

Petroleum Fund of Timor-Leste

Quarterly Report

31 December 2020

Inside This Report

1. Introduction.
1. Executive summary.
2. Investment mandate.
2. Market trends.
5. Management during the quarter.
6. Portfolio performance.
10. Management costs.
10. Transfers to state budget.
10. Compliance statement.
11. 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 October to 31 December 2020.

Key statistics for the quarter include:

- The capital of the Fund at the end of the Current quarter was \$18.99 billion while the previous quarter was \$18.47 billion.
- Gross cash inflows to the fund from royalties and taxes were \$35.78 million.
- Outflow for the quarter were \$471.69 million, being transfers to the state budget of \$466.80 million while \$4.89 million was for management costs.
- The profit for the quarter was \$952.17 million, representing a gross of fees return of 5.21% compared with the benchmark return of 4.69%.

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 | 5.21 | 10.67 | 10.67 | 6.87 | 7.00 | 4.84 |
| Benchmark | 4.69 | 9.91 | 9.91 | 6.55 | 6.75 | 4.75 |
| <i>Excess</i> | <i>0.52</i> | <i>0.77</i> | <i>0.77</i> | <i>0.32</i> | <i>0.25</i> | <i>0.09</i> |
| International Fixed Interest | -0.08 | 5.04 | 5.04 | 3.64 | 3.01 | 2.84 |
| Benchmark | -0.09 | 5.25 | 5.25 | 3.75 | 3.05 | 2.85 |
| <i>Excess</i> | <i>0.01</i> | <i>-0.21</i> | <i>-0.21</i> | <i>-0.11</i> | <i>-0.04</i> | <i>-0.01</i> |
| International Equities | 14.07 | 14.03 | 14.03 | 10.10 | 12.03 | 10.55 |
| Benchmark | 13.96 | 15.90 | 15.90 | 10.54 | 12.19 | 10.26 |
| <i>Excess</i> | <i>0.11</i> | <i>-1.87</i> | <i>-1.87</i> | <i>-0.44</i> | <i>-0.16</i> | <i>0.29</i> |
| Private debt instrument for Petroleum Operations | 1.11 | 4.50 | 4.50 | n.a | n.a | 4.50 |
| Benchmark | 1.11 | 4.50 | 4.50 | n.a | n.a | 4.50 |
| <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 Ministry of Finance and the Central Bank was signed on 25 June 2009. The Annexes of the Management Agreement has subsequently amended to reflect the actual investments. A revised Annex 1 was signed on 25 October 2020 where the Private Debt Instrument separated from financial market investments portfolio. The benchmarks as of December 2020 were as follows:

Table 2

| | Oct-20 | Nov-20 | Dec-20 |
|--|-------------|-------------|-------------|
| 3 Month US Treasury Bills/Cash | 5% | 5% | 5% |
| BOA Merrill Lynch 3-5 Years Treasury Bond Index | 35% | 40% | 40% |
| 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% | 65% | 65% |
| Total equity (MSCI World Index Net Dividends Reinvested) | 35% | 35% | 35% |
| Total Private debt instrument for Petroleum Operations | 5% | 0% | 0% |
| Total | 100% | 100% | 100% |

2. MARKET TRENDS DURING THE QUARTER

Global Macroeconomic Trend

This challenging year ended with encouraging news on the Covid-19 vaccine front. Pfizer and Moderna both reported trial results that were approximately 95% effective and both companies were granted emergency authorization from the US Food & Drug Administration in December. While the positive news on the Covid-19 vaccines lifted year-ahead business expectations and improved the prospect of long-term economic recovery, the short-term outlook remained challenging as the number of new COVID-19 cases continued to rise, particularly in the United States and Europe. Although the approval of two COVID-19 vaccines was positively received by investors with initial doses being distributed in mid-December, the massive logistical challenge of vaccine deployment remained a concern. There were still questions regarding the timing, distribution, and usage rate among the population for any approved vaccines.

The record levels of new COVID-19 infections and hospitalizations amid a second wave in Europe and the United States sparked fresh restrictions/lockdowns from various state and local governments, which weighed

on economic activity. Nevertheless, the rate of global economic expansion remained solid at the end of 2020. At 52.7 in December, down slightly from 53.1 in November, the JPMorgan Global Composite Output Index – remained close to October's two-year high. Output rose across the manufacturing and service sectors, with the former outperforming the latter for the sixth straight month. The decline since October indicates that rising COVID-19 cases have dampened activity and demand, although output has risen over the fourth quarter as a whole.

