



República Democrática de Timor-Leste
Ministério das Finanças
Gabinete de Política e Gestão do Fundo Petrolífero



Petroleum Fund Performance Q1 2023

An information session to the media & public

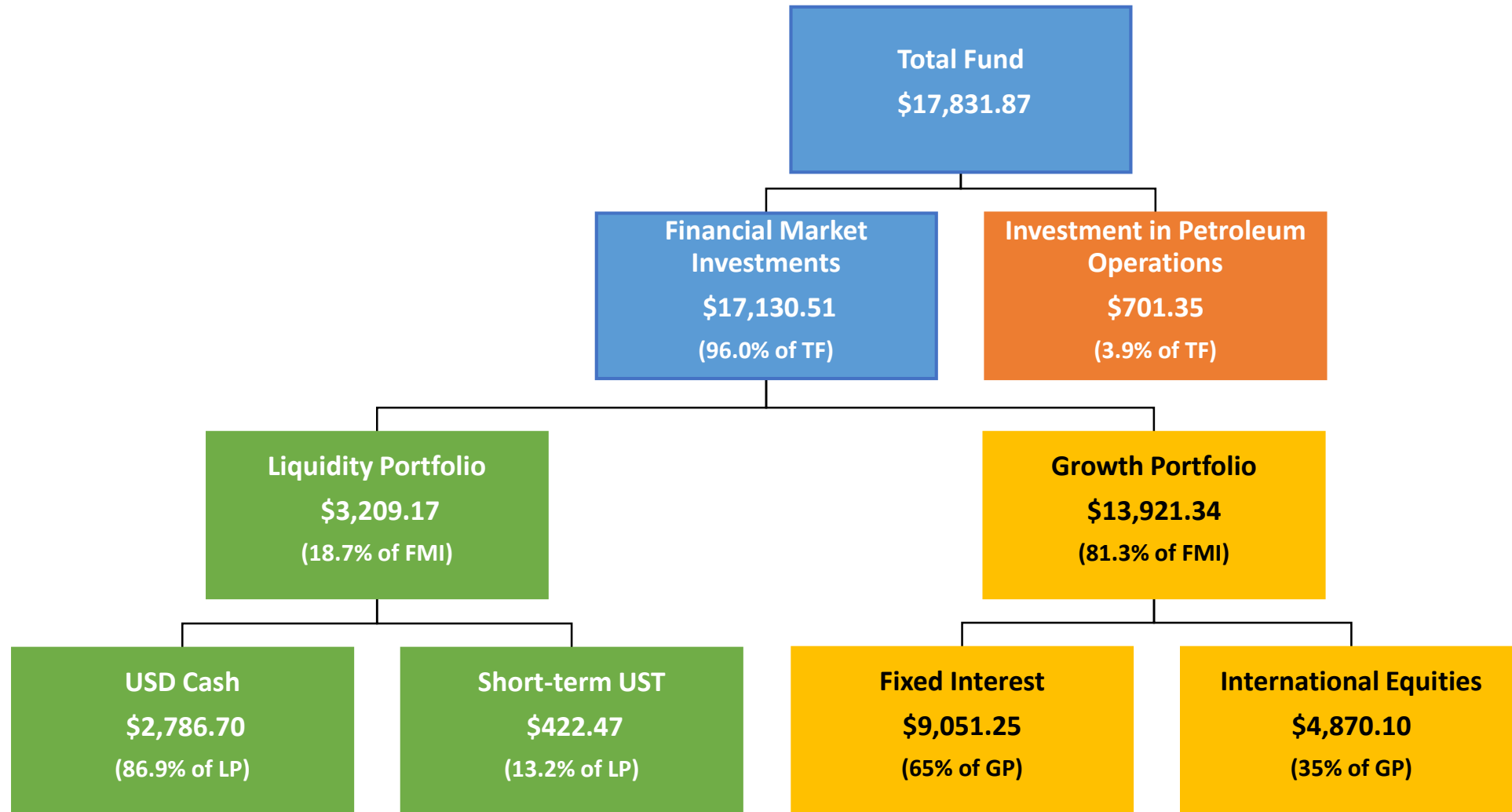
PFPMO, MoF

08 May 2023 @10-11 am

Overview

1. PF's holdings.
2. PF's performance in Q1 2023.
3. Market highlights during the quarter.
4. The Fund's long-term performance.
5. Segmentation.
6. Inflation protected securities (TIPS).
7. PF's fiscal framework & challenges.

