



TLPF 2025

Timor-Leste Petroleum Fund

Pillar 1: Legal

Legal framework, objectives, and coordination with macroeconomic policies

Principle 1

1. The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).

1.1. The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.

1.2. The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.

Timor-Leste Petroleum Fund ("the Fund") was established in 2005 to fulfil the requirement set by Article 139 of the Constitution of the Republic that mandates a fair and equitable use of the natural resources in accordance with national interests and the establishment of a mandatory financial reserve from the exploitation of these resources.

Timor-Leste's National Parliament through the enactment of the Petroleum Fund Law established the legal framework for the Petroleum Fund. This was supplemented by recent amendments made to the Petroleum Activities Law and enactment of the Framework for General State Budget and Public Financial Management Law.

The Fund is formed as an account of the Ministry of Finance held in Timor-Leste's Central Bank ("BCTL" - Banco Central de Timor-Leste), rather than as a separate legal entity.

The Petroleum Fund Law:

- provides mechanisms that assist Timor-Leste to sustainably manage its petroleum revenues,
- details the parameters for operating and managing the Petroleum Fund,
- defines the asset allocation guidelines and risk limits,
- governs the collection and management of the petroleum receipts,

- regulates transfers to the State Budget,
- defines the roles and responsibilities of the entities involved in the management of the Fund, and
- provides for accountability and oversight of these activities.

The Petroleum Fund Law requires the Ministry of Finance to enter into an agreement with the Operational Manager. The Operational Management Agreement (OMA) was signed between the Ministry of Finance and BCTL, the Operational Manager, on 12 October 2005 with the subsequent amendments to account for key changes made to the Fund's investment strategies. The agreement specifies key functions and competencies of the Ministry of Finance, the government's entity that is responsible for the overall management of the Fund, and the BCTL, which is responsible for the operational management of the Fund.

Sources: Petroleum Fund Law

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/9_2005.pdf

https://mj.gov.tl/jornal/public/docs/2011/serie_1/serie1_no36.pdf

http://timor-leste.gov.tl/wp-content/uploads/2010/03/Law_2005_9_petroleum_fund_law_.pdf

Petroleum Activities Law

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/13_2005.pdf

https://mj.gov.tl/jornal/public/docs/2019/serie_1/SERIE_I_NO_2_A.pdf

Framework for General State Budget and Public Financial Management Law

https://www.mj.gov.tl/jornal/public/docs/2025/serie_1/SERIE_I_NO_17.pdf

Operational Management Agreement

<https://www.bancocentral.tl/en/go/other-regulatory-instruments>

Principle 2

2. The policy purpose of the SWF should be clearly defined and publicly disclosed.

The Petroleum Fund accumulates petroleum revenues from the extraction of natural resources. The preamble of the Petroleum Fund Law decrees that the purpose of establishing the Fund is to contribute to a prudent management of the petroleum resources for the benefit of both current and future generations. The Petroleum Fund is a tool that contributes to sound fiscal policy, where appropriate consideration and weight is given to the long-term interest of Timor-Leste's citizens. The Petroleum Fund finances the Government's expenditure

and acts as a saving vehicle for future generations.

Detailed information on the purpose of creating the Petroleum Fund is provided by the Ministry of Finance in the Fund's Annual Reports and regular public consultations.

Sources: Petroleum Fund Law

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/9_2005.pdf

https://mj.gov.tl/jornal/public/docs/2011/serie_1/serie1_no36.pdf

http://timor-leste.gov.tl/wp-content/uploads/2010/03/Law_2005_9_petroleum_fund_law_.pdf

Petroleum Fund Annual Reports

<https://www.mof.gov.tl/publicationdetails/petroleum-fund-annual-reports>

<https://www.bancocentral.tl/en/go/publications-key-report-petroleum-fund-report>

Principle 3

3. Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.

