Timor-Leste Petroleum Fund

2005-2010

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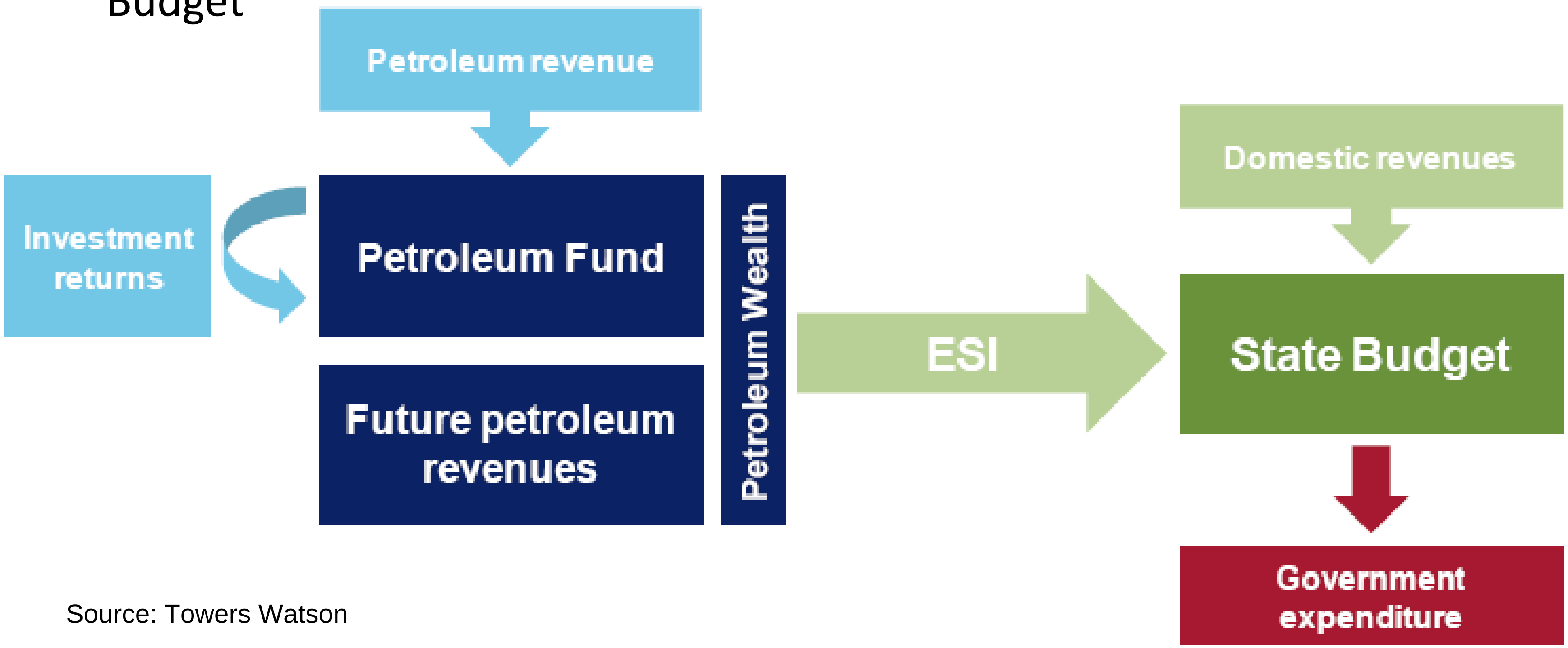
Key Petroleum Fund Principles

- **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.

