

# Petroleum Fund of Timor-Leste

## Quarterly Report

30 September 2020

### Inside This Report

1. Introduction.
1. Executive summary.
2. Investment mandate.
2. Market trends.
6. Management during the quarter.
7. Portfolio performance.
10. Management costs.
11. Transfers to state budget.
12. Compliance statement.
12. Financial Information.

### 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 July to 30 September 2020.

Key statistics for the quarter include:

- The capital of the Fund at the end of the Current quarter was \$18.47 billion while the previous quarter was \$18.07 billion.
- Gross cash inflows to the fund from royalties and taxes were \$43.53 million.
- Outflow for the quarter were \$172.26 million, being transfers to the state budget of \$169.50 million while \$2.76 million was for management costs.
- The profit for the quarter was \$521.06 million, representing a gross of fees return of 2.90% compared with the benchmark return of 2.99%.

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	2.90	5.19	8.40	5.83	6.21	4.57
Benchmark	2.99	4.99	8.21	5.65	6.11	4.52
<i>Excess</i>	<i>-0.10</i>	<i>0.21</i>	<i>0.19</i>	<i>0.18</i>	<i>0.10</i>	<i>0.06</i>
International Fixed Interest	0.28	5.12	5.21	3.61	2.79	2.89
Benchmark	0.27	5.35	5.47	3.71	2.84	2.90
<i>Excess</i>	<i>0.01</i>	<i>-0.23</i>	<i>-0.26</i>	<i>-0.10</i>	<i>-0.05</i>	<i>-0.01</i>
International Equities	7.50	-0.04	8.45	7.31	10.31	9.38
Benchmark	7.93	1.70	10.41	7.74	10.48	9.09
<i>Excess</i>	<i>-0.43</i>	<i>-1.74</i>	<i>-1.96</i>	<i>-0.43</i>	<i>-0.16</i>	<i>0.29</i>
Private debt instrument for Petroleum Operations	1.09	3.36	4.51	n.a	n.a	4.45
Benchmark	1.09	3.36	4.51	n.a	n.a	4.45
<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 benchmarks as of September 2020 were as follows:

Table 2

	Jul-20	Aug-20	Sep-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%
<b>Total Fixed Income</b>	<b>60%</b>	<b>60%</b>	<b>60%</b>
<b>Total equity (MSCI World Index Net Dividends Reinvested)</b>	<b>35%</b>	<b>35%</b>	<b>35%</b>
<b>Total Private debt instrument for Petroleum Operations</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## 2. MARKET TRENDS DURING THE QUARTER

### *Global Macroeconomic Trend*

Global economic activities continue to recover from the pandemic shock during the third quarter of the year but at a slower pace than the V-shaped recovery hoped for earlier. The global purchasing manager's index (PMI), which measures the global manufacturing and service activities, showed that global business activities continue to improve but lost steam toward the last month of the quarter. The global composite PMI for September fell to 52.1 from 52.4 in August. The slower recovery in September can be attributed to the recurrence of COVID-19 cases in many countries around the world, particularly in Europe, where the restriction measures such as lockdowns and social distancing were reintroduced in the affected localities to prevent further outbreak. It was the first decline since the recovery begun in April. A composite PMI number above 50 indicates that overall economic activities expanded while a number less than 50 means the activities in the sector declined for the period.

Despite the improvement in the global composite PMI number, there is imbalance between the manufacturing and service activities. Global manufacturing activities are increasing at a sustained pace from the lowest point back in April as the gradual reopening of many economies around the world boosted global trading activities. On the other hand, the service activities remain subdued because of the health related travel restrictions that are still prevailing in many countries. As the global economic activities slowly build up from the COVID-19

induced crisis, the major central banks and governments around the world continue to support with the policy tools at their disposals.

In the U.S, the employment data continue to be positive although weaker than expected. The latest nonfarm payroll data showed the number of jobs created in September was smaller than expected and the smallest since April. While unemployment edged lower to 7.9% from 10.2 % in the beginning of the quarter, the labor participation rate went down commensurately. The slowdown in the job creation in the U.S may be attributed to a reduction in fiscal stimulus, particularly the unemployment insurance, which expired at the end of July, and in turn may have contributed to the slowdown of consumer spending. In addition, the resurgence of COVID-19 infections raised concerns among business owners about hiring workers and expanding their business activities due to uncertainties in future demand. The U.S policymakers are in deadlock over the renewal of the expiring fiscal support. In terms monetary policy, the U.S Federal Reserve maintained its accommodative policy in an effort to support the economic recovery. Majority of Federal Open Market Committee members agreed during its September meeting to keep the current interest rate level at least until 2023. The U.S Federal Reserve's short-term interest rate is now at 0.00 – 0.25%. In addition to ultralow interest rates, the Fed also still commits to purchase U.S Treasury at \$80 billion and agency mortgaged back securities at \$40 billion on a monthly basis to maintain the liquidity in the market and keep long-term rates low.

