



## Santiago Principles Self-Assessment

### JSC National Investment Corporation of the National Bank of Kazakhstan

[Fund Details](#) <sup>[1]</sup> [Fund Website](#) <sup>[2]</sup> [Search Assessments](#) <sup>[3]</sup>

#### Pillar 1

#### Legal framework, objectives, and coordination with macroeconomic policies

##### Principle 1 Description:

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.

##### Principle 1 Implementation:

The legal status of the Company is written in the Charter and states the following:

1. The Company is a legal entity under the legislation of Kazakhstan and the Charter;
2. The Company is a profit organisation;
3. The Company has a separate balance sheet, bank accounts and a stamp with the full corporate name in the state and Russian languages;
4. The period of activity of the Company is not limited.

The Company adheres to the regulations and the standards laid out in the internal documentation. These documents including, but not limited to the Charter, the Investment Strategy on the management of alternative instruments portfolio of foreign exchange reserves (hereinafter - The Investment Strategy), the Development Strategy provide the legal basis for the Company to implement its activity to full extent.

According to the rights and liabilities are written in the Charter, the Company:

- keeps accounting, taxation and statistical records;
- prepares and submits financial reports as well as other reports covering all of the activities of the Company to the Shareholder and the authorised governmental bodies within the specified timeframe.

The Company is responsible for the completeness and adequacy of information submitted to the Shareholder.

The legal documentation of the Company (such as the Certificate of State Registration, the Charter, the License for implementing the activities on the securities market, the Organisational structure) are all publicly disclosed and available on the Company's website at

<http://nicnbk.kz/en/content/licenses-and-certificates> <sup>[4]</sup>

In relation to any undertaken activity, the Company acts in accordance with the legislation of Kazakhstan.

#### **Principle 2 Description:**

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

#### **Principle 2 Implementation:**

The objectives of the Company are clearly stated in the Charter and as follows:

1. To conduct asset management of the National Fund of Republic of Kazakhstan (hereinafter – National Fund), foreign-exchange reserves of the National Bank of Kazakhstan (hereafter – FX reserves), pension funds and all other assets in the manner prescribed by the legislation of Kazakhstan;
2. To improve the efficiency of the asset management of the National Fund, FX reserves, pension funds and all other assets under management of the Company;
3. To apply the global best practice to the alternative investment;
4. To gain profit from, including but not limited to, any activity permitted by the legislation of Kazakhstan.

#### **Principle 3 Description:**

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.

#### **Principle 3 Implementation:**

By acknowledging the significance of the trust management of the part of international reserves of Kazakhstan along with the importance of its objectives, the Company certifies the coordination of its activities with the domestic fiscal and monetary authorities to ensure consistency with the overall macroeconomic policies, if applicable.

However, at the time of this application, the Company does not pursue any activity which anyhow impacts the current domestic macroeconomic policy.

#### **Principle 4 Description:**

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.

#### **Principle 4 Implementation:**

The Investment Strategy describes the Company's approach to funding, withdrawal, and spending operations. The disclosure of the Investment strategy is subject to the NBK's decision and can be provided upon request (given the NBK's agreement to do so).

The Company is obliged to publish its audited financial report on an annual basis. The audited financial report for the year 2015 is available at:

<http://nicnbk.kz/en/content/financial-statements> <sup>[5]</sup>

The audited financial report for the year 2016 will be available after 31 March 2017. The publication date is in accordance with the requirements specified in the legislation of Kazakhstan.

The Company manages the part of FX reserves. The accomplishment of the transfer of the stated assets under the trust management of the Company was under the resolution of the Executive Board of the National Bank of Kazakhstan #293 dated 21 September 2012.

The resolution is available at <http://nicnbk.kz/en/content/licenses-and-certificates> <sup>[4]</sup>

The Company does not pursue any spending on behalf of the government, as it currently manages the part of FX reserves only.

#### **Principle 5 Description:**

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.

#### **Principle 5 Implementation:**

The reporting process which covers the frequency and the types of required reports for submission to the Shareholder is outlined in the Charter, the Investment strategy and other internal documentations.

The Company ensures the timely submission of all necessary reports. The data which the Company submits to the National Bank of Kazakhstan (hereinafter - NBK) as part of its reporting process is used for the formation of the balance of payments as well as in the analysis of the structural changes in FX reserves.

## **Pillar 2**

### **Institutional Framework and Governance Structure**

#### **Principle 6 Description:**

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.

