



Timor-Leste Petroleum Fund

SAA Roadmap

March 2011

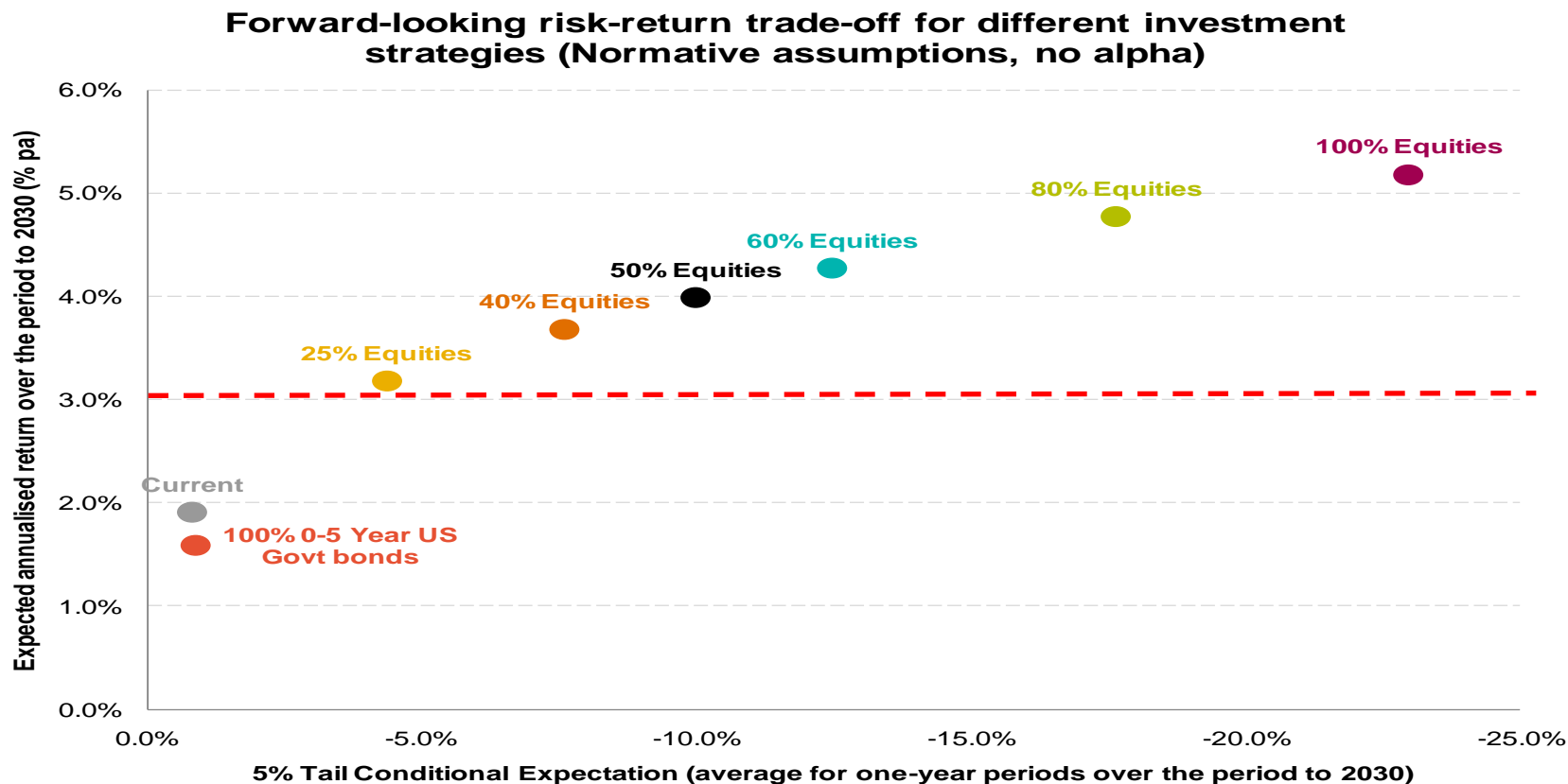
Strategy

- We see the strategy framework as having three key dimensions, as set out in the table below.

Element	
1.	Sustainability – returns and spending
2.	Purchasing Power – preserving buying power
3.	Diversification – spreading risk

Forward-looking risk / return trade-off (Normative assumptions, no alpha)

This slide shows the mix of bonds and equities we expect to deliver different levels of real return over the medium term.



