

Petroleum Fund of Timor-Leste

Quarterly Report

See the last two pages in the September 2020 quarterly report for some corrections to the tables in this one.

30 June 2020

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INTRODUCTION

This report is produced in accordance with Article 13 of the Petroleum Fund Law which requires the Central Bank to report on the performance and activities of the Petroleum Fund of Timor-Leste, referred to in this report as the Fund unless the context suggests otherwise.

All monetary references in this report are to United States dollars as the official currency of Timor-Leste.

While every effort has been made to ensure accuracy, the information is based on management and custodial reports and has not been independently audited and is subject to change, in which case the changes will be incorporated into subsequent reports.

EXECUTIVE SUMMARY

The Petroleum Fund was formed by the enactment of the Petroleum Fund Law Promulgated on 3 August 2005 as amended on 28 September 2011. The law gives the Central Bank of Timor-Leste the responsibility for the operational Management of the Fund.

This report covers the period from 01 April to 30 June 2020.

Key statistics for the quarter include:

- The capital of the Fund at the end of the Current quarter was \$18.07 billion while the previous quarter was \$17.03 billion.
- Gross cash inflows to the fund from royalties and taxes were \$65.73 million.
- Outflow for the quarter were \$255.85 million, being transfers to the state budget of \$250 million while \$5.85 million was for management costs.
- The profit for the quarter was \$1.23 billion, representing a gross of fees return of 7.27% compared with the benchmark return of 7.28%.

The Fund performance for the quarter, including the performance of the relative asset classes, was as follows:

Table 1

%	QTR	FYTD	1 Year	3 Years	5 years	Since Inc
Total Fund	7.27	2.23	6.20	5.62	5.04	4.45
Benchmark	7.28	1.93	5.94	5.43	4.91	4.39
<i>Excess</i>	<i>-0.01</i>	<i>0.30</i>	<i>0.26</i>	<i>0.18</i>	<i>0.14</i>	<i>0.06</i>
International Fixed Interest	0.84	4.83	5.83	3.74	2.96	2.92
Benchmark	0.93	5.06	6.13	3.87	3.02	2.93
<i>Excess</i>	<i>-0.08</i>	<i>-0.24</i>	<i>-0.30</i>	<i>-0.13</i>	<i>-0.06</i>	<i>-0.02</i>
International Equities	18.66	-7.01	1.52	6.41	6.87	8.82
Benchmark	19.36	-5.77	2.84	6.70	6.90	8.48
<i>Excess</i>	<i>-0.70</i>	<i>-1.25</i>	<i>-1.32</i>	<i>-0.29</i>	<i>-0.03</i>	<i>0.34</i>
Private debt instrument for Petroleum Operations	1.09	2.25	4.54	n.a	n.a	4.46
Benchmark	1.09	2.25	4.54	n.a	n.a	4.46
<i>Excess</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>n.a</i>	<i>n.a</i>	<i>0.00</i>

1. INVESTMENT MANDATE

A revised Management Agreement between the Ministry of Finance and the Central Bank was signed on 28 May 2020. The OMA was amended twice in the quarter, firstly to hedge the Global Treasury mandate and amend managers, and later to amend the manager of the US Treasury 5-10 year mandate. The benchmarks as of June 2020 were as follows:

Table 2

	Apr-20	May-20	Jun-20
3 Month US Treasury Bills/Cash	5%	5%	5%
BOA Merrill Lynch 3-5 Years Treasury Bond Index	35%	35%	35%
BOA Merrill Lynch 5-10 Years Treasury Notes and Bond Index	10%	10%	10%
Barclays Global Treasury Developed Market ex US, 30% Eurozone and 10% Country Capped, Measured on a hedged basis	10%	10%	10%
Total Fixed Income	60%	60%	60%
Total equity (MSCI World Index Net Dividends Reinvested)	35%	35%	35%
Total Private debt instrument for Petroleum Operations	5%	5%	5%
Total	100%	100%	100%

2. MARKET TRENDS DURING THE QUARTER

Global Macroeconomic Trend

Global economic activity begun to recover in the second quarter of 2020 following a nearly complete halt in the first quarter as governments around the globe gradually relaxed the lockdown restrictions to allow people return to work and businesses to reopen. In addition, investors' sentiment improved dramatically during the period boosted by the unprecedented monetary and fiscal stimulus packages from governments and major central banks across the globe to help the economic recovery. Nonetheless, the long-term global economic growth outlook is highly uncertain due to the absence of an effective vaccine to address the COVID-19 pandemic. until such solution is found, the social distancing rules are expected to continue, which in turn will delay the prospect of a global economic recovery. The International Monetary Fund projections in June showed the global economy would decline by -4.9% in 2020, a downgrade from its initial negative projection of -3% in April. The IMF also projected a much slower pace of global economy recovery in 2021 while noting the considerable uncertainty about the future path of the pandemic. The prospects for economic recovery

could be varied among countries and regions as some countries and regions appear to have the spread of the pandemic under control while others are still struggling to flatten the infection curve.