The data showed the expansion of business activities in the Eurozone were mixed during the period under review. The manufacturing activities in the region showed consistent growth during the quarter as the data for September saw an increase to 53.7 from 51.7 in previous months. On the other hand, the service PMI index in the region for September fell to 48.0 from 50.5 in the previous month. The index indicates that the service activities in the region declined in September compared to the prior month. The decline in service sector's activities reflected the increasing rate of COVID-19 infections in the region, particularly in Spain and France where the health restrictions were reintroduced. On the monetary policy front, the European Central Bank is facing the challenge of persistent low inflation in the region despite the accommodative monetary policy being implemented by the ECB. The consumer price in the region fell 0.3% in September, after it fell 0.2% in August. One of the major causes of the weak consumer price is the rising value of the Euro, which appreciated more than 4% against the USD for the quarter. Appreciation of the Euro makes the import prices cheap, which put downward pressures on the overall inflation in the region. In light of the consistent weak inflation, the ECB officials recently discussed the possibility of shifting the inflation policy framework from targeting inflation just below 2% to average of 2% over time. This will effectively let the inflation run above the central bank's target over time without tightening monetary policy. The ECB officials have yet to make any decision on the policy shift. On the fiscal policy front, the European Commission approved a €750 billion economic recovery fund, in which €390 billion will be grants to the countries most affected by the pandemic, while €360 billion would be available as loans.

With respect to economic activities across Asia, a survey conducted by the Bank of Japan on big manufacturers in Japan showed that business sentiment came in at minus 27 in the third quarter, up from minus 34 in the previous quarter. The reading for the third quarter was below market expectations of minus 24, well below the zero thresholds that separate the optimism versus pessimism among those large manufacturers. At the same time, the confidences among the large non-manufacturers are also at minus 12 for the third quarter up from minus 17 recorded in the previous quarter.

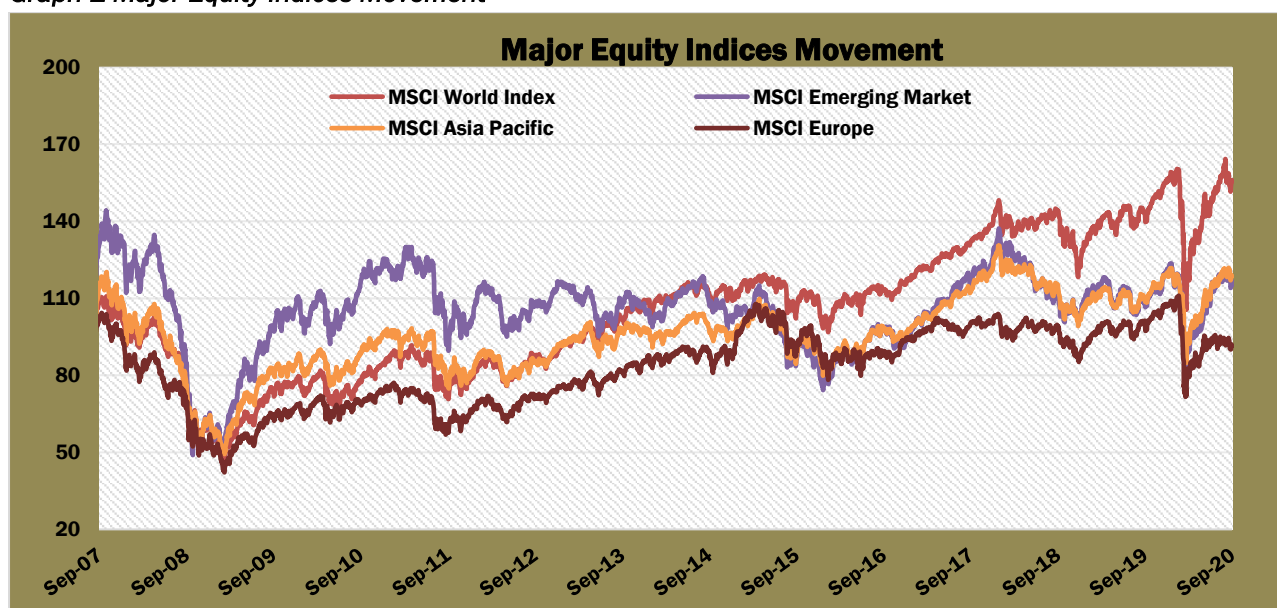
On the other hand, China's Caixin PMI index showed that the economic activity in the country continued to record a robust recovery in September. The composite PMI for China, which covers both service and manufacturing activities was at 54.5, slightly smaller than 55.1 in August. Overall, the composite PMI for the third quarter was at 54.7, up from 52.6 recorded in the second quarter. The recovery in business activities in China is broad-based as both services and manufacturing activities are driving the business expansion. Manufacturing was boosted by the increase of export merchandise. The orders for China's manufactured products were at three-year high in September, reflecting the increase of countries around the world reopening their economies. On the other hand, the expansion in service sector activities was mainly driven by