The Petroleum Fund is integrated into the State Budget. Transfers are made from the Petroleum Fund to the State Budget to finance the Government's budget deficit. Transfers are guided by the Estimated Sustainable Income (ESI), which is 3% of the sum of the value of the Fund's holdings and the net present value of expected petroleum revenue from proven reserves and approved development fields. The rationale for adopting the ESI is to smooth the spending of temporarily high petroleum income, shield against the volatility of petroleum inflows, and safeguard the sustainable use of public finances.

The Petroleum Fund's assets are invested primarily overseas in financial market instruments. Following amendments to the Petroleum Activities Law in 2019, the Fund can also be invested in petroleum operations in the national territory or abroad, subject to a 5% exposure limit.

The Ministry of Finance is responsible for the overall management of the Petroleum Fund and also coordinates the preparation, discussion and execution of the Government's budget.

Sources: Petroleum Fund Law

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/9_2005.pdf

https://mj.gov.tl/jornal/public/docs/2011/serie_1/serie1_no36.pdf

http://timor-leste.gov.tl/wp-content/uploads/2010/03/Law_2005_9_petroleum_fund_law_.pdf

Petroleum Activities Law

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/13_2005.pdf

https://mj.gov.tl/jornal/public/docs/2019/serie_1/SERIE_I_NO_2_A.pdf

Ministry of Finance Budget Books

<https://www.mof.gov.tl/pagedetails/budget-and-spending-documents>

Principle 4

4. There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations.

4.1. The source of SWF funding should be publicly disclosed.

4.2. The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.

The Petroleum Fund Law clearly defines the methods of funding and withdrawals.

All petroleum revenues initially enter the Fund before any transfers are made to the State Budget. The Petroleum Fund Law defines what constitutes Petroleum Fund receipts and sets out the mechanisms for handling these receipts. The returns on the Petroleum Fund's investments also contribute to the accumulation of the Fund's capital.

The Petroleum Fund Law also sets out the requirements for withdrawals. The only permissible transfers out of the Petroleum Fund is to the State Budget, which requires Parliament's approval. The State Budget identifies the contribution made by the Fund to the Government's expenditure. Withdrawals are guided by the ESI (see GAPP 3). The National Parliament may approve an excess transfer above the ESI where

justification is provided that it is in the long-term interest of Timor-Leste.

Detailed information on petroleum receipts and transfers made to finance the Government's budget are publicly disclosed in the Petroleum Fund Annual Reports, Budget Reports prepared by the Ministry of Finance, and the Petroleum Fund quarterly and monthly reports from the BCTL.

A complete list of all entities making payments to the Petroleum Fund is compiled and certified by an external auditor and published annually both in the Petroleum Fund Annual Report (Annex XI – Compilation Report of Petroleum Receipts) and Timor-Leste's EITI (Extractive Industries Transparency Initiative) reports. Timor-Leste was accepted as an EITI compliant country on 1 July 2010.

Sources: Petroleum Fund Law

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/9_2005.pdf

https://mj.gov.tl/jornal/public/docs/2011/serie_1/serie1_no36.pdf

http://timor-leste.gov.tl/wp-content/uploads/2010/03/Law_2005_9_petroleum_fund_law_.pdf

Petroleum Fund Annual and Quarterly Reports

<https://www.mof.gov.tl/publicationdetails/petroleum-fund-annual-reports>

<https://www.bancocentral.tl/en/go/publications-key-report-petroleum-fund-report>

Ministry of Finance Budget Books

<https://www.mof.gov.tl/pagedetails/budget-and-spending-documents>

TL-EITI reports and website - www.eiti.gov.tl

<https://eiti.org/documents/timor-leste-2020-eiti-report>

Principle 5

5. The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.

Transparency is a fundamental principle of the Petroleum Fund Law. The Law sets out the requirements for all entities involved in the management of the Fund to provide and publish the reports pertaining to the activities of the Fund.