In the U.S, the Bureau of Economic Analysis confirmed that the Gross Domestic Product had declined by -5% in the first quarter of 2020 caused by the lockdown applied within the quarter to flatten the coronavirus infection curve. Besides that, the IMF projects that the U.S economy will contract -8% in 2020, a downward revision from -5.9% in its April projection. In light of the weaker economic growth, U.S lawmakers and the Federal Reserve have rolled out fiscal and monetary policy packages to cushion the economic fallout caused by the pandemic. The U.S lawmakers enacted bills worth trillion of dollars aimed to assist individuals who lost their jobs during the pandemic and to provide credit facilities to small and medium enterprises that were heavily affected by the crisis. At the same time, after having reduced interest rates to near zero in the first quarter, the Federal Reserve, has stepped in with a broad array of actions to limit the economic damage from the pandemic, including up to \$2.3 trillion in lending to support households, employers, financial markets, and state and local governments. Asset purchases and other programs saw the Fed's balance sheet grow considerably over the quarter, ending at USD6.9 trillion. The M2 money supply has also grown significantly. The massive intervention of the U.S government and the Federal Reserve coupled with a gradual reopening of the economy resulted in the economy showing signs of improvement in the second quarter. June payrolls increased by 4.8m and the previous month was revised higher. 14.7m jobs have been lost from the high in February. Hiring was boosted by the leisure and hospitality industry, which brought back 2.1m jobs. The unemployment rate fell to 11.1% from 13.3% in May and a high of 14.7% in April, but remains way above the 3.5% low in February.

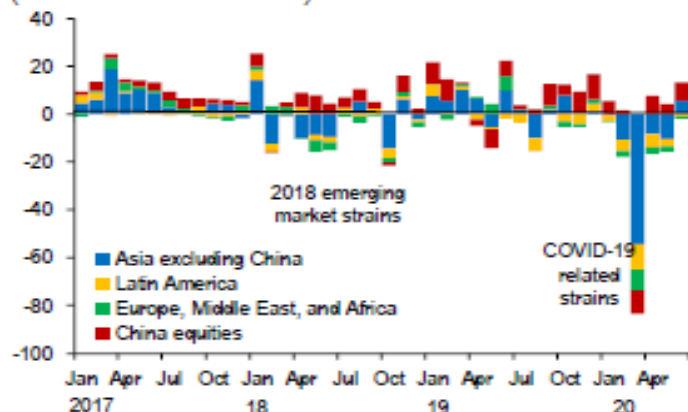
The Eurozone's economic data modestly improved in the second quarter following a 3.6% decrease in economic output in the regions during the first quarter. The flash Eurozone composite purchasing managers' index for June rose to 47.5 after it sank to 31.9 and 13.6 in May and April respectively, lifted by the individual countries such as Germany, France, and Italy. Euro zone banks maintained relatively easy access to credit for firms in Q2 with the backing of government guarantees, but they will likely tighten credit standards in the following 3 months, the ECB said. Most countries in the Eurozone began reopening economic activities after the European Commission issued guidelines on exit strategies and called for a common framework across the Member States. The European Commission recommended that Member States lift the internal border control restrictions on 15 June, but extended restrictions of non-essential travel to EU to June 30 and set out an approach to gradually lift the restrictions afterward. The UK government issued a guideline to ease the lockdown restrictions in England on May 10, encouraging people to return to work. In June, the U.K. government allowed schools, some entertainment facilities, and non-essential retail stores to partially resume their activities. The U.K's economy was severely hit by the coronavirus pandemic as shown in the economic data in April. April GDP fell 20.4% m/m due to the lockdown. BOE Deputy Governor Ben Broadbent said the central bank now estimates the economy contracted by 20% y/y in H1. The BOE boosted its QE firepower by GBP100bn as predicted, but said it expected the increase to last through to year end, indicating a slowdown in its pace of bond purchases. The government approved a fiscal package to protect and create jobs, including assisting firms to keep their employees on payroll.. The Bank also introduced a new Term Funding Scheme to reinforce the transmission of the rate cut, with additional incentives for lending to the real economy, and especially to SMEs. The combination of central bank and government intervention programs along with the gradual returning of economic activities the economic output is expected to rebound in May and June.

The economic data also improved across Asia Pacific and Emerging Market Economies as some countries in the region lifted the restrictions in anticipation of an increase in the global demand due to a gradual resumption of global economic activities. Japan's index of leading economic indicators improved marginally in May signaling improvements ahead, after the last two months of successive declines. The index increased from 1.6 points to 79.3, matching consensus. The Reserve Bank of Australia also kept the cash rate unchanged at 0.25% in its early July meeting. the post-meeting statement noted Australia's A\$2 trillion (\$1.4

trillion) economy was in the midst of its biggest contraction since the 1930s, although the downturn was less severe than was expected and conditions have stabilized. The Governor Phillip Lowe noted that there were early positive signs in total hours worked and retail spending and infections declined and restrictions were eased

Graph 1 Emerging Market Capital Flows

Figure 5. Emerging Market Portfolio Flows (Billions of US dollars)



Sources: Bloomberg Finance L.P; Institute of International Finance (IIF); and IMF staff calculations.