domestic demand. The external demand to service sectors is still very weak as many countries still maintain international travel restrictions.

### Global Equity Market Trends

Global equities posted strong gain for the quarter under review despite the tepid economic recovery and challenging economic outlook. Nevertheless, equity market performance varied across the regions with the U.S outperforming other peer developed markets. The generic MSCI World index advanced more than 7% for the quarter. However, volatility in the equity market returned during the last few weeks of the quarter and is likely to remain elevated in the coming months. The probable causes for the near term downward risks to the global equity market are the resurgence of COVID-19 cases around the world, the deadlock faced by the U.S lawmakers to renew the fiscal stimulus and the tight U.S election odds. Nevertheless, there is also upside risks as the central banks have clearly committed to keep their monetary policy accommodative. There may be upside surprises, for example, a breakthrough of a vaccine and/or an effective treatment of COVID-19 could cause the market to move upward significantly.

**Graph 1 Major Equity Indices Movement**



The performance of major equity market indices in the U.S were rather mixed during the quarter with strong performance in July and August followed by a decline in September. The large cap equity indices outperformed the small cap index. The Nasdaq index, which is dominated by the technology sector, returned more than 11%, while the small cap index Russell 2000 index only increased a little more than 4% for the quarter. At the same time, the Dow Jones Industrial Average and S&P 500 index advanced 7% and 8% respectively. In terms of the sectors, technology and the health care stocks outperformed other sectors during the quarter.

Major equity market indices across Europe ended the quarter with mixed performance as the equity market in Germany outperformed the likes of France, Italy and the U.K. Germany's equity market was supported by the fiscal policy measures as the government decided to extend fiscal stimulus by increasing the size of funding to up to €10 billion. The fiscal stimulus was designed to help companies to keep workers on their books. In addition, the bill also aimed to support struggling companies by delaying insolvency filings until the end of the year. Other countries such as France and Spain however, had to reintroduce new restriction measures to curve the second wave of COVID-19 infection. Consequently, equity markets of these countries posted the negative return for the quarter. Despite the new wave of contagion, the fatality rate is low due to the new infection being skewed toward the younger generation who are highly likely to recover. In addition, the doctors have more experience to deal with the disease now compared to when it first emerged. Nevertheless, the new wave of infection will certainly prompt caution and will restrict economic activities.

U.K.'s equity market was the worst performer in the region as its equity index FTSE 100 was down more than 4% for the period. The poor equity market performance reflects the uncertainty around BREXIT as the 31 December deadline is approaching. Both the U.K and the EU have not made significant progress during the quarter, which heightened the chance of U.K leaving the EU without a deal. Another drag to equity market was the reintroduction of COVID-19 restrictions to prevent the second wave outbreak. The restrictions however, were applied to affected local areas rather than a national lockdown. Nevertheless, the local restrictions affected businesses that generated most of their income in the local market. Lastly, the strong U.K. pound against the USD also weighed on the profits of the companies that generate their revenues from overseas. The pound appreciated more than 4% against the USD for the quarter. The U.K government announced the new fiscal stimulus called Job Support Scheme to replace the current job furlough scheme, which will expire soon. However, the magnitude of the fiscal stimulus is believed to have been reduced to support fewer jobs than the previous one.

Equity market across Asia Pacific and the emerging markets also posted mixed result for the quarter as Japan, South Korea's and emerging market ended the quarter with gains, while the Australian closed the quarter with negative performance. The resignation of the Prime Minister of Japan, Shinzo Abe, did not have a material effect on the equity market in Japan as his successor is expected to continue the economic agenda already in place.