The Ministry of Finance prepares and publishes the Petroleum Fund Annual Report along with the Petroleum Fund financial statements. The Law requires an international accredited auditor to issue and publish an annual audit report on the Fund's financial statements. The audited financial statements are submitted with the Government's national accounts to the National Parliament. The Ministry of Finance also prepares the State Budget for the National Parliament. The Budget reports the Estimated Sustainable Income (ESI), withdrawals in excess of the ESI, and other matters relevant to the Petroleum Fund.

The BCTL, on a quarterly basis, provides reports to the Ministry of Finance on the Fund's performance and also publishes a monthly report on the Fund's performance on its own website.

All information is publicly available on the MOF and BCTL websites.

Sources: Petroleum Fund Law

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/9_2005.pdf

https://mj.gov.tl/jornal/public/docs/2011/serie_1/serie1_no36.pdf

http://timor-leste.gov.tl/wp-content/uploads/2010/03/Law_2005_9_petroleum_fund_law_.pdf

Petroleum Fund Annual, Quarterly and Monthly Reports

<https://www.mof.gov.tl/publicationdetails/petroleum-fund-annual-reports>

<https://www.bancocentral.tl/en/go/publications-key-report-petroleum-fund-report>

Ministry of Finance Budget Books

<https://www.mof.gov.tl/pagedetails/budget-and-spending-documents>

6. The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.

The National Parliament of Timor-Leste established the Petroleum Fund Law, which defines the roles and responsibilities of the entities involved in the management of the Fund.

The Minister of Finance is the executive of the Fund and responsible for the overall management of the Petroleum Fund. The Ministry of Finance sets the investment policy, enters into a management agreement with the Operational Manager, and monitors the Fund's performance. The Investment Advisory Board (IAB) provides independent advice to the Minister of Finance on the Fund's investment policy and management, including the investment mandates for the Fund.

The BCTL, as Operational Manager, is responsible for the Fund's operations, including implementing the investment mandates set by the Ministry of Finance. The BCTL manages some of the portfolio internally and also contracts with external managers to manage and invest the Fund's assets and monitors their performance.

The Ministry of Finance with support from the IAB decided to undertake an independent review of the Petroleum Fund's governance structure, resources and investments. The 2023 review found that the Fund's governance, investment, operation and people models are robust, while identifying some areas for improvement. An overview of the review is provided in Box 1 of the Petroleum Fund Annual Report for 2023.

Sources: Petroleum Fund Law, Operational Management Agreement

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/9_2005.pdf

https://mj.gov.tl/jornal/public/docs/2011/serie_1/serie1_no36.pdf

http://timor-leste.gov.tl/wp-content/uploads/2010/03/Law_2005_9_petroleum_fund_law_.pdf

<https://www.bancocentral.tl/en/go/other-regulatory-instruments>

Principle 7

7. The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.

The National Parliament, representing the people of Timor-Leste, sets the objectives of the Fund as outlined in the Petroleum Fund Law (see GAPP 1). The Law defines the broad asset allocation and risk limits. The Petroleum Fund Consultative Council (PFCC), a statutory body with broad representation, is appointed to advise the Parliament on matters relating to the Petroleum Fund's performance, operations, and withdrawals.

The Ministry of Finance is responsible for the overall management of the Fund, which includes determining the investment policy in accordance with the provisions in the Law. The Ministry of Finance is required to present to the National Parliament the Fund's investment policy and any changes to its principal asset allocation that will materially impact on the overall level of risk. The Ministry of Finance sets the investment mandates, which reflect the acceptable level of risk, and also exercises oversight of the overall management of the Fund.

The Minister of Finance receives independent advice from the Investment Advisory Board (IAB) on the investment strategy and management of the Fund. The Prime Minister appoints members of the IAB on the advice of the Ministry of Finance.

The Timor-Leste Central Bank (BCTL) is the Operational Manager of the Fund. The BCTL's specific responsibilities are set out in an Operational Management Agreement with the Minister of Finance. This includes reporting requirements that allow the Ministry of Finance to exercise its oversight role.