1). PF's holdings as of 31 March 2023



2). PF performance in Q1 2023

Asset Class	Q1 2023 %
A. Total Fund	3.56
Benchmark	3.56
B. Total Financial Market Investments	3.71
Benchmark	3.66
B.1 Liquidity	1.16
Benchmark	1.16
B.2 Growth	4.33
Benchmark	4.39
C. Private debt instrument	0.33
Benchmark	1.11

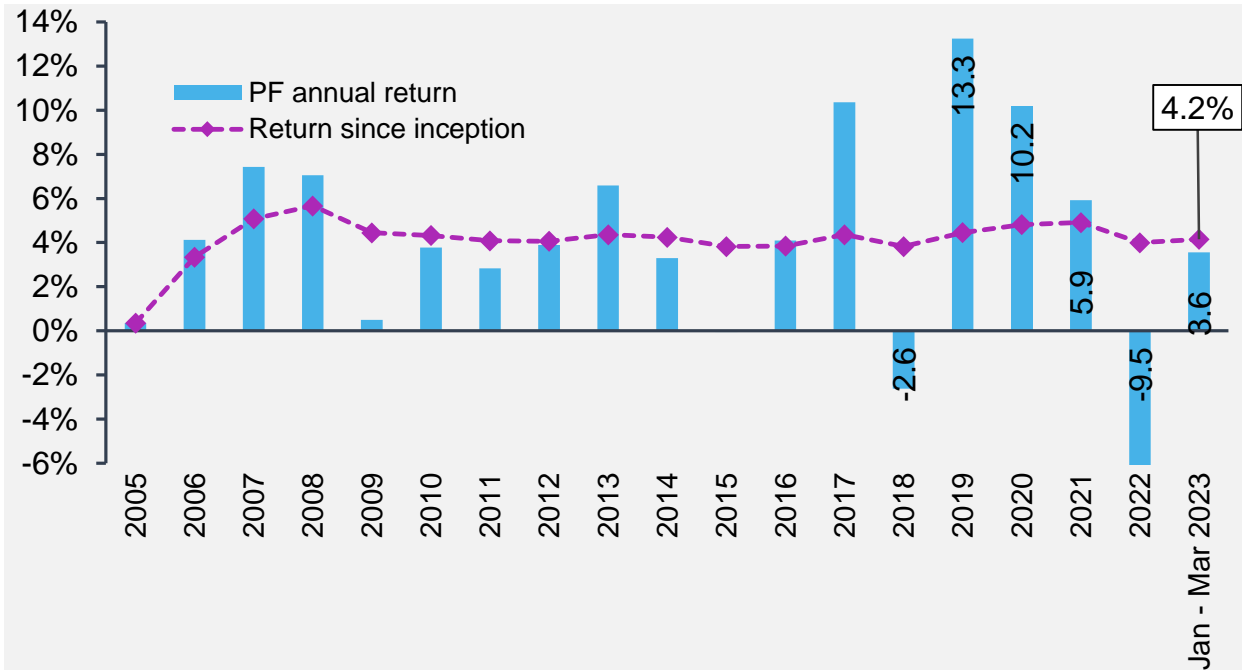
- The Fund's total return for Q1 2023 was +3.56%, similar to the benchmark return.
- FMI return for the quarter was 3.71%, 0.04% higher than the benchmark.
- Liquidity portfolio, which is invested in cash and 1-3 US Treasury bonds, returned 1.16%. The Growth Portfolio (65% in fixed income and 35% in equities) returned 4.33%. Fixed income in the growth portfolio (2.61%) and equities (7.57%) both posted gains.
- Total investment income after fees and tax for the quarter was \$697 million. It was comprised of dividends and interest of \$107 million, the change in market value of \$585 million and FX movement of \$9 million. \$3.7 million was deducted for management cost of the Fund
- Petroleum revenues for the quarter was \$21.16 million.
- \$300 million was withdrawn to finance the State Budget.
- The net Fund balance at the end of quarter was \$17.8 billion, an increase of \$418 million.