SAA Roadmap – Approach

- We have been driven by six main criteria

1. Ability

2. Complexity

3. Investment Beliefs

4. Governance

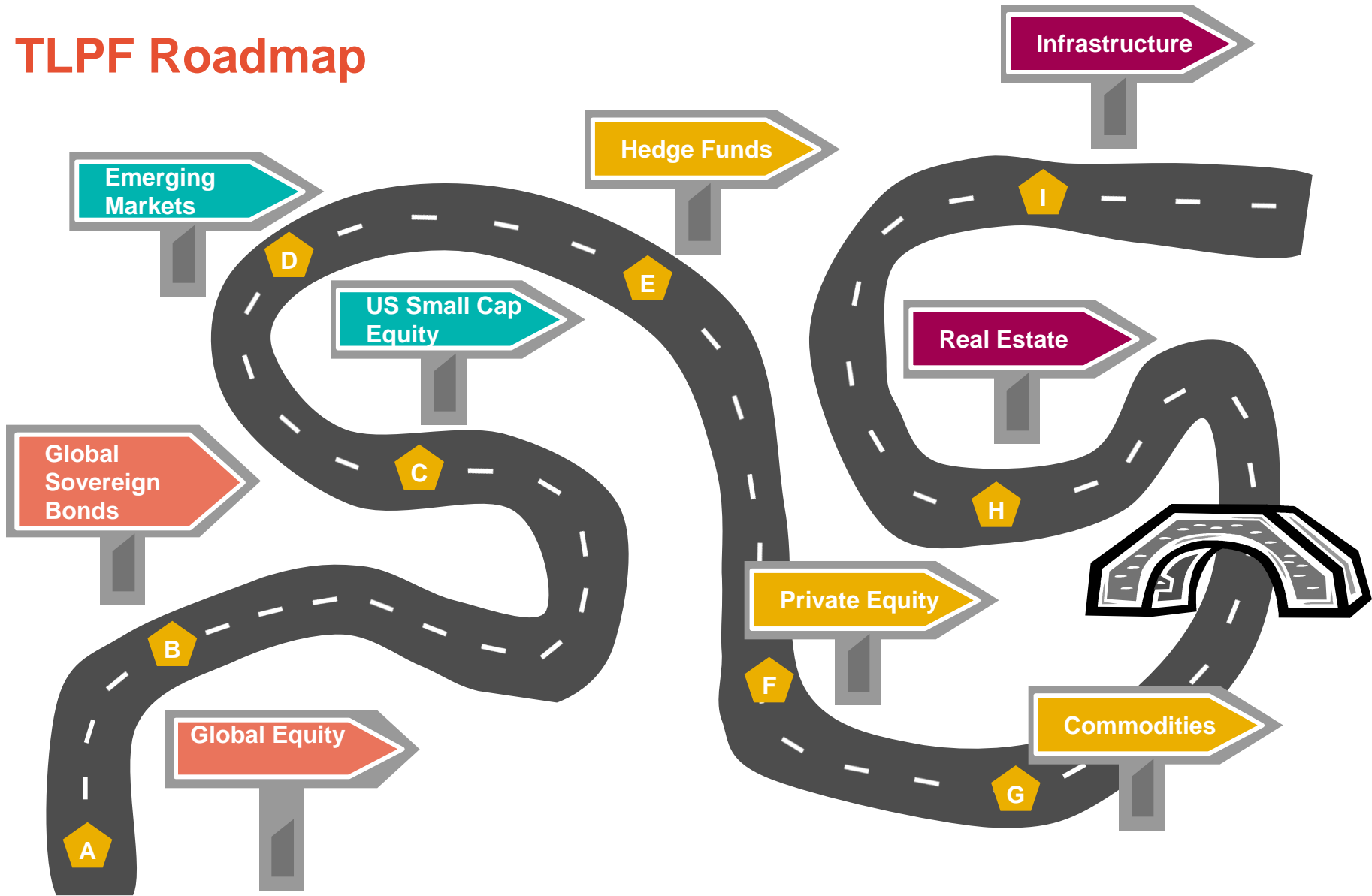
5. Implementability, and

6. Monitoring

SAA Roadmap – Approach

- We have considered
 - The split between bonds and equity – the single most important decision the Fund can make.
 - The extent to which systematic “beta” exposures can be introduced
 - A broad range of allocations, including to “alternative” assets
 - The issue of currency and the “numeraire” for the Fund
 - The arguments for and against passive and active management
 - Ongoing measurement and monitoring needs