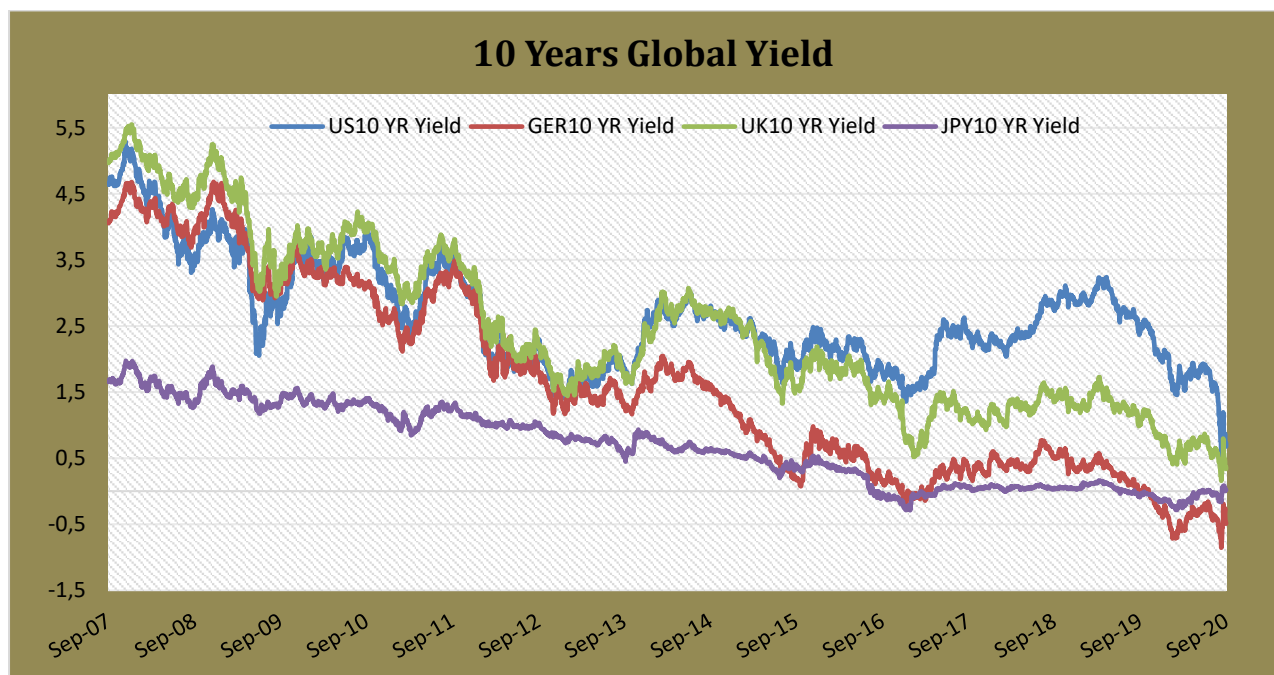
#### *Global Treasury Bonds include U.S Treasuries*

The yields of developed market treasury bonds remain low due to supportive monetary policy from major central banks to continue aiding the economic recovery. The movement of yields of global treasury bonds were mixed during the quarter as the U.S Treasury yields were flat, while the yields of sovereign bonds across Europe were more diverse during the quarter.

The yields of sovereign bonds of the major economic countries across the Eurozone mostly moved lower for the quarter. The decline in the yield of the government securities may have reflected lower inflation expectations, resulting from the deflation the region is currently experiencing.

The changes in yields of U.S Treasury securities across the tenors over the quarter were in a range of +/- 0.05%; the yield of the short-term securities declined while the yield of the long-end of the curve increased. The increased yield in the long end of the curve may reflect potential for higher inflation, one of the hot topics in the market toward the end of the quarter. Inflationary pressure stems from a few factors. First, the pandemic disturbed the supply chain, which caused the prices of goods and services to increase. Secondly, the immense monetary policy being implemented by the U.S Federal Reserve and fiscal supports from government have boosted inflation expectations. Upward risk in inflation is partly due to the new inflation policy framework recently announced by the U.S Federal Reserve. The Fed has changed its inflation target policy from 2% to "average 2% inflation over time". With the new inflation policy framework, the Fed can now let inflation run above 2% for a certain period without raising interest rates. It is an indication that the Fed will maintain low interest rates to support the economic recovery. The value of USD against other major currencies, measured by the Bloomberg DXY Index, fell 3.6% in over the quarter.