Sources: Petroleum Fund Law, Operational Management Agreement

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/9_2005.pdf

https://mj.gov.tl/jornal/public/docs/2011/serie_1/serie1_no36.pdf

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<https://www.bancocentral.tl/en/go/other-regulatory-instruments>

Principle 8

8. The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.

The National Parliament through the Petroleum Fund law sets the objective of the Fund, the broad asset allocation guidelines and the risk limits. It is assisted by the Petroleum Fund Consultative Council (PFCC). The Petroleum Fund Consultative Council (PFCC) seeks to safeguard the proper management of the Petroleum Fund.

The Ministry of Finance has the authority to determine the strategy and policies to achieve the Petroleum Fund's objectives. The Minister of Finance is supported by the Petroleum Fund Policy and Management Office (PFPMO) at the Ministry of Finance.

In carrying out his/her functions, the Minister of Finance is required to seek advice from the IAB. The Law requires that at least three of the IAB members have significant knowledge and experience in financial investment management.

Further to the discussion in Principle 7, the Minister of Finance is accountable to the Parliament and is required to provide relevant reporting annually and whenever required.

The BCTL, through the Operational Management Agreement, has been delegated the responsibility for operational management of the Fund. The agreement seeks to ensure that the BCTL acts in the best interests of the Fund and sets out the Operational Manager's responsibilities.

Sources: Petroleum Fund Law, Operational Management Agreement

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/9_2005.pdf

https://mj.gov.tl/jornal/public/docs/2011/serie_1/serie1_no36.pdf

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<https://www.bancocentral.tl/en/go/publications-key-report-petroleum-fund-report>

Principle 9

9. The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.

The Petroleum Fund Law defines the roles and responsibilities of the Operational Manager, the BCTL. The BCTL's specific responsibilities are clearly set out in the Operational Management Agreement (OMA) with the Minister of Finance. The BCTL is delegated with authority to make decisions relating to the operational management of the Fund as set out in the OMA. The Operational Manager is able to deduct reasonable

management expenses, in accordance with the OMA.

Sources: Petroleum Fund Law, Operational Management Agreement

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/9_2005.pdf

https://mj.gov.tl/jornal/public/docs/2011/serie_1/serie1_no36.pdf

http://timor-leste.gov.tl/wp-content/uploads/2010/03/Law_2005_9_petroleum_fund_law_.pdf

<https://www.bancocentral.tl/en/go/other-regulatory-instruments>

Principle 10

10. The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.

Accountability arrangements are detailed in the Petroleum Fund Law and the Operational Management Agreement.

The Ministry of Finance, on behalf of the Government, is accountable to the National Parliament and the general public. It reports to the Parliament on the performance of the Fund on an annual basis and is required to publish all advice received from the IAB in the Petroleum Fund Annual Report (Annex XII), or earlier upon request.

The Operational Manager, the BCTL, is appointed by the Minister of Finance and is accountable to the Minister of Finance for operational management of the Petroleum Fund. The BCTL may appoint external investment managers subject to the Minister's consent. The BCTL reports to the Minister on the Fund's performance on a quarterly basis. These reports are published and available on the Central Bank's website.

Sources: Petroleum Fund Law, Operational Management Agreement

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/9_2005.pdf

https://mj.gov.tl/jornal/public/docs/2011/serie_1/serie1_no36.pdf

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<https://www.bancocentral.tl/en/go/publications-key-report-petroleum-fund-report>

Principle 11

11. An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.

The Petroleum Fund Law requires the Government to prepare and submit to the Parliament an annual report of the Fund's operations and performance for the fiscal year, including financial statements prepared according to International Financial Reporting Standards (IFRS) and audited by an internationally recognized auditor, at the same time as the Government's annual financial accounts of that year. The Law identifies the minimum information that need to be disclosed in the Petroleum Fund Annual Report.