Note: The figure is based on high frequency daily or weekly flows as reported by Bloomberg and the IIF.

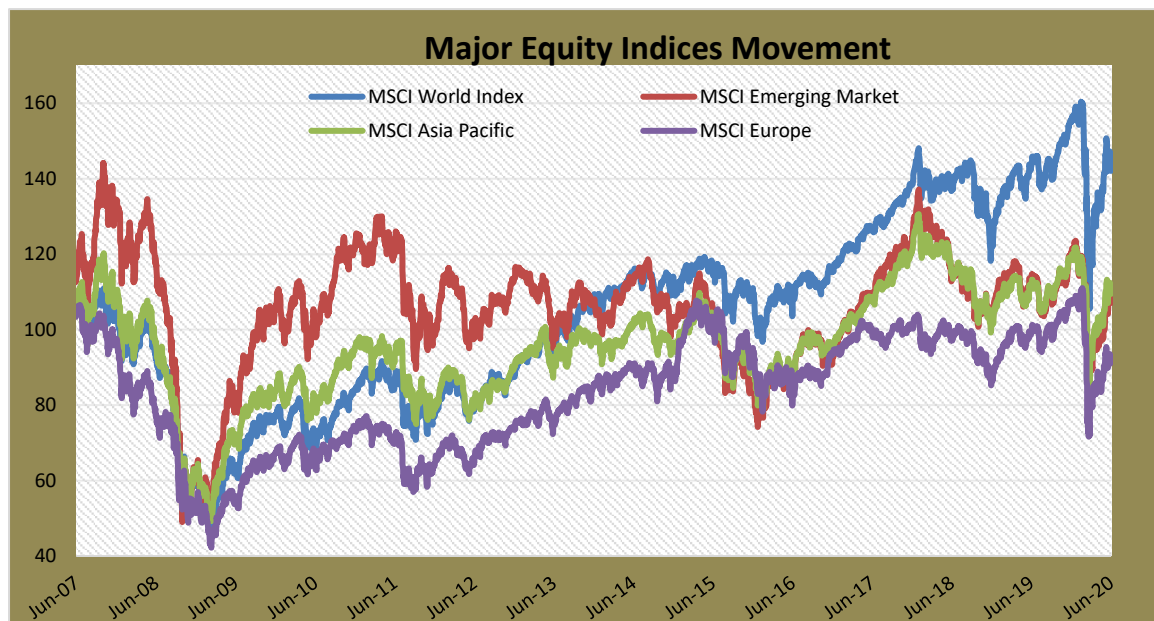
The COVID-19 crisis has prompted the Government and the major Central banks across the globe to respond with unprecedented policy support, and the central banks and the government of emerging market economies are no exception. COVID-19 crisis brought about many challenges to the emerging market economies including a severe fall in exports due to the global lockdown, capital outflows, and the raising debt cost as investors demand higher returns due to the heightened risks. In order to restore the confidence in the economy, the Governments and the Central banks in the emerging market

economies responded with fiscal policy and monetary policy tools at their disposal. Governments approved fiscal stimulus to help households and individual who lost their jobs during the crisis. In order to mitigate the the capital outflows that took place in the first quarter, the central banks in emerging economies responded with a range of monetary policy tools such as interest rate reduction. Interestingly, some central banks in the emerging market economies for the first time are using the some unconventional monetary policy tools in response to the crisis. One of the unconventional monetary policy tools is a purchase of a range of assets such as government bonds, state-guaranteed bonds, corporate debt, and mortgage-backed securities. With the swift response, the capital outflows that had occurred in the first quarter were reversed, and investors put back their money into the emerging markets in the second quarter as illustrated by the chart above.

Global Equity Market Trends

Global equities recovered from their lows in the second quarter of the year, as investors rushed back into risky assets on the gradual reopening of the economies worldwide. There was the period of doubt, such as when equities sold off in June as coronavirus case numbers rose in the U.S. However, overall the equity markets, pushed aside any pandemic-induced fears and instead focused on businesses getting back on track – aided by the stimulus offered by central banks and governments across the globe.