Graph 2 10 Years Global Yield



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

It is another positive quarter for the Petroleum Fund as the price of the global equity market and the developed countries' Treasury bonds move in favor of the investments of the Fund during the period. The total return of the Fund was 2.9% for the period, which resulted from the fixed-income portfolio's return of 0.28% and the equity portfolio's return of 7.5%.

## 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%	5.25%	2.50%	7.50%
BOA Merrill Lynch 3-5 Years Treasury Bond Index	BCTL	35.00%	± 2.5%	34.02%	32.50%	37.50%
BOA Merrill Lynch 5-10 Years Treasury Notes and Bond Index	BCTL	10.00%	± 1%	9.69%	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%	9.80%	9.00%	11.00%
<b>Total Fixed Income</b>		<b>60.00%</b>		<b>58.76%</b>	<b>53.00%</b>	<b>67.00%</b>
MSCI Index ex Australia Net Dividends Reinvested	Schroders Investment Management	8.75%	± 1.75%	9.21%	7.00%	10.50%
	SSgA Equity Factor					
MSCI Index ex Australia Net Dividends Reinvested	SSgA International Equity	25.38%	± 6%	27.23%	19.38%	31.38%
	BlacRock					
MSCI Australia Index	BCTL	0.88%	± 0.45%	1.04%	0.43%	1.33%
<b>Total Equities</b>		<b>35.00%</b>		<b>37.49%</b>	<b>26.80%</b>	<b>43.20%</b>
Total Private debt instrument for Petroleum Operations	BCTL	5.00%	n/a	3.76%	0.00%	5.00%
<b>Total</b>		<b>100.00%</b>		<b>100.00%</b>		

## 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 \$18.47 billion as follows:

Table 5

Capital Account	\$'000
Opening book value (01 July 2020)	18,074,376
Receipts during the period	43,529
Transfer to General State Budget	-169,500
Investment Return	521,058
<b>Closing book value (30 September 2020)</b>	<b>18,469,463</b>

The Fund was invested as follows:

Table 6

Assets	\$'000
Cash and Cash Equivalents	1,179,278
Other Receivables	63,447
Financial assets held at fair value through profit or loss	16,586,770
Financial assets held at amortised cost	693,875
<b>Less:</b>	
Payable for Securities Purchased	-52,874
Accounts Payable	-1,033
<b>Total</b>	<b>18,469,463</b>

The income for the quarter was as follows:

Table 7

Income	\$'000
Interest income	50,710
Dividend income	35,001
Unit Trust distributions	1,242
Other Investment income	38
Net gains/(losses) on Financial Assets at fair value	435,877
Net foreign exchange gains/(losses)	1,724
<b>Less:</b>	
External manager, custody fees	-507
Central Bank management expenses	-1,849
IAB Expenses	-59
Other expenses	-341
Withholding taxes	-776
<b>Total Investment Income</b>	<b>521,059</b>

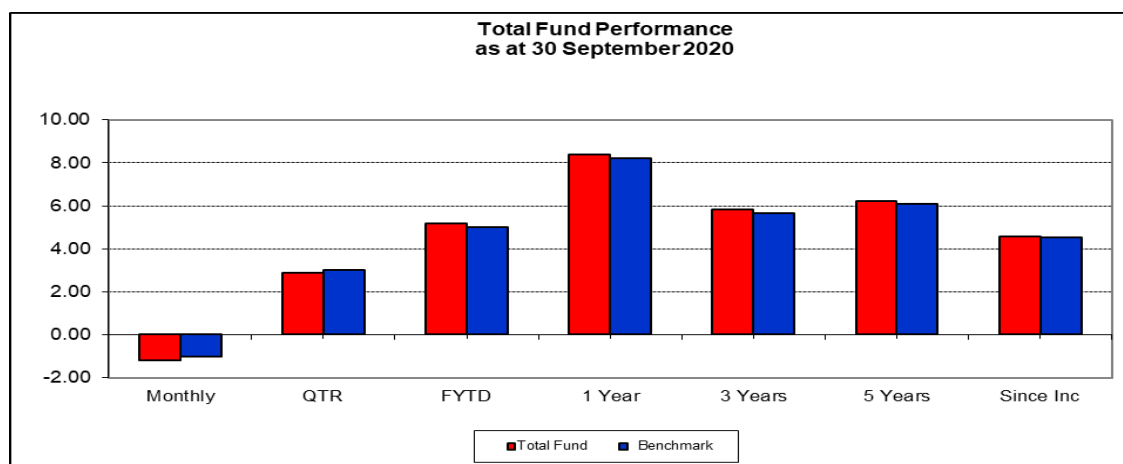
The following notes are intended to assist in interpreting this information:

- 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 3 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
<b>International Fixed Interest</b>	0.28	5.12	5.21	3.61	2.79	2.89
Benchmark	0.27	5.35	5.47	3.71	2.84	2.90
<b>Excess</b>	<b>0.01</b>	<b>-0.23</b>	<b>-0.26</b>	<b>-0.10</b>	<b>-0.05</b>	<b>-0.01</b>
<b>BCTL Cash Management (TLCM)</b>	0.00	0.30	0.70	1.56	n.a	1.42
Three Month US Treasury bills	0.04	0.64	1.10	1.86	n.a	1.81
<b>Excess</b>	<b>-0.04</b>	<b>-0.34</b>	<b>-0.40</b>	<b>-0.31</b>	<b>n.a</b>	<b>-0.39</b>
<b>BCTL 3-5 yr US Treasury Bond</b>	0.18	6.02	6.08	3.98	2.72	2.19
BoA Merrill Lynch 3-5 Years US Treasury Passive	0.16	6.09	6.20	4.04	2.78	2.19
<b>Excess</b>	<b>0.02</b>	<b>-0.07</b>	<b>-0.12</b>	<b>-0.06</b>	<b>-0.06</b>	<b>0.00</b>
<b>BCTL ML 5-10 Years US Treasury Notes &amp; Bonds</b>	0.33	n.a	n.a	n.a	n.a	0.26
BoA Merrill Lynch 5-10 Years US Treasury Passive	0.33	n.a	n.a	n.a	n.a	0.45
<b>Excess</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>-0.19</b>
<b>BIS ML 5-10 Years US Treasury Bonds<sup>9</sup></b>	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
<b>Excess</b>	<b>-0.14</b>	<b>-0.20</b>	<b>-0.13</b>	<b>0.02</b>	<b>0.02</b>	<b>0.01</b>
<b>BIS FI - Global Treasury Developed Market - Hedged</b>	0.78	n.a	n.a	n.a	n.a	1.09
Benchmark <sup>6</sup>	0.72	n.a	n.a	n.a	n.a	1.01
<b>Excess</b>	<b>0.06</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>0.08</b>
<b>FI Global Ex U.S UnHedged Composite<sup>7</sup></b>	-1.20	-0.57	3.80	2.92	1.42	-0.25
Benchmark <sup>8</sup>	-1.05	-0.43	3.97	2.96	1.47	-0.24
<b>Excess</b>	<b>-0.15</b>	<b>-0.13</b>	<b>-0.17</b>	<b>-0.05</b>	<b>-0.05</b>	<b>-0.01</b>

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
<b>International Equities</b>	7.50	-0.04	8.45	7.31	10.31	9.38
Benchmark	7.93	1.70	10.41	7.74	10.48	9.09
<i>Excess</i>	<i>-0.43</i>	<i>-1.74</i>	<i>-1.96</i>	<i>-0.43</i>	<i>-0.16</i>	<i>0.29</i>
<b>Multi-Factor Equity</b>	n.a	n.a	n.a	n.a	n.a	-3.50
Benchmark	n.a	n.a	n.a	n.a	n.a	-3.38
<i>Excess</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	<i>-0.12</i>
<b>Schroders Investment Management*</b>	5.91	-2.40	6.13	n.a	n.a	6.08
MSCI World Index ex Net Australia dividends Reinvested	8.04	2.01	10.84	n.a	n.a	9.92
<i>Excess</i>	<i>-2.12</i>	<i>-4.41</i>	<i>-4.71</i>	<i>n.a</i>	<i>n.a</i>	<i>-3.84</i>
<b>SSgA Equity Factor**</b>	6.68	-2.88	4.67	n.a	n.a	4.30
MSCI World Index ex Net Australia dividends Reinvested	8.04	2.01	10.84	n.a	n.a	9.92
<i>Excess</i>	<i>-1.36</i>	<i>-4.88</i>	<i>-6.17</i>	<i>n.a</i>	<i>n.a</i>	<i>-5.62</i>
<b>SSgA International Equity</b>	8.08	1.08	9.86	7.89	10.70	10.31
MSCI World index ex Australia Passive	8.04	2.01	10.84	7.90	10.58	10.06
<i>Excess</i>	<i>0.05</i>	<i>-0.92</i>	<i>-0.98</i>	<i>-0.01</i>	<i>0.12</i>	<i>0.25</i>
<b>BlackRock Investment Management</b>	8.12	1.48	10.35	8.03	10.81	9.58
MSCI World index ex Australia Passive	8.04	2.01	10.84	7.90	10.58	9.33
<i>Excess</i>	<i>0.08</i>	<i>-0.53</i>	<i>-0.49</i>	<i>0.13</i>	<i>0.23</i>	<i>0.25</i>
<b>BCTL Australia Equity</b>	2.81	-12.58	-8.79	0.35	n.a	4.57
MXAU AU Index Passive	2.82	-11.52	-7.72	0.73	n.a	4.85
<i>Excess</i>	<i>-0.02</i>	<i>-1.06</i>	<i>-1.07</i>	<i>-0.38</i>	<i>n.a</i>	<i>-0.28</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
<b>Private debt instrument for Petroleum Operations</b>	1.09	3.36	4.51	n.a	n.a	4.45
Benchmark	1.09	3.36	4.51	n.a	n.a	4.45
<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 \$2.76 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	507
Central Bank management expenses	1,849
IAB expenses	59
Other Expenses	341
<b>Total Cost</b>	<b>2,756</b>