The Petroleum Fund Law provides that the Director of Treasury of the Ministry of Finance is responsible for maintaining the Petroleum Fund accounts and records, and preparing financial statements, in accordance with the IFRS. Accounting and preparation of the financial statements is delegated to the BCTL as the Fund's Operational Manager.

Sources: Petroleum Fund Law, Operational Management Agreement

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/9_2005.pdf

https://mj.gov.tl/jornal/public/docs/2011/serie_1/serie1_no36.pdf

http://timor-leste.gov.tl/wp-content/uploads/2010/03/Law_2005_9_petroleum_fund_law_.pdf

<https://www.bancocentral.tl/en/go/other-regulatory-instruments>

Petroleum Fund Annual Reports and Financial Statements

<https://www.mof.gov.tl/publicationdetails/petroleum-fund-annual-reports>

<https://www.bancocentral.tl/en/go/publications-key-report-petroleum-fund-report>

Principle 12

12. The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.

The Petroleum Fund Law requires the Fund's annual financial statements to be audited by an internationally recognized accounting firm. The international auditor is appointed by the Ministry of Finance and is subject to strict qualification criteria and a transparent selection process. The audited financial statements are submitted to the Parliament together with the Petroleum Fund Annual Report and the Government's financial accounts.

The Petroleum Fund Law also requires the accounts, records and other documents relating to the Petroleum Fund to be internally audited every six months. This is undertaken by the BCTL's Internal Audit, which is independent of the investment management area.

Sources: Petroleum Fund Law, Operational Management Agreement

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/9_2005.pdf

https://mj.gov.tl/jornal/public/docs/2011/serie_1/serie1_no36.pdf

http://timor-leste.gov.tl/wp-content/uploads/2010/03/Law_2005_9_petroleum_fund_law_.pdf

<https://www.bancocentral.tl/en/go/other-regulatory-instruments>

Petroleum Fund Annual Reports and Financial Statements

<https://www.mof.gov.tl/publicationdetails/petroleum-fund-annual-reports>

<https://www.bancocentral.tl/en/go/publications-key-report-petroleum-fund-report>

Principle 13

13. Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.

Each of the institutions involved in the management of the Petroleum Fund has its own professional and ethical standards to ensure the soundness and integrity of the Fund's operations.

The professional and ethical standards for the Ministry of Finance's staff are defined by the Public Service Law No. 8/2004, 16th of June, as amended by Law No.5/2009, 15th of July.

All the staff of the Operational Manager are bound by the BCTL's Code of Conduct.

The Petroleum Fund Law also requires members of the IAB before taking office to declare in writing that their appointment has no conflict with any personal or family interests. The IAB has established its own standards of conduct in its Operational Regulations, which include the requirement to disclose potential conflicts of interest. The Operational Regulations are published on the Ministry of Finance website.

Sources: Petroleum Fund Law, BCTL, MoF and Ministry of Justice websites

Petroleum Fund Law

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/9_2005.pdf

https://mj.gov.tl/jornal/public/docs/2011/serie_1/serie1_no36.pdf

http://timor-leste.gov.tl/wp-content/uploads/2010/03/Law_2005_9_petroleum_fund_law_.pdf

Civil Service Act

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/8_2004.pdf

https://mj.gov.tl/jornal/public/docs/2009/serie_1/serie1_no25.pdf

BCTL's Code of Conduct

<https://www.bancocentral.tl/en/go/code-of-conduct>

IAB Rules and Procedures

<https://www.bancocentral.tl/en/go/rules>

14. Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.

The BCTL's dealings with third parties as Operational Manager are based purely on economic and financial grounds and follow a clear established procedure.

The Operational Management Agreement provides that the BCTL is responsible for the tendering and selection of external investment managers. The selection is based on the parameters for the investment mandate set by the Ministry of Finance. The Petroleum Fund Law also specifies the minimum requirements for the engagement of external managers. The Minister of Finance must be satisfied that each external investment manager has sufficient equity, guarantees and insurance; a sound record of operational and financial performance; and has business references and a reputation of the highest standard. The IAB advises the Minister on whether the BCTL's recommended managers are consistent with the objectives of the mandate.

