Annex 1: Qualifying Instruments, Benchmark and Investment Mandate

Amendment No.14

The Management Agreement between the Ministry of Finance and Banco Central de Timor-Leste is hereby modified with effect from 1 November 2020 by replacing Annex 1 with the following:

This mandate has a hierarchical structure. The Global Mandate in Section A describes the Minister's overall investment strategy for the Petroleum Fund in terms of the asset allocation, benchmarks, and eligible instruments, including applicable constraints and limitations. It also specifies the rebalancing policy to be applied by the BCTL.

Section B describes in more detail the manner in which the Minister expects the Fund's investments to be implemented. It describes the Individual Mandates to be implemented by the BCTL, including, where appropriate, the benchmark against which the performance of each individual mandate shall be measured and reported, the style of investment management, expected performance and risk tolerance, as well as the approved managers.

A. Global Mandate

The Central Bank of Timor-Leste is responsible for the operational management of the aggregate Fund according to the following Global Mandate. The Global Mandate has two components. Firstly, the Financial Market Investments Portfolio, which has the following asset allocations:

Asset class	Allocation*
USD Cash management	5%
US Government Treasury Notes 3-5 Years	40%
US Government Treasury Notes 5-10 Years	10%
Global Developed Market Sovereign Bonds, Hedged	10%
Developed Market Equities	35%

* Allocation as a percentage of the total amount invested in financial market instruments

Secondly, investments in Petroleum Operations of up to 5% of the value of the Petroleum Fund.

Reporting and Aggregate Benchmarks

The BCTL shall report the performance of: i) the Total Fund; ii) the aggregate of the Financial Market Investments Portfolio; and iii) the investment in Petroleum Operations and the other individual mandates in Section B.

The Aggregate Benchmark Index for the Financial Market Investments Portfolio shall be comprised of the following benchmark indices with monthly rebalancing to fixed weights:

Asset class	Weight
ICE Bank of America Merrill Lynch 3 Month US Treasury Bill Index	5%
ICE Bank of America Merrill Lynch 3-5 Year US Treasury Index	40%
ICE Bank of America Merrill Lynch 5-10 Year US Treasury Notes and Bonds Index	10%
Bloomberg Barclays Global Treasury Developed Market ex US, 10% Country and 30% Eurozone Capped. Measured on a hedged basis	10%
MSCI World Index Net Dividends Reinvested	35%

Eligible Instruments

Eligible instruments are specified in the Petroleum Fund Law, which can be summarised as follows:

Asset Class	Allocation
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. Article 15.4 is to be read in conjunction with the Petroleum Activities Law, which was amended in 2019 to allow for investments in Petroleum Operations in national territory or abroad.	No more than 5%

Eligible currencies shall be determined by the composition of the benchmark indices, unless otherwise specified in the Individual Mandates in Section B.

External Managers are permitted to use derivative instruments as specified in the Individual Mandates and in compliance with Article 15.7 of the Petroleum Fund law.

An investment that was eligible when acquired but which subsequently becomes ineligible may continue to be held for a period if an immediate sale is not possible or is not in the best interests of the Petroleum Fund. The BCTL shall notify the Ministry of Finance in that event and outline the plans for disposal.

Rebalancing and cash flows

Rebalancing shall apply to the Financial Market Investments Portfolio. The BCTL shall review the Petroleum Fund's actual asset allocations relative to the weights in the Aggregate Benchmark Index at the middle of each month. A full rebalance is triggered when the equity share of the actual holdings deviates by more than 5 percentage points from the total equity share in the Aggregate Benchmark Index. All mandates shall be rebalanced towards their target weights when the threshold is exceeded, although the BCTL has discretion not to undertake smaller transactions for individual mandates. The BCTL shall notify the Ministry of Finance in the event of a threshold-based rebalance, along with a report on its execution.

Separately from a full-rebalance, the BCTL is responsible for the partial rebalancing associated with financing withdrawals by the Government. The Cash Management Mandate shall be maintained within +/- 2.5% of the target weight as part of the monthly process. The Cash Management Mandate may temporarily fall outside this range while settlements of trades are pending.

B. Individual Mandates

MANDATE 1

Asset Class / Management Style	**Cash Management**
Allocation	$(5 \pm 2.5)\%$ of the value of the Financial Market Investments Portfolio.
Benchmark	ICE Bank of America Merrill Lynch 3 Month US Treasury Bill Index (Bloomberg code "G0O1 Index")
Eligible Instruments	US Dollar denominated deposits or debt instruments with a maturity of less than one year and a minimum credit rating of investment grade or equivalent. 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 or equivalent; and deposits with the Bank for International Settlements (BIS) and securities issued by the BIS.
Mandate Objective	The investment objective is to fund withdrawals as they are required. Liquidity is the primary consideration and returns are secondary.
Approved Manager	Banco Central de Timor-Leste

MANDATE 2

Asset Class / Management Style	US Government Treasury Notes 3-5 years/ Passive
Allocation	40% of the value of the Financial Market Investments Portfolio.
Benchmark	ICE Bank of America Merrill Lynch 3-5 Year US Treasury Index (Bloomberg code "G2O2 Index")
Eligible Instruments	US Government fixed interest instruments
Mandate Objective	The investment objective shall be to passively manage the portfolio close to the benchmark. The indicative tracking error shall be less than 25 basis points. The difference in the modified duration between the portfolio and the benchmark shall be less than 0.2 years.
Approved Manager	Banco Central de Timor-Leste