TLPF Roadmap

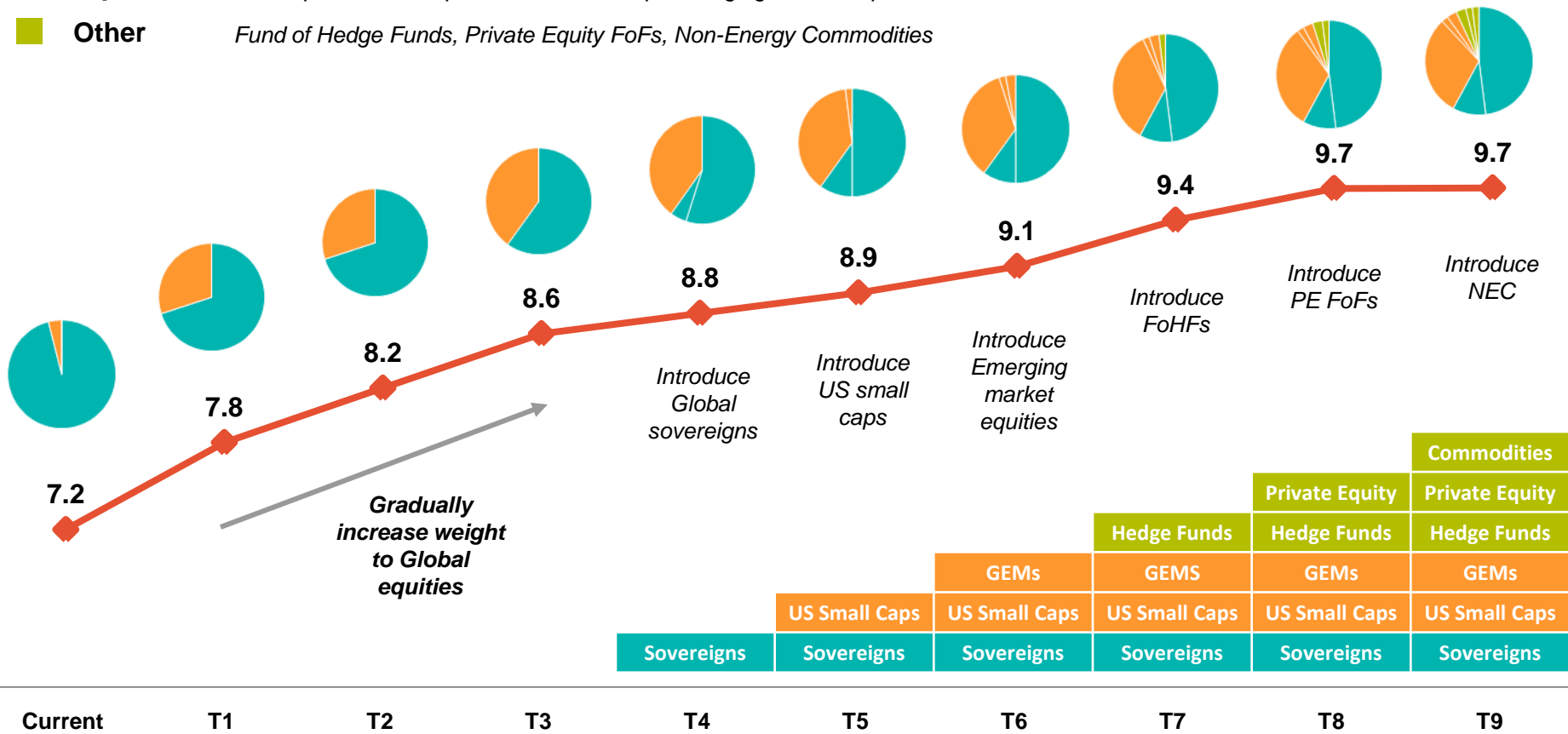


Strategic Asset Allocation Roadmap

	Current	T1	T2	T3	T4	T5	T6	T7	T8	T9
Bonds	96	80	70	60	60	60	60	58	58	58
BPA	76	60	50	40	35	30	30	28	28	28
BIS	20	20	20	20	20	20	20	20	20	20
Global Sov.					5	10	10	10	10	10
Equity	4	20	30	40	40	40	40	40	40	38
Global	4	20	30			38	35	35	32	30
US Small Cap						2	2	2	2	2
Global Emerging Markets							3	3	3	3
Private Equity									3	3
Other								2	2	4
Hedge Funds								2	2	2
Commodities (non Resource)										2

Roadmapping

- Bonds** *US Treasuries, Sovereign Bonds, Global Aggregate*
- Equities** *Developed Market Equities, US Small Cap, Emerging Market Equities*
- Other** *Fund of Hedge Funds, Private Equity FoFs, Non-Energy Commodities*