Major central banks around the world pledged to maintain supportive monetary policy as long as necessary to help their respective economies recover from the pandemic-induced crisis. In addition, major governments around the world continue to use the policies at their disposal to save the lives and the livelihoods in their respective countries and regions.

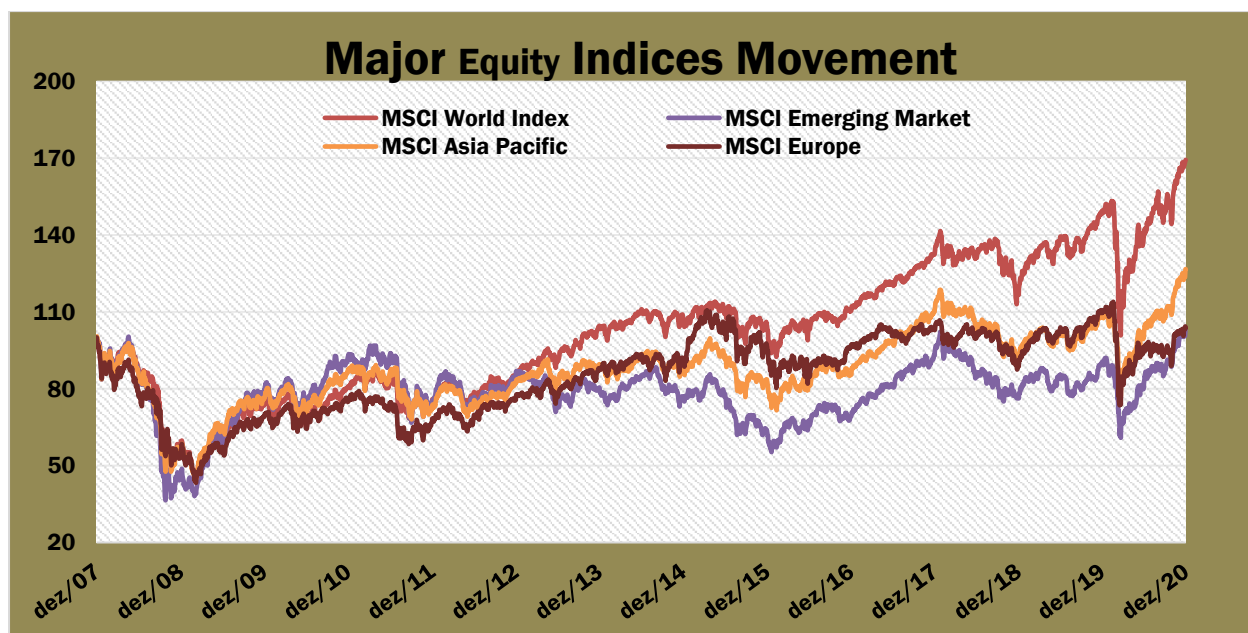
Data released during the quarter showed the U.S economy continued to rebound from the lows seen in the second quarter of the year. The final third Quarter GDP reading was growth of 33.4% on an annualized basis, an increase from earlier readings of 33.1%. It is an unprecedented recovery from the second quarter's annualized contraction of -31.4%. The third and final reading reflected increases in personal consumption expenditures, private inventory investment, exports, and fixed investment that were partly offset by decreases in federal government spending. However, economic growth for the last quarter of the year is expected to be lower as the country suffered new waves of the virus infections that triggered the authorities to re-impose the restriction measures. The U.S lawmakers finally approved a much-anticipated stimulus package worth almost \$900 billion which is intended to replace most of the CARES ACT programs that had expired and to provide enhanced payments to unemployed people affected by the pandemic.

Economic activity in Eurozone remained subdued at the turn of the year as shown by the Eurozone's composite purchasing manager's index. The index fell to a 6-month low of 45.3 in November, although rose to 49.1 in December. However, the latest measures of the economic activities may have not captured the restrictions introduced in late December in countries such as Germany, Spain and France in effort to curve the COVID-19 infections. The European Union in December also approved its €750 billion recovery fund, which should boost infrastructure spending over the coming years.

