



Yellow Road Workshop, 22 May 2013

RD10 – Petroleum Fund Summary



Investment return since inception

4.2%

As of March 2013

Petroleum Fund Balance

\$13 bn

As of March 2013

Net return since inception

\$1.5 bn

As of March 2013

Introduction

The Petroleum Fund of Timor-Leste was established under the provisions of the Petroleum Fund Law no 9/2005, which was promulgated on 3 August 2005. The Law was amended with Petroleum Fund Law no 12/2011, which was promulgated on 28 September 2011.

The Government is responsible for the overall management of the Petroleum Fund. On behalf of the Government, the Ministry of Finance has entered into an agreement with the Banco Central de Timor-Leste (BCTL), delegating responsibility for the operational management of the Petroleum Fund.

Petroleum Fund Balance

The value of the Petroleum Fund was US\$ 12,978 million as of March 2013, an increase of US\$ 1,203 million for the year. Figure 1 shows the market value of the Petroleum Fund since inception of the Fund in September 2005.

The Fund's balance is affected by three factors; a) petroleum revenues, b) net investment return, and c) withdrawals.

Petroleum Revenue

The total petroleum revenue collection since the inception of the Fund was US\$ 16,038 million, including initial transfers of US\$ 80 million from the Timor Gap Account and US\$ 125 million from the Consolidated Fund of Timor-Leste (CFET) and petroleum receipts in 2013 amounted to US\$ 937.8.¹

Figure 1 - Market Value of Petroleum Fund

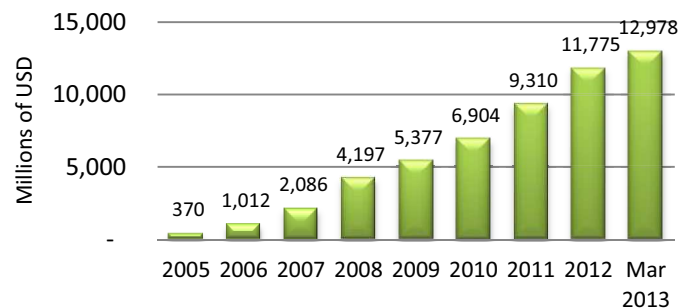
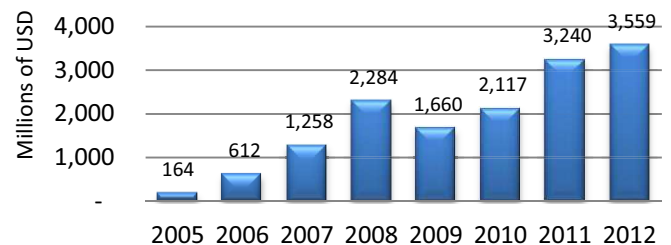


Figure 2 - Petroleum Revenues, 2005-2012



Source: PFAU, Ministry of Finance

Net Investment Return

¹BCTL's Q1 2013 Report, March 2013. According Budget Book No. 1 2013, the estimated petroleum revenues at the end of 2013 is US\$ 2,309 million. Petroleum revenues is subject to oil price fluctuation, production level and operational cost. New estimation will be done in July 2013.

The gross return on investment as of March 2013 was US\$ 267.5. In accordance with the Operational Management Agreement between the Ministry of Finance and the BCTL, a management fee is transferred from the Petroleum Fund to the BCTL. The fee amounted to US\$ 1.9 million (until March) 2013, covering both internal and external managing costs. The net investment return for 2013 was therefore US\$ 264.7 million, adding up to \$US 1,245 million net income since the inception of the Petroleum Fund.

Table 1 – Petroleum Fund Performance, as of March 2013			
	Market Value \$'000	Q1 2013 %	Since Inception % p.a.
Total Fund	12.980.594	2.18	4.21
International Fixed Income	9.377.395	0.22	3.68
International Equity	3.603.199	7.79	10.46

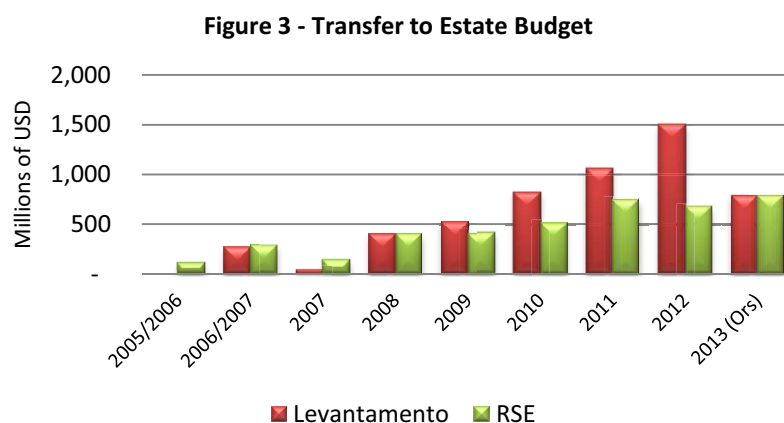
Source: BCTL's Q1 report, March 2013

As shown in Table 1 above, the net investment nominal return for Q1 2013 was around 2.2 per cent. Since inception the annualized nominal return of the Fund was 4.1 per cent (compare to 4.1 per cent in 2012).

Withdrawals

The Government withdrew a total amount of US\$ 1,494.9 million from the Fund to the Treasury's Account (CFET) during 2012. This was US\$ 829.6 million above the Estimated Sustainable Income (ESI). From inception to the end of 2012, the Government has withdrawn a total amount of US\$ 4,569 million (see Figure 3).

Until March 2013, there has not been any transfers to the Treasury's Account (CFET). The amount approved by the Parliament to be transferred from the Fund in 2013 is US\$ 787 million.



Petroleum Fund Investment Policy

The Petroleum Fund investment policy is based on the asset allocation and risk limits as defined in the Petroleum Fund Law as amended in August 2011. The new investment policy states that no more than 50 percent of the Fund can be invested in equities, no less than 50 percent can be invested in investment grade fixed income, and no more than 5 percent can be invested in alternative instruments such as real estate, private equities and hedge funds.

As a first step to implement the investment policy, taking the advice from the Investment Advisory Board (IAB), the Minister of Finance instructed the Central Bank to progressively invest up to 20 percent of the Petroleum Fund in global equities by June 2012. As a second step, again taking the advice from the IAB, the Minister of Finance instructed the Central Bank to continue invest progressively up to 40 percent in global equities over the two next years, starting from July 2012.

Figure 4 – Petroleum Fund Portfolio Allocation by Managers and Asset Classes

4a. Allocation by Managers



4b. Allocation by Asset Classes



■ BCTL ■ BIS ■ Schrodgers ■ SSgA ■ BlackRock

Fontes: UAFF, Ministeriu Finansas

As shown in Figure 4b above, the Petroleum Fund had 72% of its capital invested in US Government bonds and 28% of its capital invested in equities (spread out on 24 developed market countries) as of March 2013. The Ministry of Finance continues to emphasize the importance of diversifying the investments of the Fund and is currently looking at non-US bonds and publicly listed equities outside developed market countries.

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These information were prepared by the Petroleum Fund Administration Unit, Ministry of Finance. Please contact PFAU for any clarification or further information about Petroleum Fund.