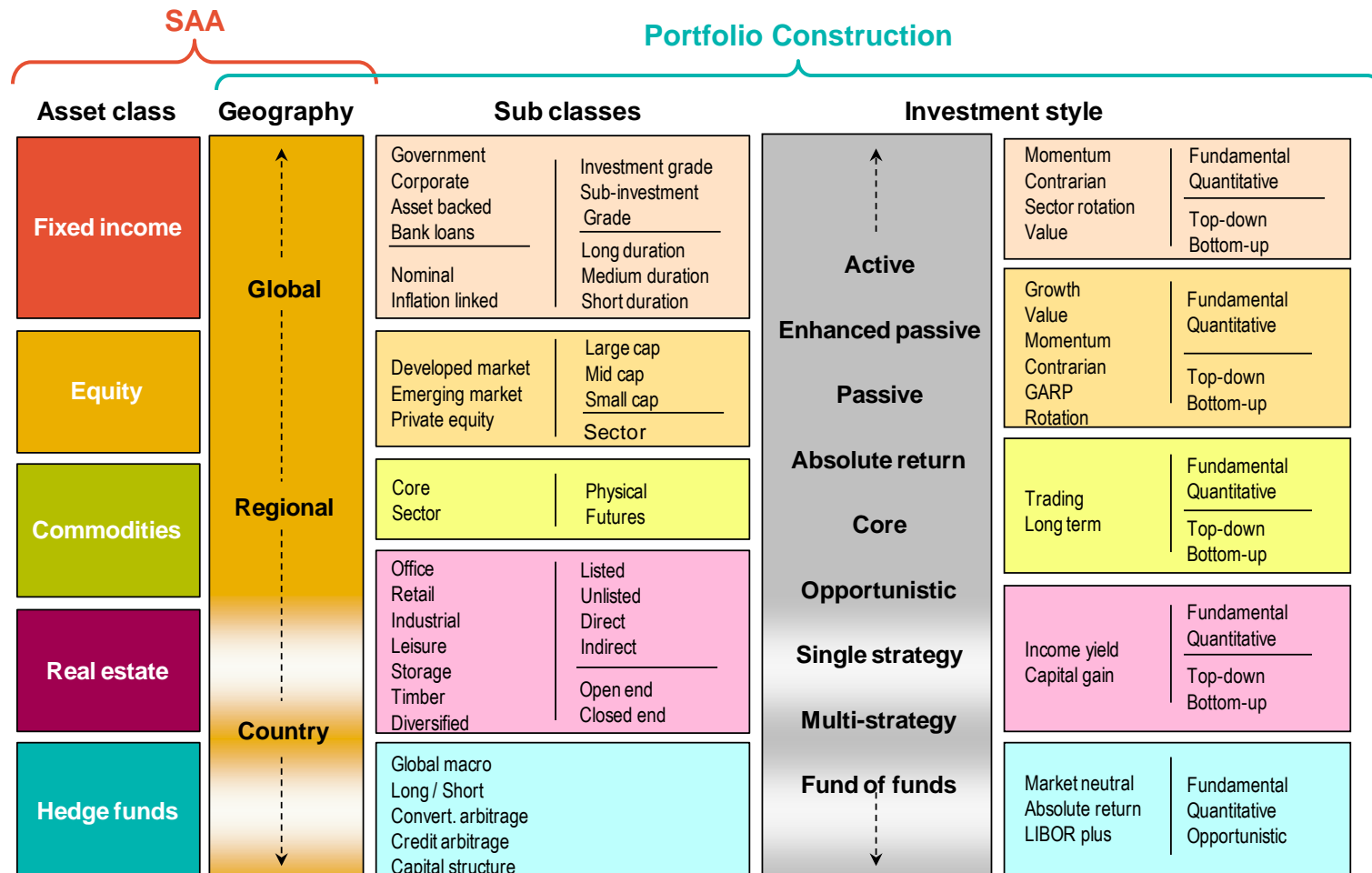


SAA Roadmap

Ability, Complexity and Governance

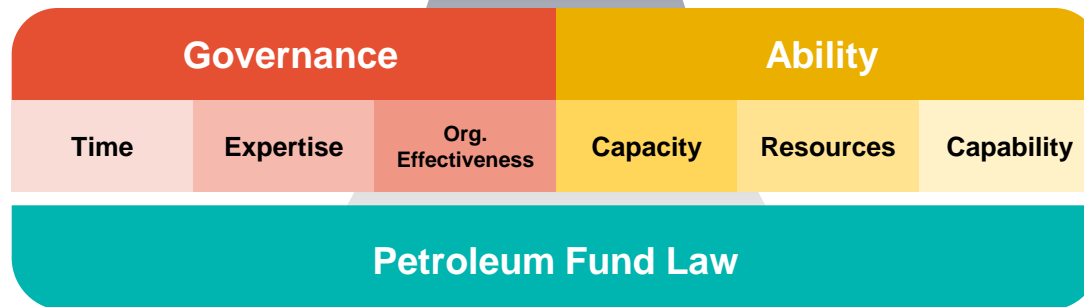
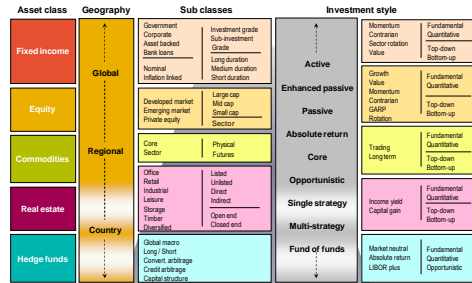
A complex process

The figure below highlight the various asset class dimensions and investment considerations that must be taken in to account when developing an appropriate SAA and in constructing portfolios.



Linking Ability, Complexity and Governance

Complexity

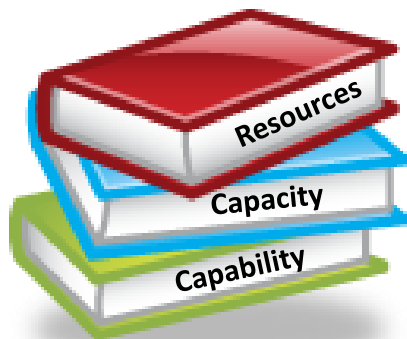
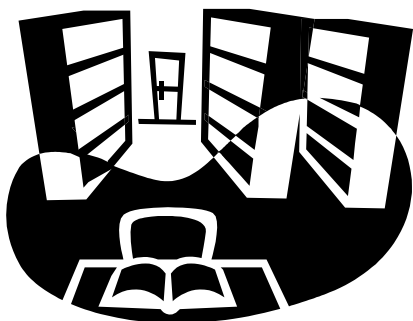


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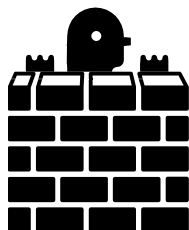
Portfolio

Ability Roadmap

TODAY



TOMORROW



**BUILDING
ABILITY**

Constraints

- Skills
- Knowledge
- Staff
- Infrastructure
- Stakeholders
- Experience

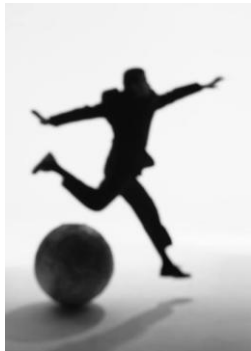
Future

- Differentiate regimes
- Distinguishing points in the valuation cycle
- Rotating beta factors
- DSAA
- Manager configuration