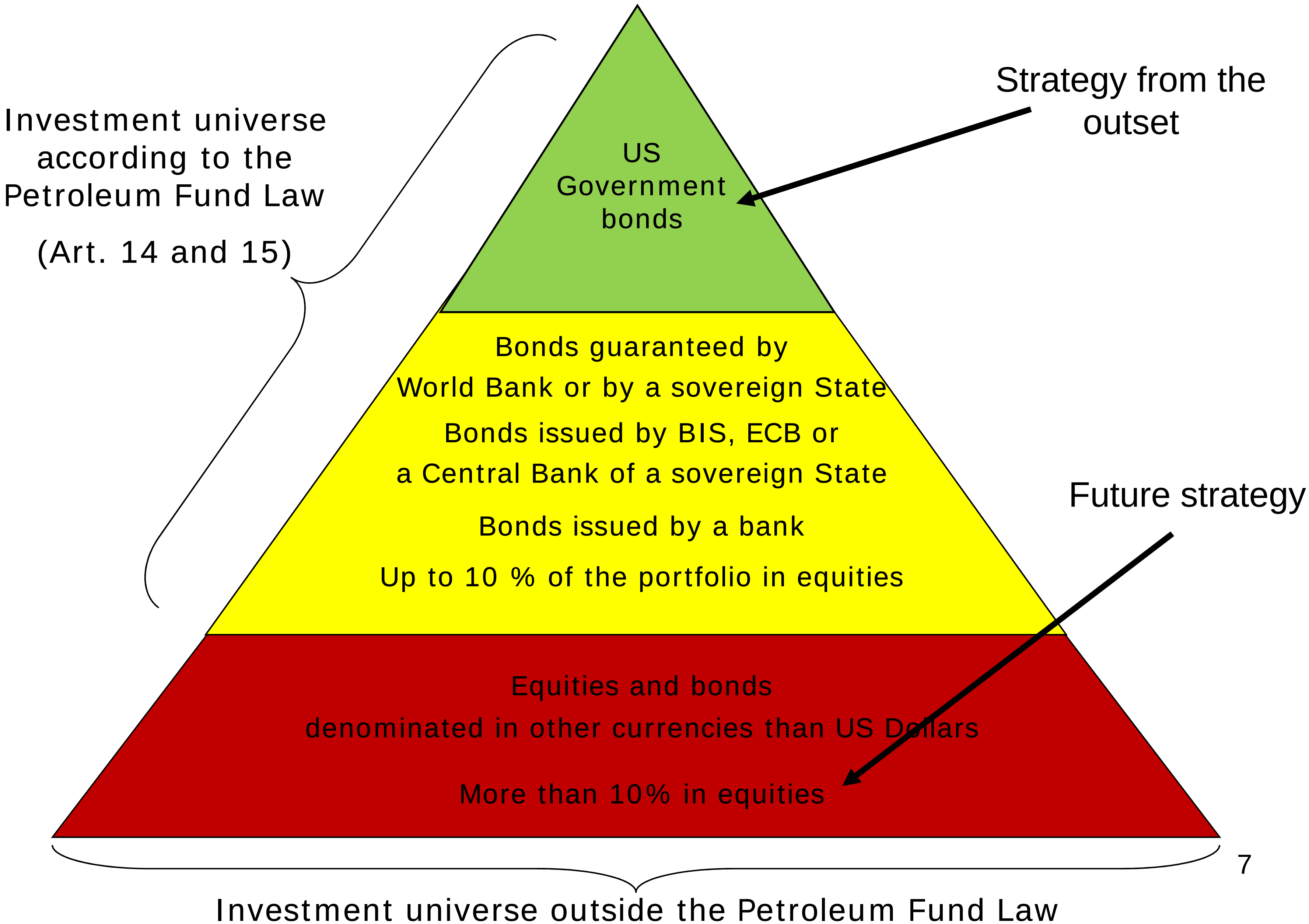
Mechanism for Domestic Spending

- ESI is a benchmark showing what is the long term sustainable withdrawals
- The Government may transfer more than ESI as seen fit, provided that justification and certification reports are provided to Parliament
- The Petroleum Fund, as a saving instrument, has financial objectives only, while economic development objectives should be taken care of by the State Budget