## 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 \$169.50 million was transferred to the State Budget account during the quarter.

Table 12	In Thousand (\$)
Transfer July 2020	0
Transfer August 2020	-169,500
Transfer September 2020	0
Transfer for this Quarter	<b>-169,500</b>
Total Transfers previous quarters	-250,000
<b>Total transfers this fiscal year to September 2020</b>	<b>-419,500</b>

## 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 30 June 2020.

## 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		September-20	September-19
In thousands of USD			
<b>ASSETS</b>			
Cash and Cash Equivalents		1,179,278	1,184,725
Receivables		63,447	55,755
Financial assets held at fair value through profit or loss		16,586,770	15,718,687
Financial assets held at Amortized Cost		693,875	663,943
<b>TOTAL ASSETS</b>		<b>18,523,370</b>	<b>17,623,110</b>
<b>LIABILITIES</b>			
Payables for securities purchased		-52,874	-66,321
Accounts payable		-1,033	-3,112
<b>TOTAL LIABILITIES</b>		<b>-53,907</b>	<b>-69,433</b>
<b>NET ASSETS</b>		<b>18,469,463</b>	<b>17,553,677</b>
<b>CAPITAL</b>			
Opening Balance (January)		17,691,816	15,803,638
PF Law Art. 6.1 (a) Revenue receipts		118,100	257,292
PF Law Art. 6.1 (b) DA receipts		158,824	342,147
PF Law Art. 6.1 (e) Other receipts		13,447	0
PF Law Art 7.1 Transfers to State Budget		-419,500	-420,000
Income for the period		906,776	1,570,601
<b>CAPITAL</b>		<b>18,469,463</b>	<b>17,553,677</b>

Table 14

STATEMENT OF PROFIT OR LOSS		QUARTER		YEAR TO DATE	
In thousands of USD		Sep-20	Sep-19	Sep-20	Sep-19
<b>INVESTMENT INCOME</b>					
Interest income	50,710	66,297	165,116	192,059	
Dividend income	35,001	34,975	113,769	124,575	
Trust income	1,242	1,505	4,270	4,548	
Other investment income	38	5	519	29	
Net gains/(losses) on Financial Assets at fair value	435,877	41,713	652,678	1,267,136	
Net foreign exchange gains/(losses)	1,724	-877	-10,688	1,243	
<b>Total Investment Income</b>	<b>524,592</b>	<b>143,619</b>	<b>925,663</b>	<b>1,589,591</b>	
<b>EXPENSES</b>					
External management, fees	507	1,148	5,174	5,907	
Internal operational management fees	1,849	1,747	5,347	4,499	
IAB Expenses	59	42	85	115	
Other expenses	341	237	1,491	767	
<b>Total expenses</b>	<b>2,756</b>	<b>3,174</b>	<b>12,097</b>	<b>11,288</b>	
Profit before tax	521,836	140,444	913,566	1,578,303	
Withholding taxes on investments	776	758	6,791	7,702	
<b>Profit/loss for the period</b>	<b>521,059</b>	<b>139,686</b>	<b>906,775</b>	<b>1,570,601</b>	
Other comprehensive income	0	0	0	0	
<b>Total comprehensive income for the period</b>	<b>521,059</b>	<b>139,686</b>	<b>906,775</b>	<b>1,570,601</b>	

Note :

1. 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.
2. There were technical errors in the published Petroleum Fund Quarterly Report for the period ended 30 June 2020 as follows:
  - a. Tables 6 & 13: The private instrument investment held at amortised cost is reclassified in a separate line as "Financial assets held at amortised cost".
  - b. Tables 7 & 14: Foreign exchange gains/loss related to Fair Value through Profit & Loss (FVTPL) investments is reclassified to "Net gains/losses on financial assets at fair value".