Nurturing Ability

Capacity

Hands/Feet



Resources

Bodies



Capability

Brain



Descriptors

- Operate
- Implement
- Monitor
- Control
- Decide

- Quantum
- Number
- Access

- Knowing
- Thinking
- Comprehension
- Appreciation

Contribution

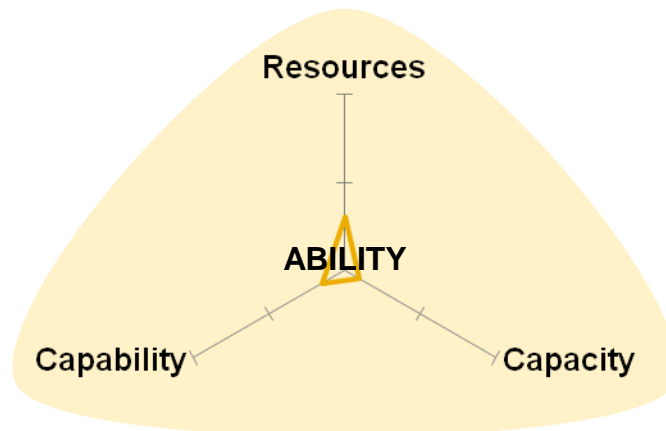
- Skill/Craft
- Experience

- Knowledge

Learning Method

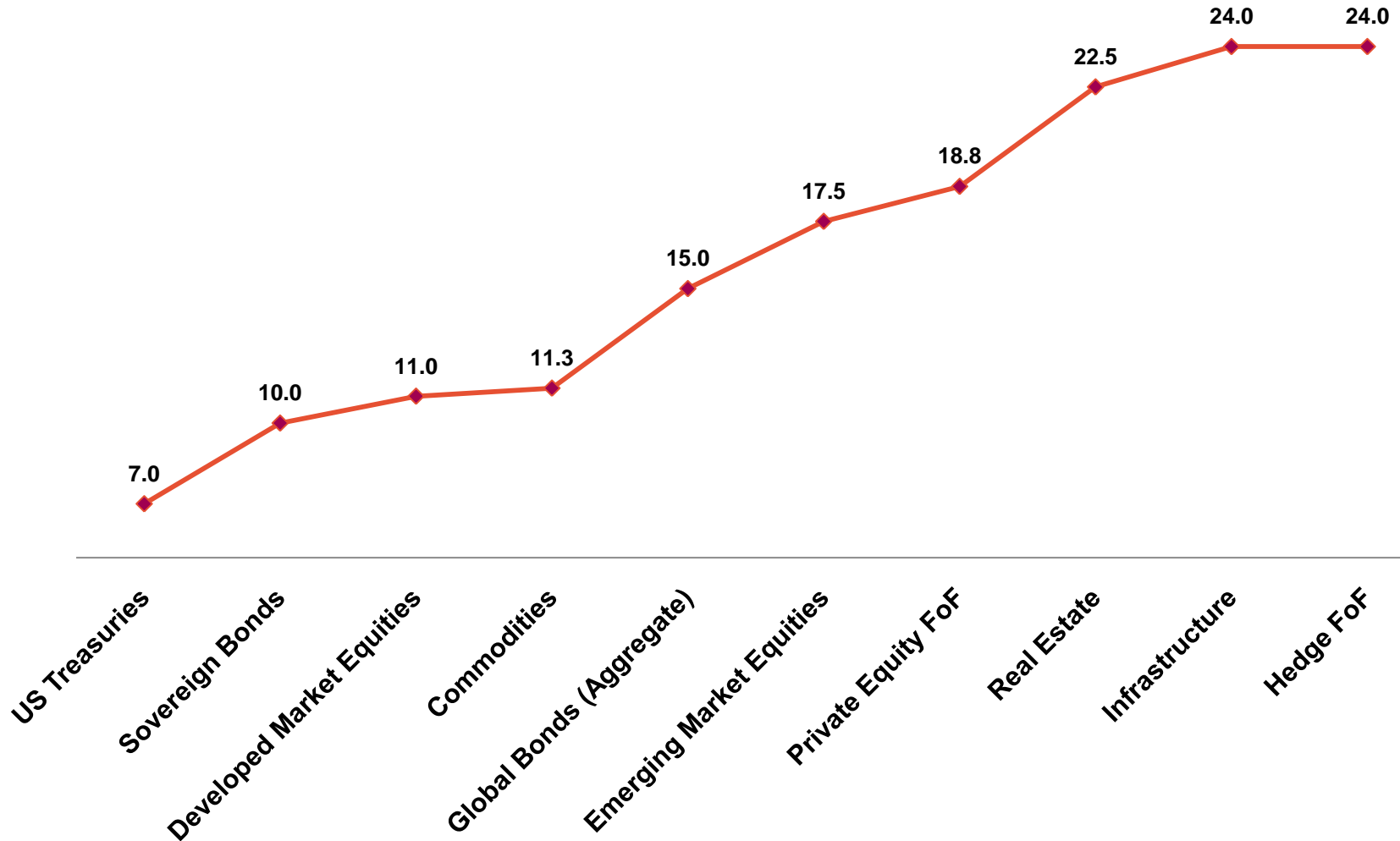
- By doing

- Formal education



Complexity score

Complexity Scores



Complexity scoring methodology

Elements	Global Bonds US Treasuries	Global Bonds Sovereigns	Developed Market Equities	Commodities	Global Bonds Aggregate	Emerging Market Equities	Private equity FoF	Real estate	Hedge FoF	Infrastructure
GOVERNANCE	2.0	3.0	3.0	5.0	5.0	6.0	7.0	10.0	6.0	10.0
IMPLEMENTATION	2.5	3.0	4.0	2.8	4.0	5.5	6.3	7.5	8.0	8.0
Manager search	2	3	5	4	4	6	6	8	6	8
Manager selection	4	4	4	1	5	6	7	6	10	6
Legal	2	2	2	2	2	4	5	10	6	10
Due diligence	2	3	5	4	5	6	7	6	10	8
MONITORING	2.5	4.0	4.0	3.5	6.0	6.0	5.5	5.0	10.0	6.0
Portfolio strategy	2	4	4	2	6	6	7	4	10	4
Reconciling performance	3	4	4	5	6	6	4	6	10	8
AVERAGE SCORE	7.0	10.0	11.0	11.3	15.0	17.5	18.8	22.5	24.0	24.0
RANKING (easiest to hardest)	1	2	3	4	5	6	7	8	9	9

