Revenue Management in Timor-Leste
Roles and Duties
Government – Ministry of Finance

Vidar Ovesen
Petroleum Fund Adviser
Ministry of Finance

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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.
The Management and Investment Policy 2005-2010

- **US Government bonds from the outset**
  - due to lack of knowledge about the international financial market, a simple and prudent investment strategy was required to avoid exposure to risk and volatility at the first stage
  - A requirement to review the investment strategy after 5 years was included in the PF Law envisaging a need for further flexibility after 5 years

- **Some, but limited, flexibility to invest in non-USD instruments**
  - 90% in cash deposits and high rated bonds denominated in US$
  - 10% in equities and other financial instruments

- **Portfolio diversification along with increased capacity**
  - Investments in AUD, JPY, EUR and UK Government bonds from June 2009
  - Investments in global equities from 2010
  - Increased exposure to equities and further diversification as soon as the PF Law has been changed
2005-10: No other strategies would have performed better

Simulation of the historical Petroleum Fund balance under different investment strategies (USD millions)

- Actual
- Current / approved
- 100% 0-5 year US Govt Bonds
- 80% Equities
- 60% Equities
- 40% Equities
- 25% Equities
- 0%

Source: Towers Watson
Petroleum Fund Performance

Petroleum Fund Balance:
- $6 billion
- 10 x non-oil GDP

Investment Performance:

Composition of the portfolio:
- 96% US Government bonds
- 4% AUD, JPY, EUR and UK Government bonds
A clear division of duties between the overall and operational management is a fundamental Fund Management Principle (Santiago Principles)
Areas of responsibility – Govt & MoF

1) Overall management – Art. 11, 14 & 15
   – Investment Strategy & Policy
   – Management Agreement with the Operational Manager (BPA)
   – Consent to proposals re External Management Appointment and Termination

2) Monitoring and Reporting – Art. 6, 21, 23, 24 & 34
   – Supervision of the Fund, maintenance of accounts and reports
   – Approval of Management Fee
   – Annual Report

3) Transparency – Art. 32

4) Independent Auditing – Art. 34-36

5) Withdrawals from the Fund – Art. 7, 8 & 9

6) Petroleum Tax Administration – Art. 6 & 10
Investment Strategy & Policy I

- Global Mandate – Defines an overall Benchmark for the Portfolio:
  - Allocation to asset classes, regions & currencies:
    - US Government bonds, other foreign Government bonds, global equities
    - Asia, US, Europe, Emerging Economies
    - USD, AUD, JPY, EUR, GBP etc
  - Allocation to internal/external management:
    - BPA vs External Manager(s)
Investment Strategy & Policy II

- Sub Mandates
  - Determines the benchmark for each Investment Mandate
  - Risk measures
  - Eligible Instruments/Investment Universe (Rating, Use of Derivatives)
  - Style of Investment Management

Sub Mandate 1 (80%): BPA

Sub Mandate 2 (20%): BIS

US Government Bonds 0-5 years
USD Foreign Government & Supranational (AAA)
USD Foreign Government & Supranational (AA)
JP Government Bonds
UK Government Bonds
EU Government bonds
AUS Government Bonds
US Government Bonds 5-10 years

Summary

- Clear division of duties: Overall vs Operational Mgmt.

- Assess and design the Investment Strategy - adopt Investment Mandates

- Give Instructions to the Operational Manager to implement

- Monitor the Operations