1) Overall management – Art. 11, 14 & 15
 - Investment Strategy & Policy
 - Management Agreement with the Operational Manager (BPA)
 - Consent to proposals re External Management Appointment and Termination
- 2) Monitoring and Reporting – Art. 6, 21, 23, 24 & 34
 - Supervision of the Fund, maintenance of accounts and reports
 - Approval of Management Fee
 - Annual Report
- 3) Transparency – Art. 32
- 4) Independent Auditing – Art. 34-36
- 5) Withdrawals from the Fund – Art. 7, 8 & 9
- 6) Petroleum Tax Administration - Art. 6 & 10

Investment Strategy & Policy I

- Global Mandate – Defines an overall Benchmark for the Portfolio:
 - Allocation to asset classes, regions & currencies:
 - US Government bonds, other foreign Government bonds, global equities
 - Asia, US, Europe, Emerging Economies
 - USD, AUD, JPY, EUR, GBP etc
 - Allocation to internal/external management:

- BPA vs External Manager(s)

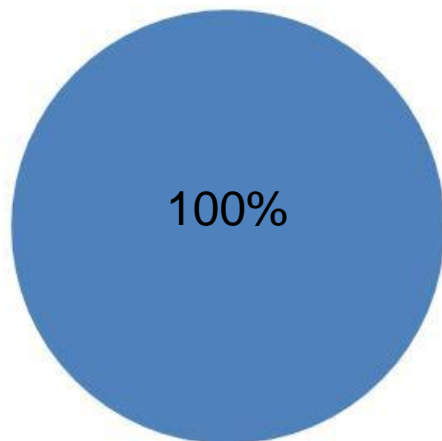


Investment Strategy & Policy II

- Sub Mandates
 - Determines the benchmark for each Investment Mandate
 - Risk measures
 - Eligible Instruments/Investment Universe (Rating, Use of Derivatives)
 - Style of Investment Management

Sub Mandate 1 (80%):

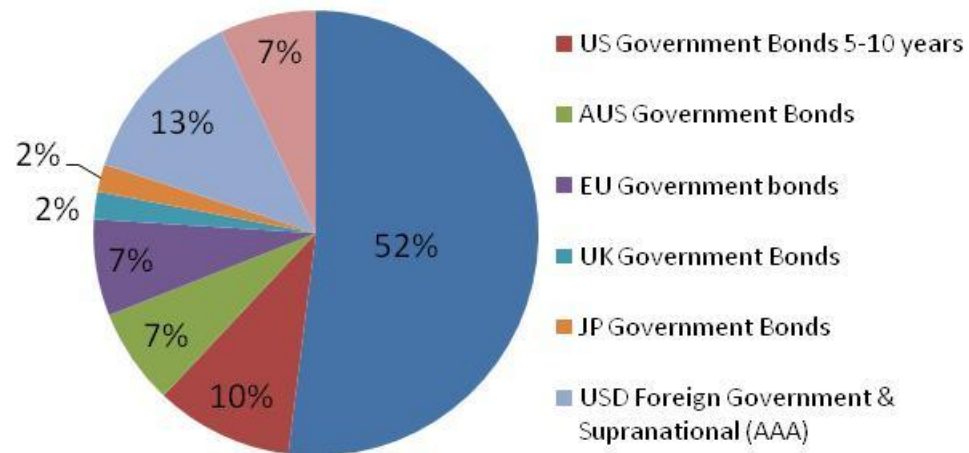
BPA



■ US Government Bonds 0-5 years

Sub Mandate 2 (20%):

BIS



- US Government Bonds 0-5 years
- US Government Bonds 5-10 years
- AUS Government Bonds
- EU Government bonds
- UK Government Bonds
- JP Government Bonds
- USD Foreign Government & Supranational (AAA)
- USD Foreign Government & Supranational (AA)

Summary

- Clear division of duties: Overall vs Operational Mgmt.
- Assess and design the Investment Strategy - adopt Investment Mandates
- Give Instructions to the Operational Manager to implement
- Monitor the Operations