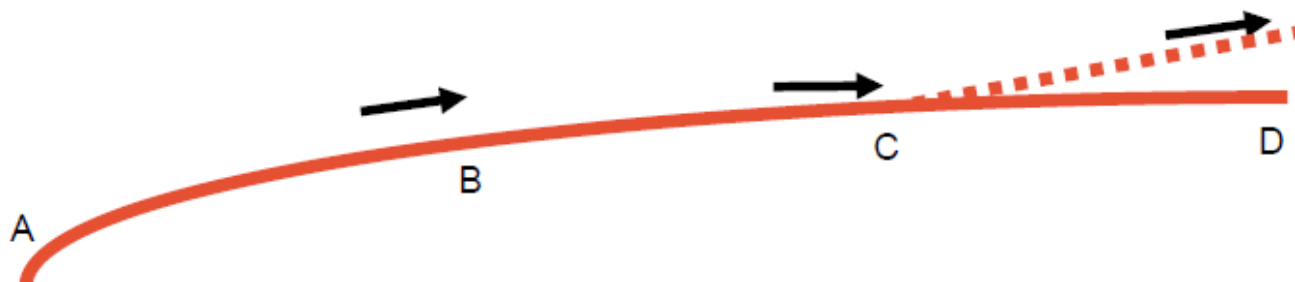
Cascading structure for TLPF

Any organization has to develop through several phases

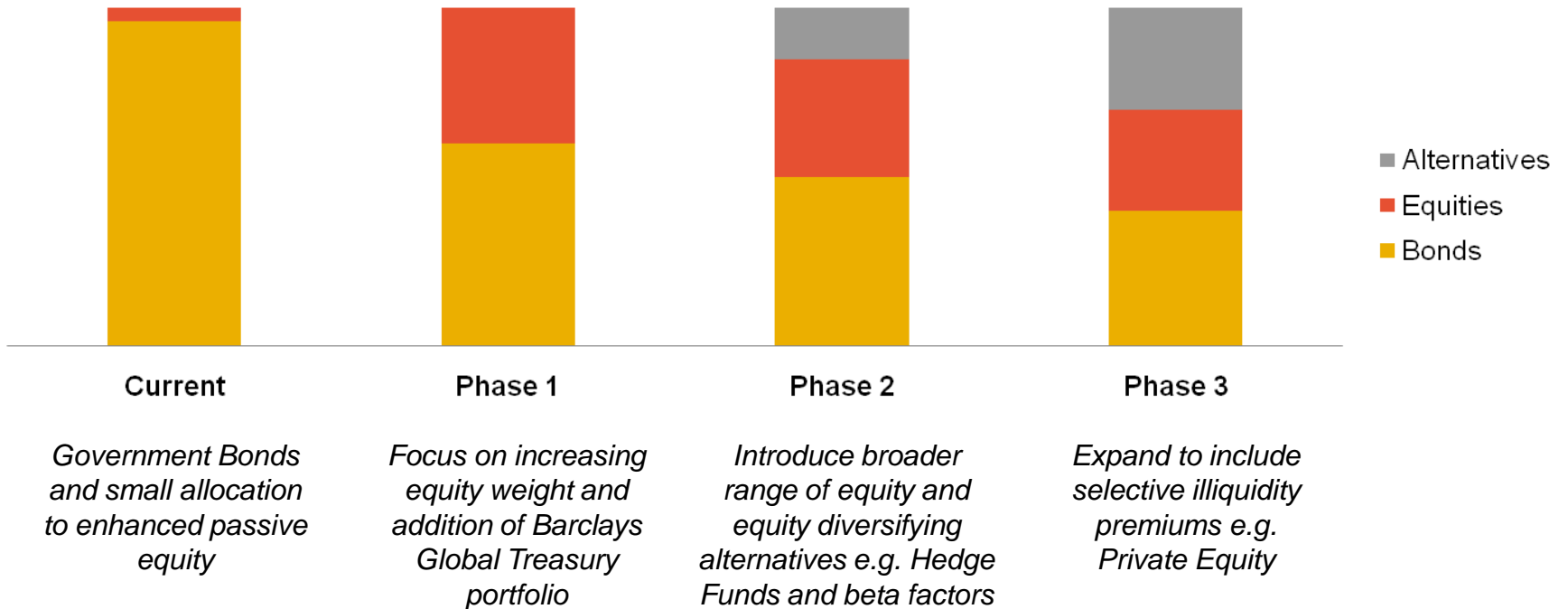
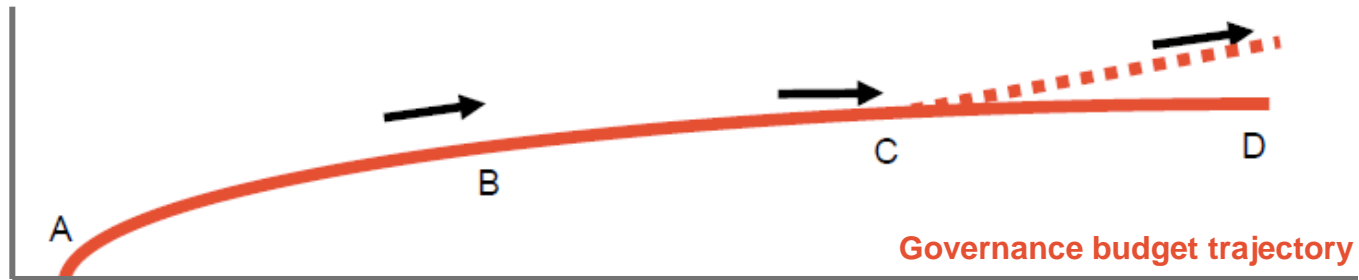
The Timor-Leste Petroleum Fund is a relatively new organization established in 2005, initially with mandate to invest only in US and other sovereign debt instruments. TLPF is entering a new phase in its development (point B, depicted below) facilitated by the proposed changes to the Petroleum Fund law enabling a broader investment mandate to be implemented.

	A to B: Initial Phase	B to C: Development Phase	C to D: Maturity Phase
Characteristics of this phase	Organization has to work from scratch, governance budget develops but with significant gaps	Organization improves its governance budget and begins to close some of the more immediate gaps	Organization seeks to close remaining gaps and may even aspire to move toward a higher level .
TLPF's development	Conservative investment strategy and constraint guidelines, but reasonable governance support via external advisors	PF Law amendments will facilitate wider investment options but significant ability constraints remain.	The Fund will likely reach a point where it must address certain key governance issues and further amend the PF Law to progress further

Governance budget trajectory

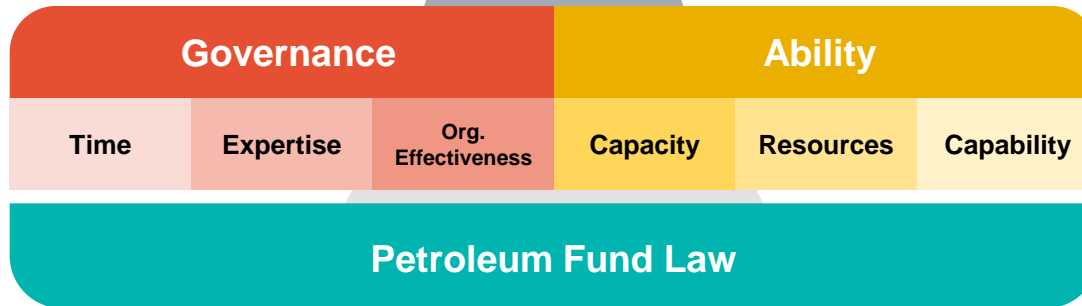
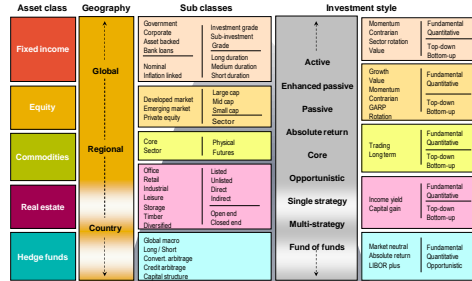


Cascading structure for TLPF (cont'd)