The European Union and the UK reached an agreement on Christmas Eve for a Brexit deal which was in line with market expectations. The parties agreed on preferential trading arrangements, no-tariff no-quota trade in goods, based on the UK agreeing that trading preferences could be withdrawn if there was major divergence in the key rules of the game. Even with the trade agreement, trade frictions between the U.K and E.U are expected to increase since the U.K is no longer part of the customs union and single market thus leading to an increase in non-tariff barriers. Now that the U.K is no longer in the EU, it can freely negotiate a bilateral trade agreement with other countries.

Global Equity Market Trends

Global equity market ended the last quarter of the year with strong performance, extending gains from the previous two quarters. The strong upward movement in share prices was supported by the positive news on COVID-19 vaccines. In addition, demand for equity may have pushed the price upward as investors continue searching for yields in low bond yield environment. One interesting move in the equity market during the quarter is that the rally rotated after the announcement of the vaccines. Sectors more vulnerable to the pandemic, such as financial, traditional retailers, energy and transportation services, were boosted by the news, while technology and healthcare underperformed.

Graph 1 Major Equity Indices Movement

The U.S equity market ended the quarter with another positive performance. The trend of performance among the sectors and factors rotated as the small cap stocks and value stocks outperformed the growth and large cap stocks during the quarter. The positive performance of the equity market in the U.S could be attributed to the combination of vaccines deployment and continued support from fiscal and monetary policy fronts. The outcome of the U.S. election also helped resolve uncertainty.

Major equity markets across major countries in Europe performed similarly well during the quarter boosted by the continuing support from the European Central Bank and European Union Commission. The authorities in the region approved the COVID-19 vaccines and their deployment improved the long-term recovery outlook. However, rising COVID-19 cases during late December prompted the authorities of many countries to resume the lockdowns, which in turn could affect the price of the risk assets in the near-term.

Equity markets across the Pacific countries performed very well for the quarter boosted by both domestic and external demand. Countries such as Australia, New Zealand, China and Japan contained the spread of COVID-19 infections relatively well; hence the domestic business activities faced less operational constraints compared to other countries. In addition, the exports of those countries were improved by the gradual reopening of the global economy. The Australian equity market did well in the fourth quarter but lagged for the year's return compared to most other developed markets as the trade friction with China, Australia's biggest commodity export destination, continued to drag down future growth.

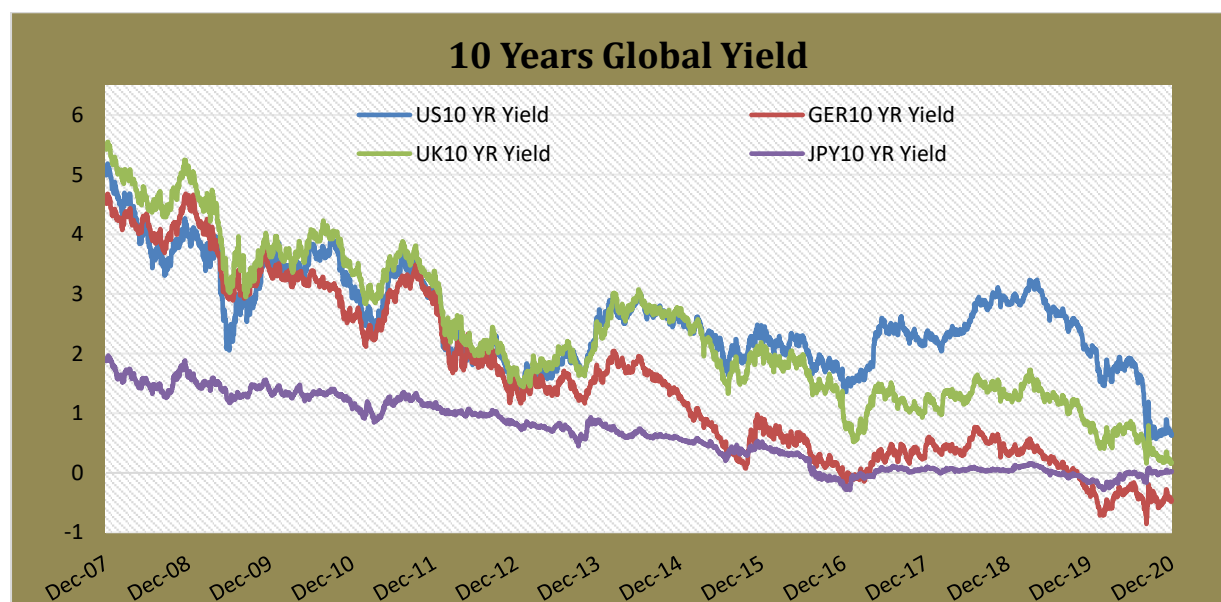
Global Treasury Bonds include U.S Treasuries