Graph 2 Major Equity Indices Movement



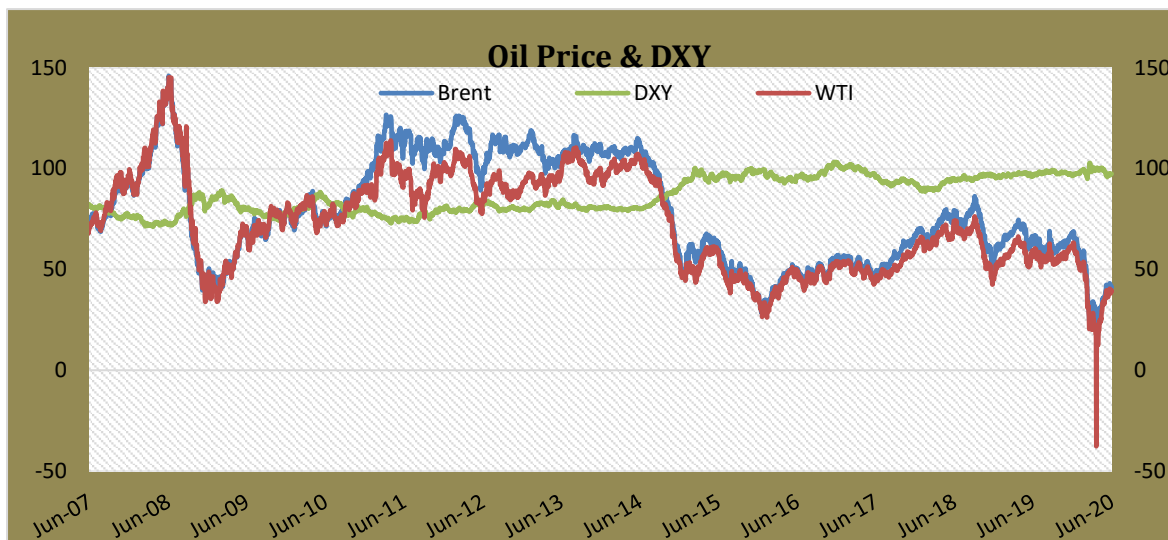
The U.S Equity market outperformed its developed markets peers during the period. The four major indices in the country closed the quarter with double-digits gain. The gains however were diverse among the industries as the technology oriented index, Nasdaq and the small size companies Russell 2000 index outperformed the more generic S&P 500 and finance oriented index Dow Jones.

The Eurozone equity market also recovered in the second quarter boosted by the earlier easing lockdown measure by countries such as Austria that was relatively successful in containing the spread of COVID-19. The worse affected countries were Italy, France, and Spain that followed suit to reopen their economic activities toward the end of the quarter. The European Commission and the European Central Bank, which pledged more than a trillion of Euros in rescue packages to support the economic recovery in the region, also supported the share price in the region.

Equity markets across Asia Pacific and Emerging Markets also performed well during the quarter because of a potential improvement in global demand as governments around the world began to gradually reopen the economies. In addition, another theme that benefited the equity markets across the region was the broadly weaker U.S dollar against the currencies in the region.

At the industry level, all the sectors of the global market ended the quarter in positive territory but the growth stocks outperformed the defensive stocks as investors bet on an economic recovery. The best performing sectors during the quarter were consumer discretionary, information technology and energy. Information and technology companies' shares are the most consistent outperformers during the pandemic crisis as demand for their service increased dramatically enabled by the lockdown restrictions. The energy sector also fared well during the quarter due to the strong rebound in oil prices. The price of the international oil benchmark Brent rallied more than 80% compared to last quarter. On the other hand, the defensive sectors such as utilities and consumer staples lagged in the risk-on environment.

Graph 3 Oil Price & DXY



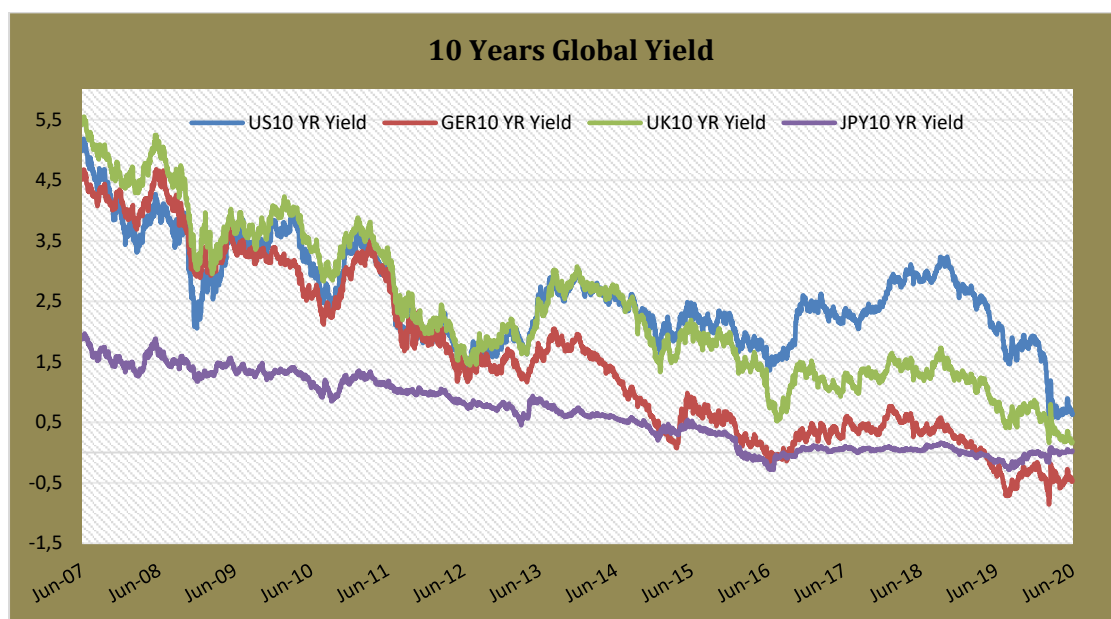
In the short run, global equity markets continue to face many downside risks. Firstly, the fast approaching U.S presidential election in November 2020 will contribute to the uncertain outlook as changing regime in the U.S could lead to changes including tax and business regulation. Secondly, the relationship between the China and the U.S with its allies have entered new low points recently with the introduction of a national security law in Hong Kong by China and disputes around COVID-19. Lastly, while there are positive signs regarding COVID-19 infections, potential for resurgence of the cases and related government controls will continue to present a threat to growth until a vaccine or an effective treatment for the virus is developed.