3). Market highlights during the quarter

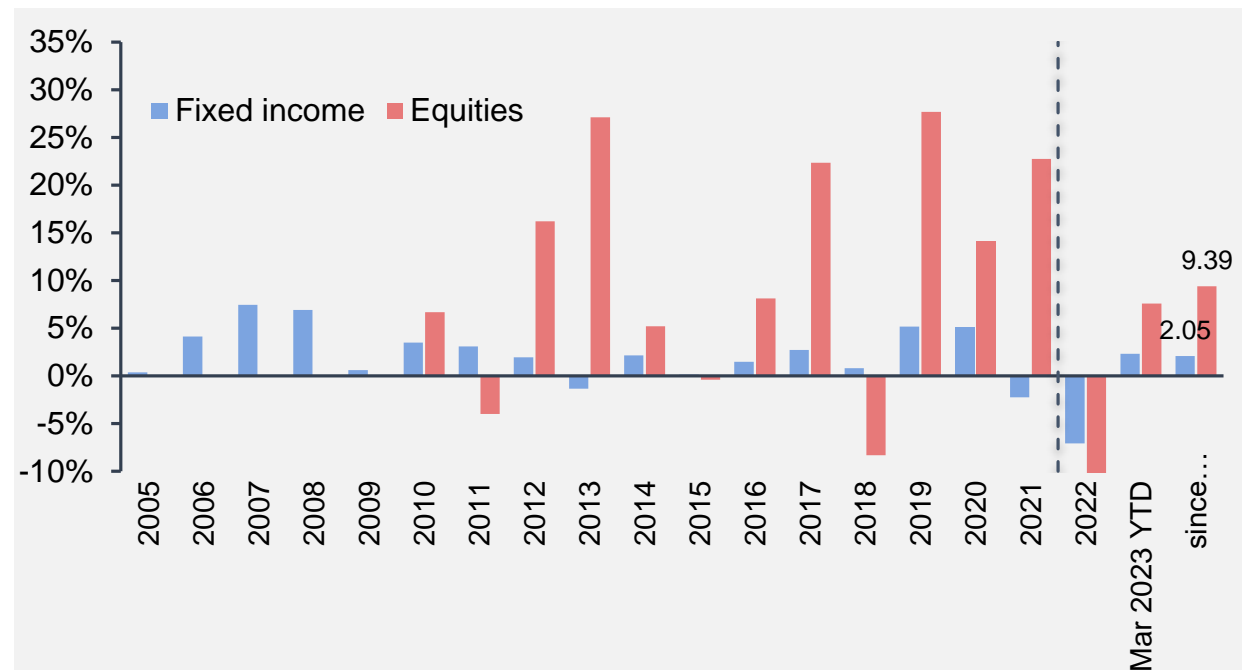
- The first quarter started with positive sentiment. Inflation eased, possible rate cuts were projected later in the year, and the re-opening of China's economy also boosted sentiment.
- Central banks continued with their interest rate hikes. The Fed announced two rate hikes of 25bp each, marking a slowdown from earlier increases. Similarly, BoE approved two rate hikes of 50bp and 25bp respectively. The ECB hiked rates twice by 50bps increments.
- Developed market bond yields fell in January, rose in February on renewed inflation concerns, and then fell sharply in March following the Silicon Valley Bank collapse and concerns about the financial sector. The Fund's benchmark yield for all of the fixed interest mandates finished the quarter about 20–30bp lower, other than the 3 month bill index which rose by a similar amount.
- Equities gained in Q1, aided by receding concerns about inflation and growth being stronger than expected.
- The USD was weaker against most major currencies by the end of the quarter due to changes in expected policy rates that followed the banking distress in mid-March.
- Brent crude oil fell by 7% during the quarter to about \$80 per barrel.