The yields of 10-year sovereign bonds across the major countries in the Eurozone remained compressed during the quarter. The 10-year government bond yields of France and Germany trended down and remain in negative territory. The European Central Bank rolled out more monetary policy support to help the economic recovery and address persistent lower inflation in the region. In its December 2020 meeting, the ECB added €500 billion (\$605 billion) to its Pandemic Emergency Purchasing Programs, taking the tally to €1850 billion (\$2.24 trillion). The ECB extended the duration of PEPP up to at least March 2022 and the program will continue until the coronavirus crisis phase is over. These quantitative easing programs aim to maintain the liquidity in the market and contribute to favorable financial conditions by putting downward pressure on government bond yields, thereby reviving the economy in the region.

The U.S Treasury securities ended the quarter mixed. Yields on the front-end of the curve were little changed, reflecting the economic outlook and the Fed’s commitment to maintaining the current low policy rate until it meets its goals of maximum employment and 2% average inflation. The Fed stated in the November meeting that it would maintain the current rate at least until 2023. In contrast, the yield of 10-year and 30-years U.S Treasuries increased 0.23% and 0.19% respectively over the quarter. An increase in the yield of long-term Treasury bonds in late December reflected rising inflation expectations and occurred despite the Federal Reserve’s effort to suppress long-term yields. The rising inflation expectations may be attributed to the improving prospect of global economic growth with the positive news on vaccinations and pent-up demand. The U.S Federal Reserve announced during its meeting in December that it would continue its quantitative easing policy of purchasing U.S Treasury’s securities and mortgaged-backed securities at a pace of \$80 and \$40 billion respectively per month until substantial progress has been made in achieving its inflation and employment goals. The Fed’s interest rate currently stands at 0.00 – 0.25%.

The US dollar weakened in November, which coincided with an improvement in market sentiment following the resolution of the US election and the positive vaccine news. Further falls in December saw the trade-weighted DXY Index decline by 4.2% in the fourth quarter.

Graph 2 10 Years Global Yield



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% | 6.15% | 2.50% | 7.50% |
| BOA Merrill Lynch 3-5 Years Treasury Bond Index | BCTL | 40.00% | | 37.15% | | |
| BOA Merrill Lynch 5-10 Years Treasury Notes and Bond Index | BCTL | 10.00% | | 9.30% | | |
| Barclays Global Treasury Developed Market ex US, 30% Eurozone and 10% Country Capped measured on a hedged basis | Bank for International Settlements | 10.00% | | 9.56% | | |
| Total Fixed Income | | 65.00% | | 62.17% | | |
| MSCI Index ex Australia Net Dividends Reinvested | Schroders Investment Management | 8.75% | | 8.51% | | |
| | SSgA Equity Factor | | | | | |
| MSCI Index ex Australia Net Dividends Reinvested | SSgA International Equity | 25.38% | | 24.39% | | |
| | BlackRock | | | | | |
| MSCI Australia Index | BCTL | 0.88% | | 1.24% | | |
| Total Equities | | 35.00% | ± 5% | 34.14% | 30.00% | 40.00% |
| Total Private debt instrument for Petroleum Operations | BCTL | n/a | | 3.69% | | |
| 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 \$18.99 billion as follows:

| Table 5 | |
|--|-------------------|
| Capital Account | \$'000 |
| Opening book value (01 October 2020) | 18,469,463 |
| Receipts during the period | 35,779 |
| Transfer to General State Budget | -466,800 |
| Investment Return | 952,172 |
| Closing book value (31 December 2020) | 18,990,614 |