Global Bonds and U.S Treasuries

The yields of global Treasury bonds were mixed during the quarter. Changes in the yields of the U.S 10 year Treasury bond, German's Bund, and Japanese government bonds were muted, while the yields of U.K, France, and Italy 10-year government bonds declined during the quarter. The muted bond yield movement in the U.S reflected the central bank's intensive intervention in the market to support the economy and market through massive asset purchasing program and other measures and the absence of inflation pressure.

In Europe, however, the yield of the Italian 10-year bond declined more than 0.20% during the quarter as investors anticipated coordinated support measures in the Eurozone. Besides the COVID-19 crisis, investors also paid attention to the unresolved Brexit matter, which the deadline to extend the transition period has passed on 30 June, meaning a trade deal must be agreed upon between both part by the end of the year, or the U.K will be leaving the EU with hard Brexit. Consequently, the U.K's Gilt 10-year fell 0.18% in the quarter to end the quarter at 0.17%. Another interesting development in the U.K was the 2-year U.K government bond yield fell below 0% for the first time, it finished the quarter at -0.08% as the Bank of England is contemplating the negative interest rates.

Graph 4 10 Years Global Yield



Implications of the global financial market movement to the Petroleum Fund investment

The Petroleum Fund's investment portfolio benefited from the global market recovery during the second quarter. Both equity and fixed income performed positively but diverged by a wide margin. The equity value of the portfolio rose dramatically contributing +6.67 % to a total fund return of +7.27% for the second quarter while the Fixed income portfolio rose by +0.84% contributing +0.51% to the total return

3. MANAGEMENT DURING THE QUARTER

Objectives

The Central Bank, as operational manager of the Fund, has implemented the investment mandates through a combination of internal and external management.

The following table shows how the investment mandates have been implemented.

Table 3

Mandate	Management Style	Authorised Managers	Tracking Error	Outperformance Target	Commencement date
3 Month USD Treasury Bills/Cash	Passive	BCTL	n/a	Nil	14-Aug-18
BOA Merrill Lynch 3-5 Years US Treasury Bond Index	Passive	BCTL	n/a	Nil	19-Jan-12
BOA Merrill Lynch 5-10 Years US Treasury Bond Index	Passive	BCTL	0.25%	Nil	29-May-20
Barclays Global Treasury Developed Market ex US, 30% Eurozone and 10% Country Capped Measured on a hedged basis	Enhanced Passive	Bank for International Settlements	0.50%	0.15%	30-Apr-20
MSCI World Index ex Australia Net Dividends Reinvested	Equity Factor	Schroders Equity Factor	3.00%	Nil	2-Aug-19
	Equity Factor	SSgA Equity Factor	3.00%	Nil	2-Aug-19
MSCI World Index ex Australia Net Dividends Reinvested	Passive	SSgA International Equity	0.35%	Nil	18-Jan-12
	Passive	BlackRock International Equity	0.35%	Nil	21-Feb-13
MSCI Australia	Passive	BCTL	0.50%	Nil	4-Jul-16
Private debt instrument for Petroleum Operations	Passive	BCTL	n/a	Nil	10-Apr-19

Operational Implementation

The actual allocation of the capital of the Fund to the various mandates as at the end of the quarter was as follows:

Table 4

Mandate	Managers	Target Benchmark	Tolerance	Actual	Lower Boundary	Upper Boundary
3 Month US Treasury Bills/Cash	BCTL	5.00%	± 2.5%	5.88%	2.50%	7.50%
BOA Merrill Lynch 3-5 Years Treasury Bond Index	BCTL	35.00%	± 2.5%	34.71%	32.50%	37.50%
BOA Merrill Lynch 5-10 Years Treasury Notes and Bond Index	BCTL	10.00%	± 1%	9.92%	9.00%	11.00%
Barclays Global Treasury Developed Market ex US, 30% Eurozone and 10% Country Capped measured on a hedged basis	Bank for International Settlements	10.00%	± 1%	9.94%	9.00%	11.00%
Total Fixed Income		60.00%		60.44%	53.00%	67.00%
MSCI Index ex Australia Net Dividends Reinvested	Schroders Investment Management	8.75%	± 1.75%	8.88%	7.00%	10.50%
	SSgA Equity Factor					
MSCI Index ex Australia Net Dividends Reinvested	SSgA International Equity	25.38%	± 6%	25.84%	19.38%	31.38%
	BlacRock					
MSCI Australia Index	BCTL	0.88%	± 0.45%	1.04%	0.43%	1.33%
Total Equities		35.00%		35.76%	26.80%	43.20%
Total Private debt instrument for Petroleum Operations	BCTL	5.00%	n/a	3.80%	0.00%	5.00%
Total		100.00%		100.00%		

4. PORTFOLIO PERFORMANCE

This section contains a number of tables and charts describing the performance of the Petroleum Fund.