None of these changes affect the reported numbers of Profit & Loss or Net Assets of the Petroleum Fund for period ended June 2020.

The revised tables 6, 7, 13 and 14 referred above are included below and hereby replace the tables in the Petroleum Fund Quarterly Report for the period ended 30 June 2020.

Table 6

<b>Assets</b>	<b>\$'000</b>
Cash and Cash Equivalents	1,298,046
Receivables	28,917
Financial assets held at fair value through profit or loss	16,088,066
Financial assets held at amortised cost	686,400
<b>Less:</b>	
Payables for securities purchased	-23,850
Accounts payable	-3,204
<b>Total</b>	<b>18,074,376</b>

Table 7

<b>Income</b>	<b>\$'000</b>
Interest income	52,660
Dividend income	39,830
Trust income	1,536
Other investment income	481
Net gains/(losses) on Financial Assets at fair value	1,144,488
Net foreign exchange gains/(losses)	810
<b>Less:</b>	
External management, fees	-3,696
Internal operational management fees	-1,740
IAB Expenses	-13
Other expenses	-396
Withholding taxes on investments	-4,251
<b>Total Investment Income</b>	<b>1,229,709</b>

Table 13

BALANCE SHEET	2020	2019
In thousands of USD	June	June
<b>ASSETS</b>		
Cash and Cash Equivalents	1,298,046	1,199,147
Receivables	28,917	22,262
Financial assets held at fair value through profit or loss	16,088,066	15,588,325
Financial assets held at amortised cost	686,400	656,572
<b>TOTAL ASSETS</b>	<b>18,101,429</b>	<b>17,466,306</b>
<b>LIABILITIES</b>		
Payables for securities purchased	-23,850	-15,632
Accounts payable	-3,204	-3,310
<b>TOTAL LIABILITIES</b>	<b>-27,054</b>	<b>-18,942</b>
<b>NET ASSETS</b>	<b>18,074,375</b>	<b>17,447,364</b>
<b>CAPITAL</b>		
Opening Balance (January)	17,691,816	15,803,638
PF Law Art. 6.1 (a) Revenue receipts	86,620	170,754
PF Law Art. 6.1 (b) DA receipts	152,613	261,988
PF Law Art. 6.1 (e) Other receipts	7,610	0
PF Law Art 7.1 Transfers to State Budget	-250,000	-220,000
Income for the period	385,716	1,430,984
<b>CAPITAL</b>	<b>18,074,375</b>	<b>17,447,364</b>

Table 14

STATEMENT OF PROFIT OR LOSS	TRIMESTRE		ANO ATE A DATA	
In thousands of USD	June-20	June-19	June-20	June-19
<b>INVESTMENT INCOME</b>				
Interest income	52,660	68,279	114,406	125,763
Dividend income	39,830	47,205	78,768	89,601
Trust income	1,536	1,647	3,029	3,043
Other investment income	481	23	481	23
Net gains/(losses) on Financial Assets at fair value	1,144,488	385,649	216,801	1,225,423
Net foreign exchange gains/(losses)	810	1,292	-12,412	2,120
<b>Total Investment Income</b>	<b>1,239,805</b>	<b>504,095</b>	<b>401,073</b>	<b>1,445,973</b>
<b>EXPENSES</b>				
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	1,258	530
<b>Total expenses</b>	<b>5,845</b>	<b>4,112</b>	<b>9,342</b>	<b>8,114</b>
Profit before tax	1,233,960	499,983	391,731	1,437,928
Withholding taxes on investments	4,251	5,298	6,015	6,944
Profit/loss for the period	1,229,709	494,685	385,716	1,430,984
Other comprehensive income	0	0	0	0
<b>Total comprehensive income for the period</b>	<b>1,229,709</b>	<b>494,685</b>	<b>385,716</b>	<b>1,430,984</b>

Dili, 21 October 2020



Venancio Alves Maria  
Deputy Governor



Abraão de Vasconcelos  
Governor