The BCTL is also responsible for tendering for other services, including the Petroleum Fund's custodian and procurement for the IAB. The BCTL's selection procedure is rigorous, fair and transparent and in compliance with the substantive provisions of Timor-Leste's laws.

Sources: Petroleum Fund Law, Operational Management Agreement

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/9_2005.pdf

https://mj.gov.tl/jornal/public/docs/2011/serie_1/serie1_no36.pdf

http://timor-leste.gov.tl/wp-content/uploads/2010/03/Law_2005_9_petroleum_fund_law_.pdf

<https://www.bancocentral.tl/en/go/other-regulatory-instruments>

Principle 15

15. SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.

The Petroleum Fund Law requires the management of the Petroleum Fund to be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which the investments are made.

Source: Petroleum Fund Law

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/9_2005.pdf

https://mj.gov.tl/jornal/public/docs/2011/serie_1/serie1_no36.pdf

http://timor-leste.gov.tl/wp-content/uploads/2010/03/Law_2005_9_petroleum_fund_law_.pdf

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<https://www.bancocentral.tl/en/go/publications-key-report-petroleum-fund-report>

Principle 16

16. The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.

The Petroleum Fund's governance framework and objectives are established by the Parliament in the Petroleum Fund Law. The Operational Management Agreement provides details of the division of responsibilities between the Ministry of Finance and the BCTL, along with accountability arrangements.

The Minister of Finance is required to seek advice from the IAB, an independent Board staffed by investment experts, before making any decision relating to the Fund's investment strategy and management.

Information on the governance framework and objectives is detailed in the Petroleum Fund Law and published in the Petroleum Fund Annual Report.

Sources: Petroleum Fund Law, Operational Management Agreement

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/9_2005.pdf

https://mj.gov.tl/jornal/public/docs/2011/serie_1/serie1_no36.pdf

http://timor-leste.gov.tl/wp-content/uploads/2010/03/Law_2005_9_petroleum_fund_law_.pdf

<https://www.bancocentral.tl/en/go/other-regulatory-instruments>

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<https://www.bancocentral.tl/en/go/publications-key-report-petroleum-fund-report>

Principle 17

17. Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.

Information regarding the Petroleum Fund's asset allocation, its investment mandates and benchmarks and investment performance are published in the BCTL's quarterly performance reports and the Petroleum Fund's Annual Report and audited financial statements. A full list of the Petroleum Fund's holdings is provided in the Petroleum Fund financial statements, which are annexed to the Petroleum Fund Annual Report (Annex II – Audited Financial Statements). The reports are available on the Ministry of Finance and BCTL's websites.

Sources: Petroleum Fund Law, Operational Management Agreement Annex 1

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/9_2005.pdf

https://mj.gov.tl/jornal/public/docs/2011/serie_1/serie1_no36.pdf

http://timor-leste.gov.tl/wp-content/uploads/2010/03/Law_2005_9_petroleum_fund_law_.pdf

<https://www.bancocentral.tl/en/go/other-regulatory-instruments>

Petroleum Fund Annual and Quarterly Reports, Petroleum Fund Financial Statements

<https://www.mof.gov.tl/publicationdetails/petroleum-fund-annual-reports>

<https://www.bancocentral.tl/en/go/publications-key-report-petroleum-fund-report>

Pillar 3: Investment

Investment and Risk Management Framework.

Principle 18

18. The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.

18.1. The investment policy should guide the SWF's financial risk exposures and the possible use of leverage.

18.2. The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.

18.3. A description of the investment policy of the SWF should be publicly disclosed.

The Fund's investment policy is directed by the provisions in the Petroleum Fund Law that define the asset allocation guidelines, eligible investments, concentration limits and investment principles, which include diversification and maximizing the risk-adjusted financial return.