The following notes are intended to assist in interpreting this information:

- The percentage figures show the return of the Fund, or a part of it, which is compared with the performance of the corresponding benchmark. The benchmark represents the investment strategy established by the Minister and is used as a goal against which the performance of the actual investments is measured. The Minister's benchmarks for the Petroleum Fund are described earlier in this report.
- The excess is the difference (which may be negative) between the benchmark and the portfolio being measured. In general a portfolio and its benchmark will respond in a similar manner to movements in the financial markets. The excess occurs because the benchmark does not recognize transaction costs, and because the actual portfolio usually contains a different mix of financial instruments to the benchmark.

GLOBAL PORTFOLIO

In the course of the quarter the Petroleum Fund balance was \$18.07 billion as follows:

Table 5

Capital Account	\$'000
Opening book value (01 April 2020)	17,028,934
Receipts during the period	65,732
Transfer to General State Budget	-250,000
Investment Return	1,229,710
Closing book value (30 June 2020)	18,074,376

The Fund was invested as follows:

Table 6

Assets	\$'000
Cash and Cash Equivalents	1,298,046
Other Receivables	24,499
Financial assets held at fair value through profit or loss	16,762,853
Less:	
Payable for Securities Purchased	-7,819
Accounts Payable	-3,204
Total	18,074,376

The income for the quarter was as follows:

Table 7

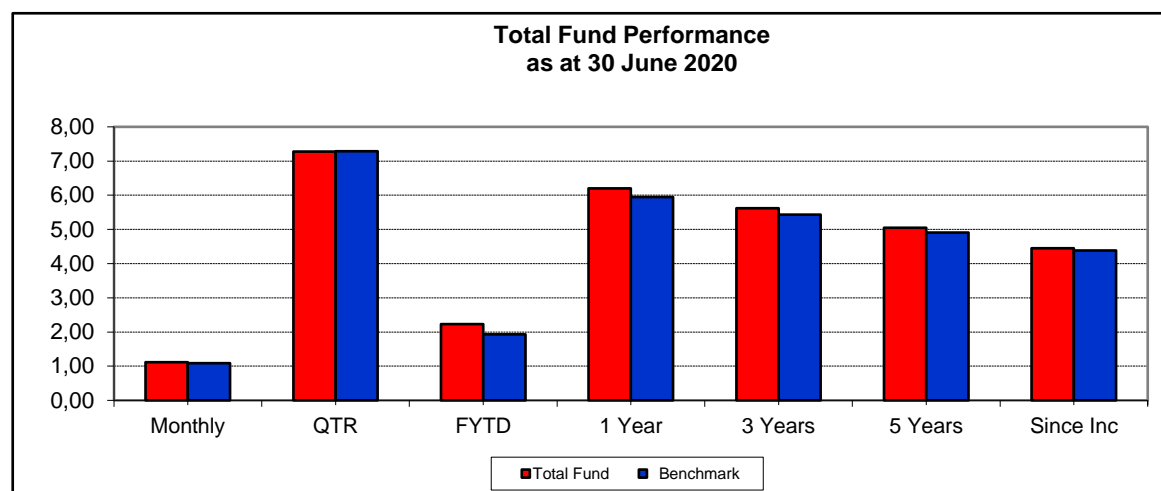
Income	\$'000
Interest income	52,660
Dividend income	39,830
Unit Trust distributions	1,536
Other Investment income	481
Net gains/(losses) on Financial Assets at fair value	1,178,927
Net foreign exchange gains/(losses)	-33,629
Less:	
External manager, custody fees	-3,696
Central Bank management expenses	-1,740
IAB Expenses	-13
Other expenses	-396
Withholding taxes	-4,251
Total Investment Income	1,229,710

The following notes are intended to assist in interpreting this information:

- Unit trust distribution is the income received from listed property investment entities.
- Other expenses relate to derivative trading costs which are deducted directly from the Fund.

Global Benchmark over the same period is shown in the following graph.