Linking Ability, Complexity and Governance

Complexity



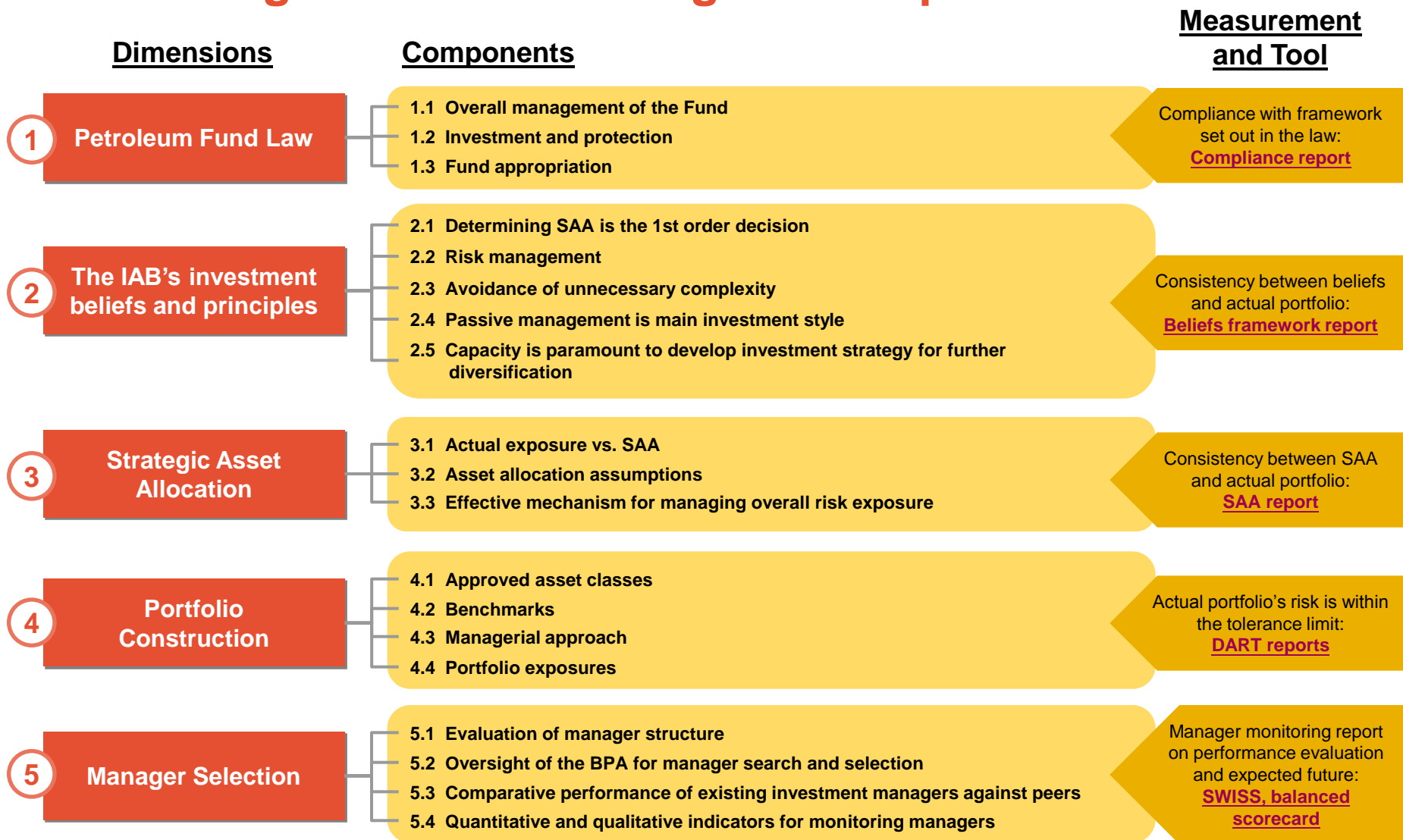
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Portfolio

