

**Minutes of Meeting**  
**Petroleum Fund of Timor-Leste**  
**Investment Advisory Board**

*Held on 18th September 2009*

*At the Office of the World Bank*

Present:

Olgário de Castro (Chairman)  
Abraao de Vasconcelos  
Sara Lobo Brites  
Tørres Trovik (via video conference)  
Kevin Bailey (via teleconference)

In attendance:

Jose Alexandre de Carvalho, Senior Accounting Officer, Treasury, MoF  
Subodh Kumar Mathur, Treasury Advisor, Ministry of Finance  
Vidar Ovesen, Fiscal Policy and Petroleum Fund Advisor, Ministry of Finance  
Torgrim Roll, Advisor for PF Department, BPA  
Sam Robinson, Advisor for BPA  
Gastao de Sousa, Chief Economist, BPA (Secretary)

The Chairman declared the meeting open at 08.40 hours.

The agenda for the meeting was approved with an inclusion of an additional agenda item; letter request for advice on depositing part of the Petroleum Fund in cash.

**1. Apologies**

None

**2. Minutes of Previous Meetings**

The minutes of the previous meeting held on 28<sup>th</sup> August 2009 were approved and adopted for publication with item 5 on page 2 declared as confidential.

**3. Business arising from the minutes not otherwise included in the agenda**

In relation to the IAB decision to recommend a TIPS mandate to the Minister and the need for an assessment by Watson Wyatt, which the Ministry of Finance is in the process of engaging, Mr. Vidar informed that the Terms of Reference have been forwarded to Watson Wyatt. He said that the contract would be signed that day and Watson Wyatt would come to Dili to have a meeting with the MoF and BPA, and will thereafter present its report to the IAB. The Minister will engage the Company in order to assist the Ministry of Finance and the IAB in particular on issues related to amendments of the PF Law.

The Board noted the information and requested the secretariat to prepare a work plan for the IAB for the next calendar year to be discussed in the next IAB meeting.

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

The IAB had received a letter from the Minister 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.

**5. Request from the Minister for advice on the PF's long term investment strategy and PF Law amendments**

The Minister has requested the IAB in a letter dated 25 June 2009 to provide advice on issues related to the amendments of article 14 and 15 of the PF Law. The Secretariat presented a discussion paper with an analysis to assist the IAB discussion with proposals for amendments to be recommended to the Minister.

The Board discussed the issues relating to Article 14 and resolved to adopt the recommendations provided by the Secretariat with some amendments.

The Board postponed the discussion on Article 15 to the next IAB meeting.

**6. Investment Philosophy**

The Board postponed this agenda item to the next IAB meeting.

**7. Other Business**

It was resolved that the next meeting would be held on October 23, 2009.

As there was no other business the Chairman declared the meeting closed at 11.40 hours

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**Chairman**

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**Secretary**