4). PF's long-term investment performance

PF Annual & Since Inception Returns



Fixed Income & Equity Returns

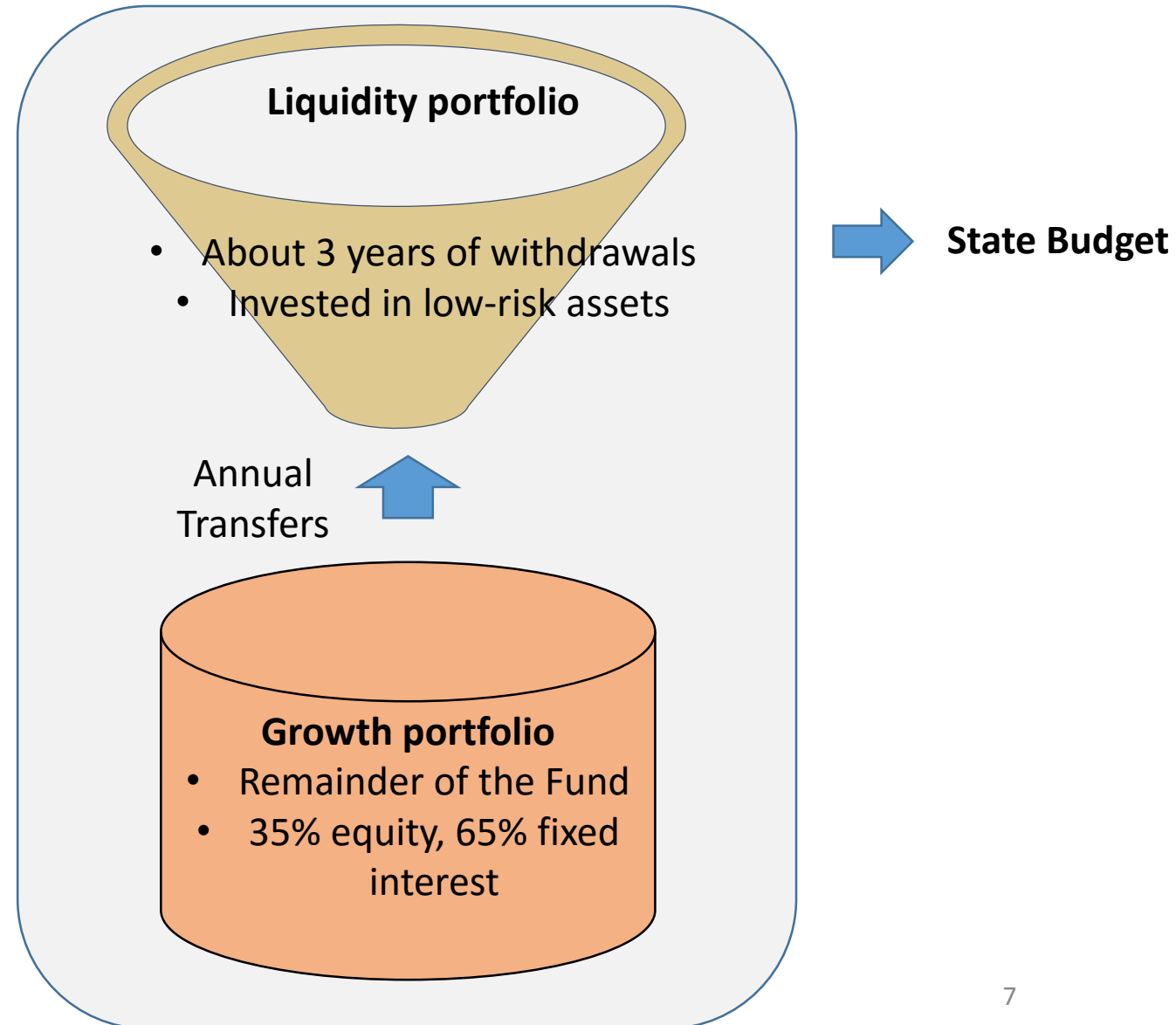


- Since inception, the Fund's annual average return is 4.2% and cumulative net income is \$8.16 billion
- The PF has incurred three annual losses since its inception (2015, 2018 and 2022), which is roughly in line with expectations.
- The large loss in 2022 gave up some of the \$5b of investment income in the previous 3 years.
- As expected over the long-term, equities have provided higher returns (about 9.0% p.a.) than fixed interest (about 2.05% p.a) and are subject to short-term volatility.

5). Segmentation to adjust for decumulation of the Fund

- In July 2021, the Fund was divided into two portfolios: 1) Liquidity Portfolio and 2) Growth Portfolio.
- The Liquidity Portfolio finances the State Budget and is invested in low risk and highly liquid assets. The allocation is based on 3 years of projected government withdrawals. The growth portfolio is the longer-term segment of the Fund. It is invested in 35%/65% equity/bonds. There are annual transfers from the growth portfolio to the liquidity portfolio.
- Segmentation:
 - 1) De-risks the Fund to account for decumulation;
 - 2) Re-connects the investment strategy with fiscal policy;
 - 3) Enables clear investment objectives for each portfolio; and 4) can provide confidence that near-term withdrawals are protected from volatility
- Segmentation served its purpose well in 2022. The liquidity portfolio:
 - Largely maintained its value (-0.65% return).
 - Financed \$1.4b of government withdrawals in 2022, and avoided the need to sell equities after the sharp fall in value.

Petroleum Fund is divided into 2 portfolios



6). Inflation protected securities (TIPS)

- The Fund's growth portfolio will invest in US Treasury Inflation Protected Securities (TIPS).
- Similar to the Funds' existing investment in US Treasury nominal bonds, TIPS are issued by the US Government, AAA rated and have a well established, liquid market.
- Nominal Treasury bonds pay fixed coupon rates that are worth less in real terms when inflation is high. TIPS provide protection against unexpected inflation by linking the coupon and principal payments to actual inflation.
- The investment was made to provide protection in case inflation proves to be higher than expected. This helps protect the Fund's US dollar purchasing power.

7). PF's fiscal framework & challenges

❑ PF's sustainability faces 3 substantial challenges:

- 1) Continued withdrawals in excess of the 3% ESI rule since 2009.
- 2) Declining petroleum revenues.
- 3) Future expected investment returns were below the implied 3% real return target when bond yields were low.

❑ Segmentation of the Fund adjusts the investment strategy for excess withdrawals.