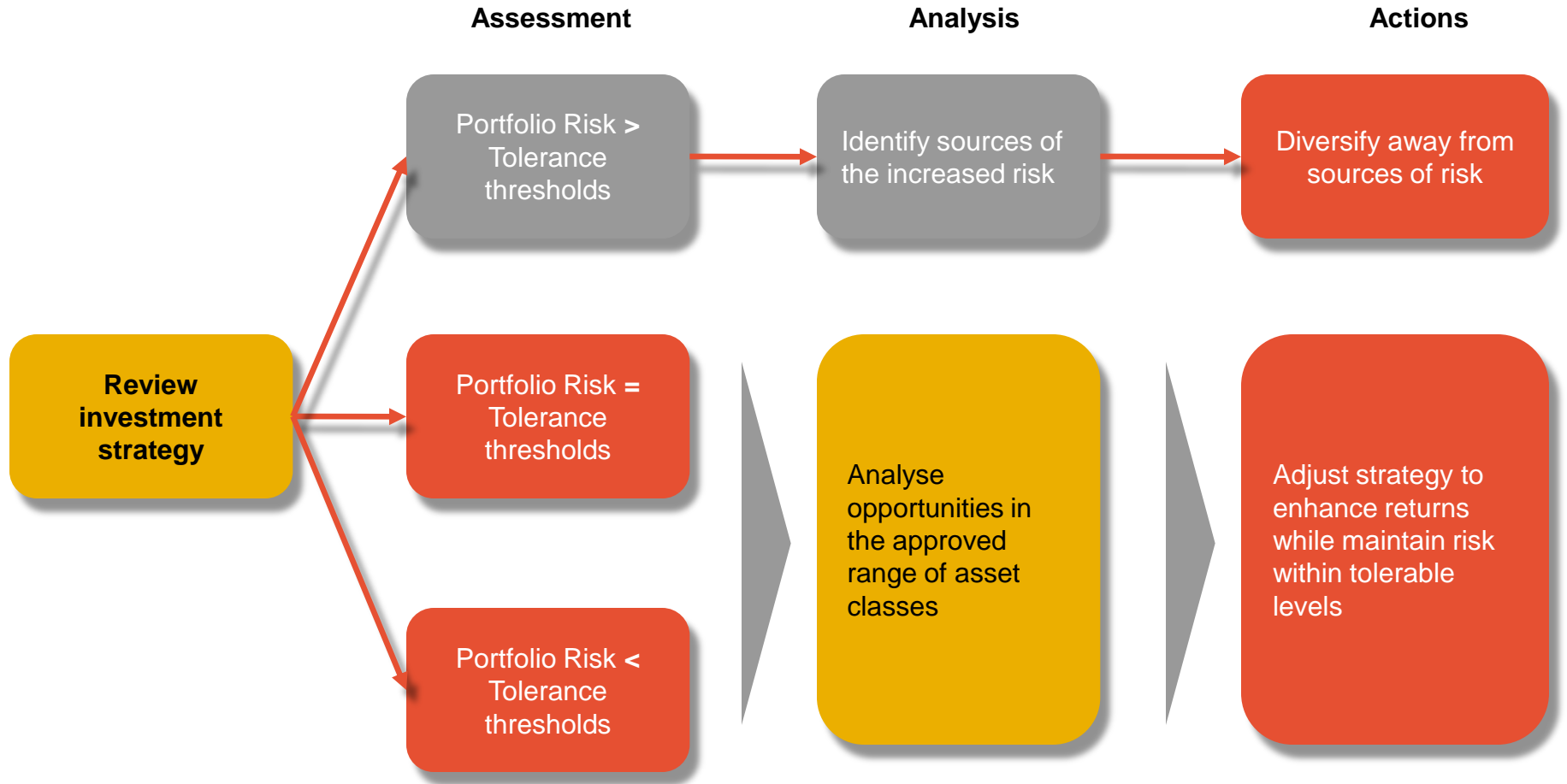
SAA Roadmap

Measurement and Monitoring

Monitoring framework - navigation map

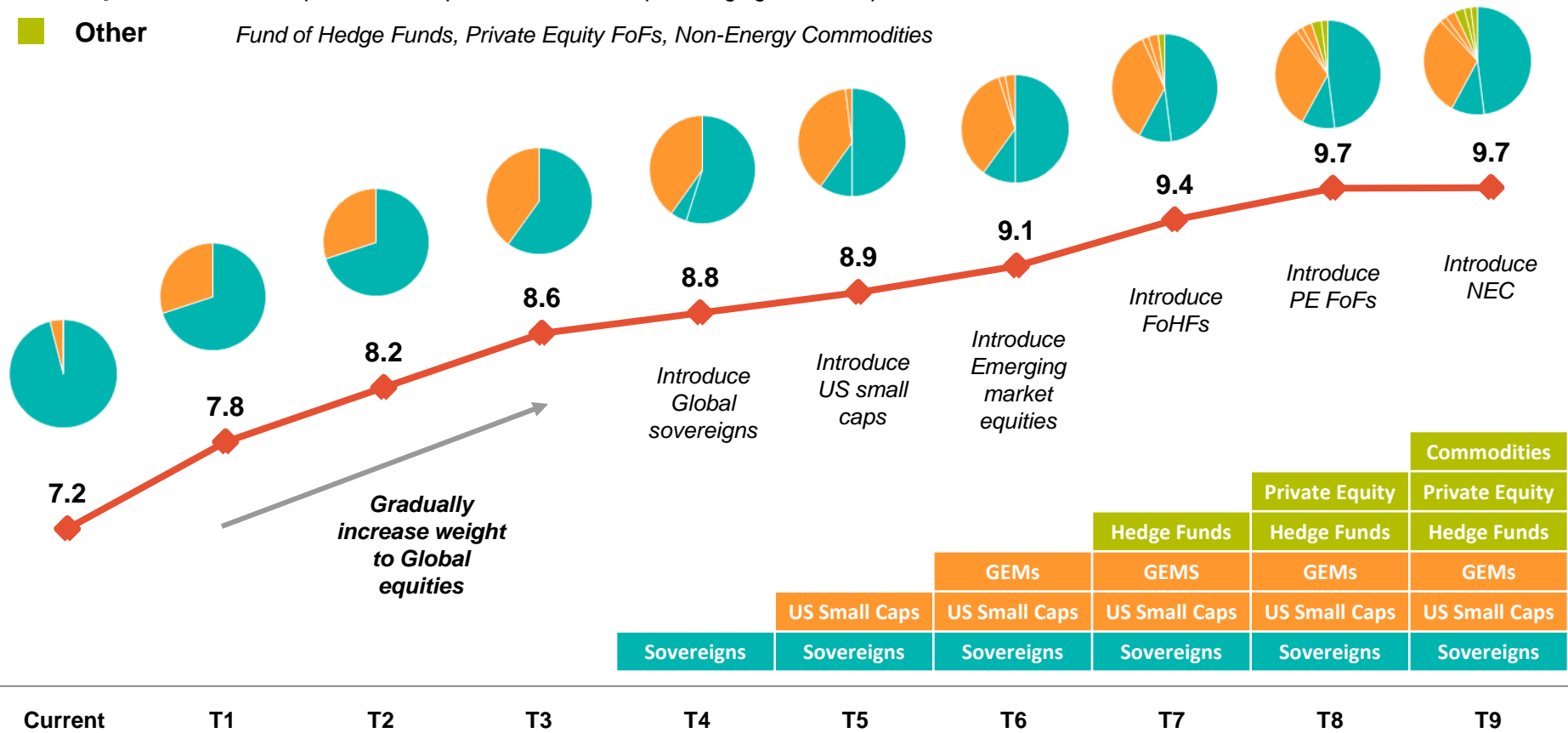


Managing portfolio risk



Roadmapping

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COMPLEXITY

SAA Roadmap

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Towers Watson

29/F Sun Hung Kai Centre,
30 Harbour Road, Hong Kong

T (852) 2827 8833

F (852) 2827 8899

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