The Fund was invested as follows:

| Table 6 | |
|--|-------------------|
| Assets | \$'000 |
| Cash and Cash Equivalents | 1,361,477 |
| Other Receivables | 17,281 |
| Financial assets held at fair value through profit or loss | 16,943,356 |
| Financial assets held at amortised cost | 701,350 |
| Less: | |
| Payable for Securities Purchased | -30,259 |
| Accounts Payable | -2,590 |
| Total | 18,990,614 |

The income for the quarter was as follows:

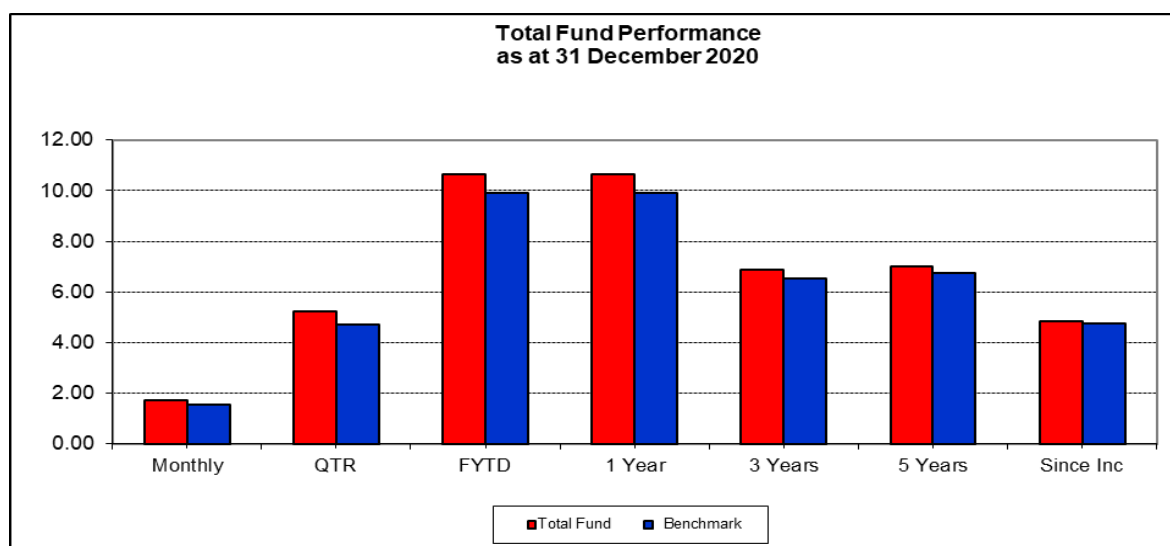
| Table 7 | |
|--|----------------|
| Income | \$'000 |
| Interest income | 44,210 |
| Dividend income | 27,677 |
| Unit Trust distributions | 1,481 |
| Other Investment income | 4 |
| Net gains/(losses) on Financial Assets at fair value | 885,585 |
| Net foreign exchange gains/(losses) | -504 |
| Less: | |
| External manager, custody fees | -3,642 |
| Central Bank management expenses | -626 |
| IAB Expenses | -157 |
| Other expenses | -465 |
| Withholding taxes | -1,391 |
| Total Investment Income | 952,172 |

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 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| International Fixed Interest | -0.08 | 5.04 | 5.04 | 3.64 | 3.01 | 2.84 |
| Benchmark | -0.09 | 5.25 | 5.25 | 3.75 | 3.05 | 2.85 |
| <i>Excess</i> | 0.01 | -0.21 | -0.21 | -0.11 | -0.04 | -0.01 |
| BCTL Cash Management (TLCM) | 0.00 | 0.30 | 0.30 | 1.46 | n.a | 1.34 |
| Three Month US Treasury bills | 0.03 | 0.67 | 0.67 | 1.75 | n.a | 1.69 |
| <i>Excess</i> | -0.03 | -0.37 | -0.37 | -0.29 | n.a | -0.35 |
| BCTL 3-5 yr US Treasury Bond | -0.07 | 5.95 | 5.95 | 4.15 | 2.94 | 2.12 |
| BoA Merrill Lynch 3-5 Years US Treasury Passive | -0.03 | 6.06 | 6.06 | 4.23 | 2.98 | 2.12 |
| <i>Excess</i> | -0.03 | -0.11 | -0.11 | -0.08 | -0.04 | 0.00 |
| BCTL ML 5-10 Years US Treasury Notes & Bonds | -0.84 | n.a | n.a | n.a | n.a | -0.58 |
| BoA Merrill Lynch 5-10 Years US Treasury Passive | -0.79 | n.a | n.a | n.a | n.a | -0.35 |
| <i>Excess</i> | -0.05 | n.a | n.a | n.a | n.a | -0.24 |
| BIS FI - Global Treasury Developed Market - Hedged | 0.36 | n.a | n.a | n.a | n.a | 1.45 |
| Benchmark6 | 0.32 | n.a | n.a | n.a | n.a | 1.33 |
| <i>Excess</i> | 0.04 | n.a | n.a | n.a | n.a | 0.12 |