Graph 5 Total Performance



FIXED INTEREST

The performance of the investments in Fixed Interest for the quarter, including the performance of the managers responsible for those investments, was as follows:

Table 8

%	Qtr	FYTD	1 Year	3 Years	5 Years	Since Inc
International Fixed Interest	0.84	4.83	5.83	3.74	2.96	2.92
Benchmark	0.93	5.06	6.13	3.87	3.02	2.93
<i>Excess</i>	-0.08	-0.24	-0.30	-0.13	-0.06	-0.02
BCTL Cash Management (TLCM)	0.00	0.30	1.29	1.64	n.a	1.51
Three Month US Treasury bills	0.02	0.60	1.63	1.96	n.a	1.94
<i>Excess</i>	-0.02	-0.30	-0.34	-0.32	n.a	-0.44
BCTL 3-5 yr US Treasury Bond	0.54	5.83	6.96	4.02	2.92	2.23
BoA Merrill Lynch 3-5 Years US Treasury Passive	0.53	5.92	7.11	4.10	3.00	2.23
<i>Excess</i>	0.01	-0.09	-0.15	-0.08	-0.08	0.00
BCTL ML 5-10 Years US Treasury Notes & Bonds	n.a	n.a	n.a	n.a	n.a	0.11
BoA Merrill Lynch 5-10 Years US Treasury Passive	n.a	n.a	n.a	n.a	n.a	0.12
<i>Excess</i>	n.a	n.a	n.a	n.a	n.a	-0.01
BIS ML 5-10 Years US Treasury Bonds⁹	3.73	9.24	12.11	5.81	4.23	3.33
BoA Merrill Lynch 5-10 Years US Treasury enhanced Passive	3.87	9.44	12.24	5.79	4.21	3.32
<i>Excess</i>	-0.14	-0.20	-0.13	0.02	0.02	0.01
BIS FI - Global Treasury Developed Market - Hedged	n.a	n.a	n.a	n.a	n.a	0.30
Benchmark ⁶	n.a	n.a	n.a	n.a	n.a	0.28
<i>Excess</i>	n.a	n.a	n.a	n.a	n.a	0.02
FI Global Ex U.S UnHedged Composite⁷	-1.20	-0.57	3.80	2.92	1.42	-0.25
Benchmark ⁸	-1.05	-0.43	3.97	2.96	1.47	-0.24
<i>Excess</i>	-0.15	-0.13	-0.17	-0.05	-0.05	-0.01

6. The benchmark for BIS FI is Bloomberg Barclays Global Treasury Dev Mkts ex US 10% country 30% Eurozone capped Hedged.

7. FI Global Ex U.S Un-Hedged composite is made up of Alliance Bernstein (from July 2014) and Wellington (from December 2014) until 30th April 2020. All the multiperiod returns are as at 30th April 2020.

8. The benchmark for BIS FI Global Ex U.S. Hedged composite was Bloomberg Barclays Global Treasury Dev Mkts ex US 10% country 30% Eurozone capped Un-Hedged.

9. The multi period returns for BIS Merrill Lynch 5-10 Years US Treasury Notes & Bonds are as at 31st May 2020.

INTERNATIONAL EQUITIES

The performance of the investments in global developed market equities for the quarter, including the performance of the managers responsible for those investments, was as follows:

Table 9

	Qtr	FYTD	1 Year	3 Years	5 Years	Since Inc
International Equities	18.66	-7.01	1.52	6.41	6.87	8.82
Benchmark	19.36	-5.77	2.84	6.70	6.90	8.48
<i>Excess</i>	<i>-0.70</i>	<i>-1.25</i>	<i>-1.32</i>	<i>-0.29</i>	<i>-0.03</i>	<i>0.34</i>
Schroders Investment Management*	17.05	-7.85	n.a	n.a	n.a	1.15
MSCI World Index ex Net Australia dividends Reinvested	19.17	-5.58	n.a	n.a	n.a	3.36
<i>Excess</i>	<i>-2.12</i>	<i>-2.27</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	<i>-2.21</i>
SSgA Equity Factor**	15.26	-8.96	n.a	n.a	n.a	-1.54
MSCI World Index ex Net Australia dividends Reinvested	19.17	-5.58	n.a	n.a	n.a	3.36
<i>Excess</i>	<i>-3.91</i>	<i>-3.38</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	<i>-4.90</i>
SSgA International Equity	19.08	-6.48	2.50	6.84	7.13	9.62
MSCI World index ex Australia Passive	19.17	-5.58	3.19	6.84	6.98	9.37
<i>Excess</i>	<i>-0.09</i>	<i>-0.90</i>	<i>-0.69</i>	<i>0.00</i>	<i>0.15</i>	<i>0.25</i>
BlackRock Investment Management	19.24	-6.14	2.79	6.98	7.22	8.77
MSCI World index ex Australia Passive	19.17	-5.58	3.19	6.84	6.98	8.52
<i>Excess</i>	<i>0.07</i>	<i>-0.56</i>	<i>-0.41</i>	<i>0.14</i>	<i>0.24</i>	<i>0.25</i>
BCTL Australia Equity	29.11	-14.97	-12.55	0.47	n.a	4.14
MXAU AU Index Passive	28.91	-13.95	-11.50	0.83	n.a	4.43
<i>Excess</i>	<i>0.20</i>	<i>-1.02</i>	<i>-1.04</i>	<i>-0.36</i>	<i>n.a</i>	<i>-0.29</i>

*The Performance number of Schroder reflects the reclassification of Schroder's mandate to be factor mandate effectively implemented on 2 August 2019.