The Ministry of Finance, on behalf of the Government, determines the investment policy, which is designed to meet the investment objectives of the Fund after taking into account the risk preference of the Timor-Leste people and any constraints under which the Fund operates. The IAB advises the Minister of Finance on the investment strategy. The advice of the IAB is guided by its publicly disclosed Investment Beliefs and Principles.

The investment policy is described in the Petroleum Fund Annual Report. Annex 1 of the Operational Management Agreement specifies the Fund's strategic asset allocation and benchmark portfolio, the parameters for each of the investment mandates and where derivatives are permissible.

The Minister of Finance, with advice from the IAB, determines whether a mandate will be internally or externally managed. The Ministry of Finance monitors the internally managed mandates. The selection process for external investment managers is undertaken by the BCTL as Operational Manager and is based on professional and commercial criteria. The external managers are given clearly defined mandates, including expected performance, risk and fees. Their performance is monitored by the BCTL.

Sources: Petroleum Fund Law, Operational Management Agreement

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/9_2005.pdf

https://mj.gov.tl/jornal/public/docs/2011/serie_1/serie1_no36.pdf

http://timor-leste.gov.tl/wp-content/uploads/2010/03/Law_2005_9_petroleum_fund_law_.pdf

<https://www.bancocentral.tl/en/go/other-regulatory-instruments>

Petroleum Fund Quarterly and Annual Reports

<https://www.mof.gov.tl/publicationdetails/petroleum-fund-annual-reports>

<https://www.bancocentral.tl/en/go/publications-key-report-petroleum-fund-report>

Principle 19

19. The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.

19.1. If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed.

19.2. The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.

The Petroleum Fund Law provides that the investment policy shall apply the principles of diversification with the objective of maximizing risk-adjusted financial returns after taking into account the Fund's purposes, its operational constraints and ability to bear risk.

The Petroleum Fund's investments in offshore financial market instruments are assessed purely on these financial grounds and comply with sound portfolio management practices. The Petroleum Fund Law requires the Fund's assets to be invested in deposits with highly-rated institutions, investment grade bonds, and listed equities.

The Petroleum Activities Law allows for the Petroleum Fund to invest in petroleum operations in national territory or overseas, subject to a 5% exposure limit. The investment in petroleum operations in 2019 followed the Petroleum Activities Law, and represents an exception to the general rules in the Petroleum Fund Law. In addition to financial considerations, national economic development objectives and social benefits were accounted for in the investment decision. The rules and criteria governing the investment are published and the Minister was required to present the proposed allocation to National Parliament.

Since 2021, the Fund's financial market investments have been segmented into a Liquidity and Growth Portfolio to manage investment risk during the Fund's decumulation phase. The Liquidity Portfolio is intended to finance the State Budget over a three year period and is invested in low risk and highly liquid assets. The Growth Portfolio is the longer-term segment of the Fund and seeks to earn higher returns through an allocation to equities, with the remainder in fixed interest.

The Ministry of Finance is required to present to the Parliament a summary of the new investment policy prior to making changes to the Fund's principal asset allocation.

Sources: Petroleum Fund Law

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/9_2005.pdf

https://mj.gov.tl/jornal/public/docs/2011/serie_1/serie1_no36.pdf

http://timor-leste.gov.tl/wp-content/uploads/2010/03/Law_2005_9_petroleum_fund_law_.pdf

Petroleum Activities Law

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/13_2005.pdf

https://mj.gov.tl/jornal/public/docs/2019/serie_1/SERIE_I_NO_2_A.pdf

Petroleum Fund Annual Reports

<https://www.mof.gov.tl/publicationdetails/petroleum-fund-annual-reports>

<https://www.bancocentral.tl/en/go/publications-key-report-petroleum-fund-report>

Principle 20

20. The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.

Most of the Fund's assets are invested in offshore financial markets that are regulated and transparent. The Fund does not have access to privileged information nor is there influence exerted from the Government in competing with private entities.