TERMINATED STRATEGIES

Table 9

| Terminated Strategies | Qtr | FYTD | 1 Year | 3 Years | 5 Years | Since Inc |
|--|-------|-------|--------|---------|---------|-----------|
| 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 P | 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 |
| 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 10

| | Qtr | FYTD | 1 Year | 3 Years | 5 Years | Since Inc |
|--|-------|-------|--------|---------|---------|-----------|
| International Equities | 14.07 | 14.03 | 14.03 | 10.10 | 12.03 | 10.55 |
| Benchmark | 13.96 | 15.90 | 15.90 | 10.54 | 12.19 | 10.26 |
| <i>Excess</i> | 0.11 | -1.87 | -1.87 | -0.44 | -0.16 | 0.29 |
| Multi-Factor Equity | 13.58 | 10.57 | 10.57 | n.a | n.a | 14.17 |
| Benchmark | 13.78 | 16.06 | 16.06 | n.a | n.a | 18.41 |
| <i>Excess</i> | -0.19 | -5.49 | -5.49 | n.a | n.a | -4.24 |
| Schroders Investment Management* | 13.80 | 11.06 | 11.06 | n.a | n.a | 15.01 |
| MSCI World Index ex Net Australia dividends Reinvested | 13.78 | 16.06 | 16.06 | n.a | n.a | 18.41 |
| <i>Excess</i> | 0.02 | -5.00 | -5.00 | n.a | n.a | -3.40 |
| SSgA Equity Factor** | 13.38 | 10.12 | 10.12 | n.a | n.a | 13.12 |
| MSCI World Index ex Net Australia dividends Reinvested | 13.78 | 16.06 | 16.06 | n.a | n.a | 18.41 |
| <i>Excess</i> | -0.40 | -5.94 | -5.94 | n.a | n.a | -5.29 |
| SSgA International Equity | 13.91 | 15.14 | 15.14 | 10.68 | 12.40 | 11.61 |
| MSCI World index ex Australia Passive | 13.78 | 16.06 | 16.06 | 10.66 | 12.27 | 11.35 |
| <i>Excess</i> | 0.13 | -0.92 | -0.92 | 0.02 | 0.13 | 0.26 |
| BlackRock Investment Management | 13.92 | 15.61 | 15.61 | 10.82 | 12.51 | 11.08 |
| MSCI World index ex Australia Passive | 13.78 | 16.06 | 16.06 | 10.66 | 12.27 | 10.81 |
| <i>Excess</i> | 0.14 | -0.46 | -0.46 | 0.16 | 0.24 | 0.27 |
| BCTL Australia Equity | 22.80 | 7.35 | 7.35 | 5.14 | n.a | 9.19 |
| MXAU AU Index Passive | 22.89 | 8.73 | 8.73 | 5.56 | n.a | 9.47 |
| <i>Excess</i> | -0.09 | -1.38 | -1.38 | -0.42 | n.a | -0.29 |

*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 11

| | Qtr | FYTD | 1 Year | 3 Years | 5 Years | Since Inc |
|---|------|------|--------|---------|---------|-----------|
| Private debt instrument for Petroleum Operations | 1.11 | 4.50 | 4.50 | n.a | n.a | 4.50 |
| Benchmark | 1.11 | 4.50 | 4.50 | n.a | n.a | 4.50 |
| <i>Excess</i> | 0.00 | 0.00 | 0.00 | n.a | n.a | 0.00 |

5. MANAGEMENT COSTS

A management fee of \$4.89 million for operational management costs was charged to the fund during the quarter. The fee covered the following services (in thousands \$):

Table 12

| | |
|--|--------------|
| External Management and Custody expenses | 3,642 |
| Central Bank management expenses | 626 |
| IAB expenses | 157 |
| Other Expenses | 465 |
| Total Cost | 4,889 |

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 \$466,80 million was transferred to the State Budget account during the quarter.