**SSgA Equity factor performance numbers commence on 2 August 2019.

Private debt instrument for Petroleum Operations

The performance of the investment in Private debt instrument for Petroleum Operations for the quarter was as follows:

Table 10

%	Qtr	FYTD	1 Year	3 Years	5 Years	Since Inc
Private debt instrument for Petroleum Operations	1.09	2.25	4.54	n.a	n.a	4.46
Benchmark	1.09	2.25	4.54	n.a	n.a	4.46
<i>Excess</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>n.a</i>	<i>n.a</i>	<i>0.00</i>

5. MANAGEMENT COSTS

A management fee of \$5.85 million for operational management costs was charged to the fund during the quarter. The fee covered the following services (in thousands \$):

Table 11

External Management and Custody expenses	3,696
Central Bank management expenses	1,740
IAB expenses	13
Other Expenses	396
Total Cost	5,845

6. TRANSFERS TO STATE BUDGET

According to Article 7.1 of the Petroleum Fund Law transfers from the Fund may only be made to the credit of a single State Budget account. An amount of \$250 million was transferred to the State Budget account during the quarter.

Table 12

In Thousand (\$)

Transfer April 2020	150,000
Transfer May 2020	100,000
Transfer June 2020	0
Transfer for this Quarter	250,000
Total Transfers previous quarters	0
Total transfers this fiscal year to June 2020	250,000

7. COMPLIANCE STATEMENT

Banco Central de Timor-Leste asserts the following statements relating to compliance with the mandates given by the Minister.

Qualifying Instruments

The Fund was invested in instruments within the investment universes specified in the various mandates at all times during the quarter.

Modified Duration

The modified duration of the Fund's fixed interest investment portfolios remained within the mandate during the quarter.

Tracking Error

The tracking error of each mandate in the Fund's investment portfolio was within the specified range during the quarter.

External Managers

External managers' investments were within their mandates during the quarter.

Internal Audit

The provisions of Article 22 of the Petroleum Fund law no. 9/2005 require the Central Bank's Internal Auditor to perform an audit of the Fund every six months. The Internal Auditor has performed an audit up to quarter ended 31 December 2019

8. FINANCIAL INFORMATION

The following financial information is presented for the purpose of assisting the Minister to review the quarterly performance of the Petroleum Fund as set out in this report. The figures have not been audited.

Table 13

BALANCE SHEET		June-20	June-19
In thousands of USD			
ASSETS			
Cash and Cash Equivalents		1,298,046	1,199,147
Receivables		24,499	186,213
Financial assets held at fair value through profit or loss		16,762,853	16,080,946
TOTAL ASSETS		18,085,399	17,466,306
LIABILITIES			
Payables for securities purchased		-7,819	-14,153
Accounts payable		-3,204	-4,789
TOTAL LIABILITIES		-11,023	-18,942
NET ASSETS		18,074,376	17,447,364
CAPITAL			
Opening Balance (January)		17,691,816	15,803,638
PF Law Art. 6.1 (a) Revenue receipts		88,845	170,754
PF Law Art. 6.1 (b) DA receipts		152,613	261,988
PF Law Art. 6.1 (e) Other receipts		5,386	0
PF Law Art 7.1 Transfers to State Budget		-250,000	-220,000
Income for the period		385,716	1,430,984
CAPITAL		18,074,376	17,447,364

Table 14

STATEMENT OF PROFIT OR LOSS		QUARTER		YEAR TO DATE	
In thousands of USD		Jun-20	Jun-19	Jun-20	Jun-19
INVESTMENT INCOME					
Interest income		52,660	68,279	114,406	125,758
Dividend income		39,830	47,205	78,768	89,638
Trust income		1,536	1,647	3,061	3,079
Other investment income		481	23	481	23
Net gains/(losses) on Financial Assets at fair value		1,178,927	421,179	240,850	1,269,903
Net foreign exchange gains/(losses)		-33,629	-34,238	-36,461	-42,360
Total Investment Income		1,239,805	504,095	401,105	1,446,042
EXPENSES					
External management, fees		3,696	2,677	4,560	4,759
Internal operational management fees		1,740	1,145	3,498	2,752
IAB Expenses		13	44	26	73
Other expenses		396	246	1,290	530
Total expenses		5,845	4,112	9,374	8,114
Profit before tax		1,233,961	499,983	391,731	1,437,928
Withholding taxes on investments		4,251	5,298	6,015	6,944
Profit/loss for the period		1,229,710	494,685	385,716	1,430,984
Other comprehensive income		0	0	0	0
Total comprehensive income for the period		1,229,710	494,685	385,716	1,430,984

Notes: The accounting policies and method of computation used to prepare the above figures are the same as disclosed in the most recent annual financial statements of the Petroleum Fund.

Dili, 22 July 2020



Venancio Alves Maria
Deputy Governor



Abraão de Vasconcelos
Governor