The objective of the Petroleum Fund's investment in petroleum operations in 2019 is to facilitate the development of a national petroleum industry. It is expected that its contribution to national economic development will in turn encourage private investment in Timor-Leste.

Principle 21

21. SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.

The BCTL, as Operational Manager, exercises the Petroleum Fund's shareholder ownership rights by engaging the Institutional Shareholder Services (ISS) proxy voting service.

Principle 22

22. The SWF should have a framework that identifies, assesses, and manages the risks of its operations.

22.1. The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.

22.2. The general approach to the SWF's risk management framework should be publicly disclosed.

The Petroleum Fund Law requires the Ministry of Finance and the Operational Manager to develop and maintain policies, systems and procedures to ensure that the risks associated with the implementation of the investment strategy are identified, monitored and managed.

The BCTL has developed an operational risk management framework for the Petroleum Fund. This includes a risk register that identifies the responsible section for each risk and the associated internal controls. The BCTL's Internal Audit area, which is independent from its investment management area, monitors and ensures that procedures are being followed and there is an effective framework in place. All the staff of the BCTL are bound by its Code of Conduct.

The financial risk in the Petroleum Fund's strategy is embedded in the Fund's investment policy that is set by the Ministry of Finance, specifically the parameters for the global mandate and the investment mandates included in Annex 1 of the Operational Management Agreement. The appropriate level of financial risk is assessed during regular asset allocation reviews. The Ministry of Finance is required to present the investment policy to the Parliament on an annual basis as part of the Petroleum Fund Annual Report or prior to making any changes to the Fund's principal asset allocation.

The BCTL manages the global mandate, which is comprised of individual mandates with specific allocations. There is periodic rebalancing of the Growth Portfolio and transfers from the Growth Portfolio to the Liquidity Portfolio. The BCTL also monitors the compliance of the external managers with their risk targets. The BCTL reports on compliance to the Ministry of Finance in the quarterly performance report.

The Ministry of Finance monitors the Fund's performance including its risk exposure through the BCTL's quarterly performance reports. The Ministry of Finance reports to the Parliament on an annual basis through

the Petroleum Fund Annual Reports.

Sources: Petroleum Fund Law, Operational Management Agreement

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/9_2005.pdf

<https://www.bancocentral.tl/en/go/other-regulatory-instruments>

https://mj.gov.tl/jornal/public/docs/2011/serie_1/serie1_no36.pdf

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Principle 23

23. The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.

The Petroleum Fund Law requires the Operational Manager, the BCTL, to report to the Ministry of Finance on a quarterly basis the performance and activities of the Petroleum Fund relative to the benchmarks.

Performance reporting is prepared by the Fund's custodian, JP Morgan, in compliance with the Global Investment Performance Standards (GIPS) methodology. The quarterly report is published within 40 days after the end of every quarter. Both BCTL and MOF take further initiative to have a face-to-face press conference with relevant stakeholders to coincide with the release of the Petroleum Fund quarterly report.

Sources: Petroleum Fund Law

https://mj.gov.tl/jornal/public/docs/2002_2005/leis_parlamento_nacional/9_2005.pdf

https://mj.gov.tl/jornal/public/docs/2011/serie_1/serie1_no36.pdf

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<https://www.bancocentral.tl/en/go/publications-key-report-petroleum-fund-report>

<https://www.mof.gov.tl/eventdetails/petroleum-fund-performance-in-the-first-quarter-2023>

Principle 24

24. A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.

The Ministry of Finance intends to review the Petroleum Fund's implementation of the Santiago Principles annually and publish the results of the self-assessment in the Petroleum Fund Annual Report. This is the fourteenth review. The Petroleum Fund conducted its first review in 2010.

Source: Petroleum Fund Annual Reports

<https://www.mof.gov.tl/publicationdetails/petroleum-fund-annual-reports>

<https://www.bancocentral.tl/en/go/publications-key-report-petroleum-fund-report>