Table 13

In Thousand (\$)

| | |
|--|-----------------|
| Transfer October 2020 | -116,800 |
| Transfer November 2020 | 0 |
| Transfer December 2020 | -350,000 |
| Transfer for this Quarter | -466,800 |
| Total Transfers previous quarters | -419,500 |
| Total transfers this fiscal year to December 2020 | -886,300 |

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 14

| BALANCE SHEET | December-20 | December-19 |
|--|-------------------|-------------------|
| In thousands of USD | | |
| ASSETS | | |
| Cash and Cash Equivalents | 1,361,477 | 921,876 |
| Receivables | 17,281 | 32,684 |
| Financial assets held at fair value through profit or loss | 16,943,356 | 16,086,700 |
| Financial assets held at Amortized Cost | 701,350 | 671,314 |
| TOTAL ASSETS | 19,023,463 | 17,712,573 |
| LIABILITIES | | |
| Payables for securities purchased | -30,259 | -14,280 |
| Accounts payable | -2,590 | -6,477 |
| TOTAL LIABILITIES | -32,849 | -20,757 |
| NET ASSETS | 18,990,614 | 17,691,816 |
| CAPITAL | | |
| Opening Balance (January) | 17,691,816 | 15,803,638 |
| PF Law Art. 6.1 (a) Revenue receipts | 145,510 | 327,388 |
| PF Law Art. 6.1 (b) DA receipts | 164,576 | 428,867 |
| PF Law Art. 6.1 (e) Other receipts | 16,064 | 0 |
| PF Law Art 7.1 Transfers to State Budget | -886,300 | -969,000 |
| Income for the period | 1,858,948 | 2,100,924 |
| CAPITAL | 18,990,614 | 17,691,816 |

Table 15

| STATEMENT OF PROFIT OR LOSS In thousands of USD | QUARTER | | YEAR TO DATE | |
|--|----------------|----------------|------------------|------------------|
| | Dec-20 | Dec-19 | Dec-20 | Dec-19 |
| INVESTMENT INCOME | | | | |
| Interest income | 44,210 | 67,170 | 209,326 | 259,230 |
| Dividend income | 27,677 | 28,104 | 141,446 | 152,483 |
| Trust income | 1,481 | 1,695 | 5,749 | 6,316 |
| Other investment income | 4 | 17 | 523 | 46 |
| Net gains/(losses) on Financial Assets at fair value | 885,585 | 437,411 | 1,538,263 | 1,653,994 |
| Net foreign exchange gains/(losses) | -504 | 784 | -11,192 | 52,581 |
| Total Investment Income | 958,452 | 535,181 | 1,884,114 | 2,124,650 |
| EXPENSES | | | | |
| External management, fees | 3,642 | 3,187 | 8,815 | 8,518 |
| Internal operational management fees | 626 | 0 | 5,973 | 5,074 |
| IAB Expenses | 157 | 115 | 242 | 231 |
| Other expenses | 465 | 175 | 1,955 | 1,015 |
| Total expenses | 4,889 | 3,477 | 16,985 | 14,838 |
| Profit before tax | 953,563 | 531,705 | 1,867,129 | 2,109,811 |
| Withholding taxes on investments | 1,391 | 1,382 | 8,182 | 8,887 |
| Profit/loss for the period | 952,172 | 530,323 | 1,858,947 | 2,100,924 |
| Other comprehensive income | 0 | 0 | 0 | 0 |
| Total comprehensive income for the period | 952,172 | 530,323 | 1,858,947 | 2,100,924 |

Note:

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, 20 January 2021



Venancio Alves Maria
Deputy Governor



Abraão de Vasconcelos
Governor