Source: Towers Watson

The investment Policy I



The Investment Policy II

BIS hired as external manager

More external managers will be hired

2005-June 2009

US Government bonds only

June 2009

AUD, JPY, EUR & GBP Government bonds added (4-5%)

Q1/Q2 2010

Global equities

(4-5%)

Q2 2010

Exploited current flexibility in the PF Law

Q3 2010

PF Law amendments approved by Parliament

Q4 2010 and beyond

Further diversification of the PF

- more global equities
- more non-USD bonds

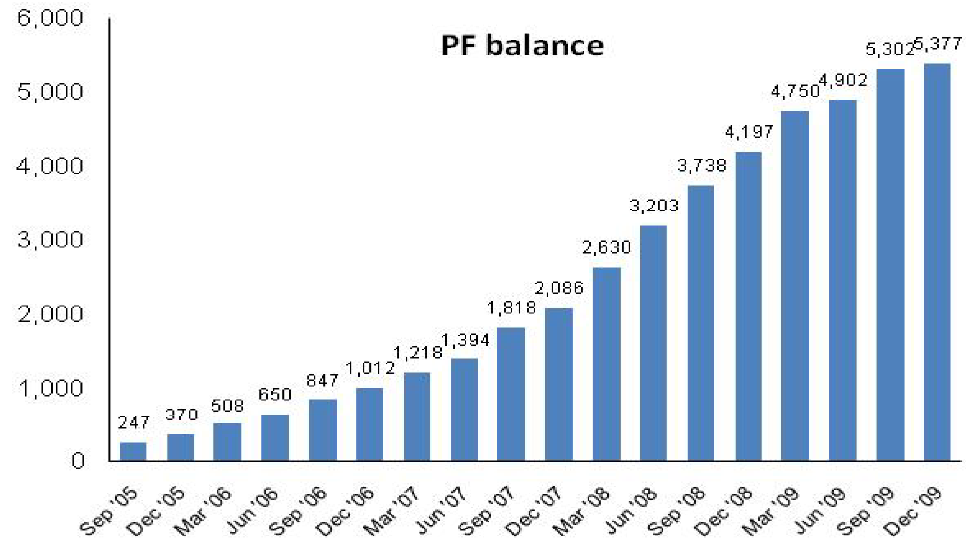
Continuously diversifying the PF portfolio to other asset classes, currencies and regions is the best way of reducing exposure to USD

