

To: ollie@dcsf.com.au
From: Charles Scheiner <charlie@laohamutuk.org>
Subject: Q on IAB minutes item
Cc: "Emilia Pires" <epires@mof.gov.tl>, "Abraao Fernandes de Vasconcelos" <abraao.devasconcelos@bancocentral.tl>
Bcc:
Attached:

To: ollie@dcsf.com.au
From: Charles Scheiner <charlie@laohamutuk.org>
Subject: Q on IAB minutes item
Cc: "Emilia Pires" <epires@mof.gov.tl>, "Abraao Fernandes de Vasconcelos" <abraao.devasconcelos@bancocentral.tl>
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Dear Mr. Oligario de Castro,

As you may know, La'o Hamutuk is a Timorese NGO which has closely followed issues relating to the management of Petroleum Revenues here since before the Petroleum Fund was established more than five years ago. We have recently learned of a development about which we would like more information, so I am writing to you as Chairman of the Fund's Investment Advisory Board.

In the minutes of the IAB meeting on 18 September 2009, recently posted on the BPA's website, item 4 (excerpted below) discusses a letter from the Minister of Finance asking for advice about a proposal to deposit \$1.2 billion in a "blocked account" at HSBC in connection with Asian Champ Investment, Ltd. It appears that the IAB did its job well, and unanimously advised the Minister not to make this investment and to follow normal due diligence and planning processes. Did the Minister accept the IAB's advice? Is the Asian Champ investment proposal still under consideration?

Before La'o Hamutuk publishes or circulates anything on this topic, we would like to have as complete information as possible. Could you please provide copies of the Minister's letter to the IAB and the Board's response, as well as any other relevant material or information?

Also, can you provide any information about "Asian Champ Investment Ltd," which appears not to have a presence on the internet (unless it is under the name Champ Private Equity) and their connection with the Tasi Tolu hotel project?

Thank you very much. If you'd prefer to discuss these questions in person rather than by email, we'd be happy to meet with you.

Take care,
Charlie Scheiner 734-0965 (full contact information at bottom)

[From IAB minutes, 18 Sept. 2009]

4. Request for advice on depositing part of the PF in cash

The IAB had received a letter from the Minister (of Finance) dated 15 September 2009 requesting the Board's advice on a proposal to deposit USD1.2 billion into a blocked account at the Hong Kong & Shanghai Banking Corporation (HSBC) in connection with an arrangement with Asian Champ Investment Ltd in which that company promises a return of 7.5% for a year, paid out in advance. The risk of the investment was described as that of a standard, 12 months cash deposit. The investment proposal was presented with a deadline of 15 days.

The Chairman informed the Board about the work carried out in the Ministry of Finance with regard to this proposal. He confirmed that there is no link between this proposal and the hotel project in Tasi Tolu, in which the same investor is involved and for which the investor and the Government had signed a contract the same week.

The secretariat reported that it had made a preliminary investigation of the issue, based on comments made by the Board members through e-mails prior to the meeting, and provided a draft letter containing a recommendation to the Board for discussion. The Board discussed the issue and resolved to send an immediate response to the Minister, thanking the Minister for seeking the Board's advice and advising the Minister to continue to act with the highest vigilance. The Board recommended that the proposal should not be accepted, but suggested that the Minister should request the BPA to confirm the assumptions on which the Board's conclusion was reached.

The IAB concluded its letter by advising that all explicit investment decisions should be institutionalized, that is, the investment strategy should be determined by the Ministry of Finance and all implementation issues, including the selection of counterparties and choice of individual investments, should be managed by the operational manager of the fund in accordance with the procedures established in the Petroleum Fund Law and the Management Agreement. Moreover, the Board recommended to the Minister that an appropriate response to any future investment opportunities which are not within the existing investment policy would be to review the investment strategy before considering specific investment proposals. The IAB furthermore stressed the importance of adherence to due process to generate supporting documentation and due diligence for any proposed investments.

The IAB response to the letter from the Ministry was unanimous.