MANDATE 3

Asset Class / Management Style	US Government Treasury Notes 5-10 years/ Passive
Allocation	10% of the value of the Financial Market Investments Portfolio.
Benchmark	ICE Bank of America Merrill Lynch 5-10 Year US Treasury Index (Bloomberg code "G6O2 Index")
Eligible Instruments	US Government fixed interest instruments
Mandate Objective	The investment objective shall be to passively manage the portfolio close to the benchmark. The indicative tracking error shall be less than 50 basis points. The difference in the modified duration between the portfolio and the benchmark shall be less than 0.2 years.
Approved Manager	Banco Central de Timor-Leste
Internal Reporting	BCTL will provide quarterly performance reports for the mandate to the Ministry of Finance.

MANDATE 4

Asset Class / Management Style	**Global Developed Market Sovereign Bonds / Enhanced Passive**
Allocation	10% of the value of the Financial Market Investments Portfolio.
Benchmark	The benchmark is a composite benchmark rebalanced at the end of each month to the following weights: (a) 90% – the Bloomberg Barclays Global Treasury Developed Market ex-US 30% EUR 10% country cap Total Return Index Hedged USD (Bloomberg code: H30453US Index) (b) 10% - the ICE Bank of America Fed Funds Effective Rate Index (Bloomberg code: LFFE Index). The base currency for valuation and performance reporting will be USD.
Eligible Instruments	Securities (including inflation linked securities) issued by any sovereign issuer included in the Benchmark or the US Department of Treasury (collectively, "Sovereign Issuers"); securities issued by any international organisation, Sovereign Issuer-related sub-sovereign issuer or agency that is rated at least AA- (or its equivalent); bond futures contracts, provided the underlying securities are issued by a Sovereign Issuer; interest rate futures in any Authorised Currency; foreign exchange spot, forward and swap transactions in any Authorised Currency; cash balances and deposits in Authorised Currencies with the Approved Manager and the Custodian. Assets included in the portfolio may be denominated in Authorised Currencies. "Authorised Currencies" are currencies in which instruments in the Benchmark are denominated and the United States Dollar. The minimum rating eligibility threshold shall be determined using the ratings of the applicable issuer available from Standard & Poor's, Moody's Investors Service and Fitch Ratings, where the lower of the two highest ratings applies. If a rating is only available from one of the three rating agencies, this single rating will apply.

Mandate Objective	The portfolio shall be managed in an enhanced passive indexing style. The target *ex-ante* tracking error of the portfolio with the benchmark shall be less than 50 basis points The expected outperformance of the portfolio gross of management fees is 15 basis points over the benchmark performance, on an annual basis over a rolling three-year period.
Approved Manager	Bank for International Settlements

MANDATE 5

Asset Class / Management Style	**MSCI Developed Market ex Australia Equities / Passive**
Allocation	25.375% of the value of the Financial Market Investments Portfolio.
Benchmark	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

Asset Class / Management Style	MSCI Australian Equities / Passive
Allocation	0.875% of the value of the Financial Market Investments Portfolio.
Benchmark	MSCI Australia Index Net Dividends Reinvested (MXAU) (Bloomberg code "NDDUAS 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, Australian exchange traded funds 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. The indicative tracking error shall be less than 50 basis points.
Approved Manager	Banco Central de Timor-Leste

MANDATE 7

Asset Class / Management Style	Equity Factors
Allocation	8.75% of the value of the Financial Market Investments Portfolio.
Benchmark	MSCI World ex Australia Index Net Dividends Reinvested. (Bloomberg code "NDDUWXA Index"). This applies for each manager and also the mandate's aggregate benchmark.
Eligible Instruments	Developed market listed equities ex Australia, cash instruments, equity index futures and currency forwards.

Mandate Objective	The investment objective is to obtain exposure to a combination of the following systematically rewarded equity factors: Value, Quality (which includes Profitability), Low Volatility and Size. The mandate's residual exposures to sectors and countries relative to the benchmark are to be constrained. The *ex-ante* tracking error for the aggregate equity factor mandate is expected to be less than 300 basis points.
Approved Managers	State Street Global Advisors Schroders Investment Management Limited
Internal reporting	The BCTL shall provide the Ministry of Finance and the Investment Advisory Board quarterly reports showing the performance of the managers and the aggregate mandate relative to the benchmark. The quarterly reports shall include the factor exposures of each manager and the aggregate mandate using agreed style analysis tools. Residual, non-factor exposures such as relative exposures to sector and countries are also to be reported.

MANDATE 8

Asset Class / Management Style	**Other eligible investments. Private debt instrument for Petroleum Operations**
Allocation	Up to 5% of the value of the Fund, according to the Petroleum Fund Law. This investment is separate from the Financial Market Investments Portfolio.
Key investment terms	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.

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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, 28 October 2020

Sara Lobo Brites
Acting Minister
Ministry of Finance

Abraão de Vasconselos
Governor
Banco Central de Timor-Leste