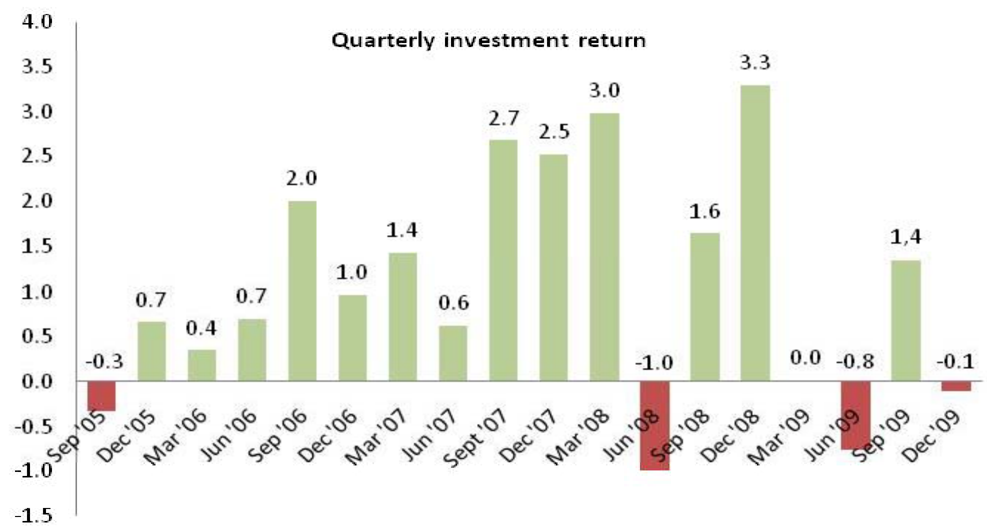
Petroleum Fund Performance

- **Petroleum Fund Balance:**
  - $5.8 billion
  - 10 x non-oil GDP

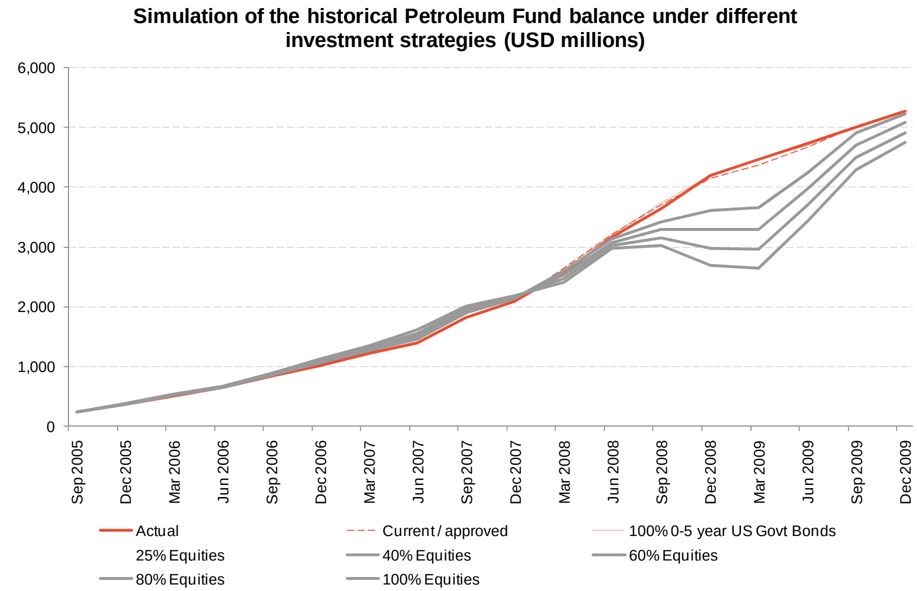
- **Investment Performance:**
  - 2005-2009: 4.4% p.a.

- **Composition of the portfolio:**
  - 96% US Government bonds
  - 4% AUD, JPY, EUR and UK Government bonds





2005-10: No other strategies would have performed better



Simulated Petroleum Fund Balance at 31 December 2009 (USD millions)	
Estimated PF balance (Actual: 5377)	5,273
Current / approved	5,290
100% 0-5 year US Govt Bonds	5,271
25% Equities	5,323
40% Equities	5,223
60% Equities	5,076
80% Equities	4,915
100% Equities	4,742

Source: Towers Watson

- Simulations of the PF performance 2005-2010, subject to different investment strategies show:
  - No other investment strategies than the current one have performed better
  - 100% exposure to equities would have resulted in $500m lower PF balance
  - Significant drawdown during the financial crisis for investment strategies with high exposure to equities

Selecting another time period would have given a different outcome

The current strategy is not appropriate for the future

A successful policy in the past is not necessarily the right strategy for the future, because:

- Since 1900 investing 100% Government bonds has given an annual real return of 1.7%
- The adopted investment policy including a small amount of equities (4%) has given an investment return of 2.0%
- Hence, the current investment strategy underperforms the 3% real return target assumed in the PF Law by 1% point
- To achieve 3% real rate of return at least 25% equity exposure is required.

Annual Return (%)	100% Govt. bonds	96% bonds + 4% eq.	25% equities	40% equities	60% equities	80% equities	100% equities
Historical real return since 1900	1,7	2,0	3,1	3,8	4,7	5,5	6,1
Forward looking real return	1,8	2,1	3,2	4,0	5,1	6,1	7,2

Source: Towers Watson