#### **Principle 6 Implementation:**

The Company maintains the clear and effective division of roles and responsibilities of each member of the Management Board which is regulated by the Order on the distribution of duties among the members.

The Company believes in facilitating the high degree of accountability and operational independence as the part of its management process.

#### **Principle 7 Description:**

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.

#### **Principle 7 Implementation:**

The aspects concerned in the question are covered in the Charter under the Shareholder's reserved matters and outlined below:

- to determine the composition and the term of office of the Board of Directors, the election of its members and the early termination of their office;
- to make decision on the size and terms of remuneration and reimbursement of expenses to the members of the Board of Directors for the office execution;
- to determine the number of members of the Management Board of the Company, term of office of the Management Board, election of the Chairman and members of the Management Board and early termination of office;
- to hold financial audit of the Company;
- to determine the process of reporting on the performance of the Company to the Shareholder and select the mass media.

**Principle 8 Description:**

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.

**Principle 8 Implementation:**

According to the Charter, the Executive Officers of the Company (members of the Board of Directors, members of the Executive Board of the Company) ensures the following:

1. fulfil their responsibilities fairly and use ways which serve the interests of the Company and the Shareholder in the best possible way;
2. must not use or allow using the Company's property in contrary to the Charter of the Company, decisions of the Shareholder and the Board of Directors of the Company, and also for personal purposes and must not abuse their authority when making transactions with the affiliates;
3. must ensure the integrity of the accounting and financial reporting systems including conducting independent audit;
4. control disclosure and provision of information about the activity of the Company in accordance with requirements of the Law of Kazakhstan;
5. must keep information about the Company's activity confidential.

**Principle 9 Description:**

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

**Principle 9 Implementation:**

The Company is managed by a collective executive body - the Management Board which takes decisions on the operational issues of the Company.

The duties and obligations of the Management Board are given in the Charter and in the Provision of the Management Board.

The Management Board acts in the interests of the Shareholder and reports to the Shareholder and the Board of Directors of the Company. The Management Board must exercise decisions of the Shareholder and the Board of Directors of the Company. In their activity, members of the Management Board are guided by principles of professionalism, integrity, honesty, common sense, and discretion.

**Principle 10 Description:**

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

**Principle 10 Implementation:**

The financial year of the Company is a calendar year (from 1 January to 31 December).

The financial reporting of the Company includes the balance sheet, income statement,

cash flow statement, statement of changes in the capital and an explanatory memorandum.

The Law of Kazakhstan on Accounting and Reporting prescribes the accounting and reporting procedures of the Company.

**Principle 11 Description:**

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.

**Principle 11 Implementation:**

The Management Board annually submits an audited financial report for the reported financial year to the Shareholder for its discussion and approval in accordance with the Audit Law of Kazakhstan.

Besides the financial report, the Management Board submits an auditor's opinion including auditor's advice (letter to the management) to the Shareholder.

The Company annually publishes financial reports in the manner and within the timeframe set by the Law of Kazakhstan.

**Principle 12 Description:**

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.

**Principle 12 Implementation:**

In accordance with the Charter, the Company must implement an annual audit of its financial statement by a recognised international auditor. The Company ensures the compliance with this stated rule.

**Principle 13 Description:**

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.

**Principle 13 Implementation:**

The work arrangements, as well as the workplace relations which refer to professional and ethical standards, are regulated by the written internal documentation. In the process of job placement to any position, it is obligatory that the candidate gets acquainted with these standards.

**Principle 14 Description:**

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.

**Principle 14 Implementation:**

The Company adheres to the opinion that any engagement with third parties with respect to the operational management should be considered thoroughly. Thus, a separate agreement comprising the terms and conditions based on economic, financial and social grounds are signed for each case individually.

**Principle 15 Description:**

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.

**Principle 15 Implementation:**

The Company respects the regulatory and disclosure requirements of the countries in which it implements its activities and operations. The Company ensures the compliance with all existing legal and regulatory requirements of any host country concerned.

**Principle 16 Description:**

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.

**Principle 16 Implementation:**

The aspects in which the Company is independent of the Shareholder are written in the Charter and are as follows:

- the Company has a property separated from that of the Shareholder, and it is not liable for his/her obligations. The Company is liable for its obligations to the extent of its property;
- the Company can enter into transactions (contracts), acquire property and personal non-property rights, sue in court and act as a defendant before the court, and take other actions in accordance with the legislation of Kazakhstan;
- the Company can acquire and grant rights to own and use the ownership documents, technologies, "know-how," and other information;
- the Company can open accounts with banks and other financial institutions in and beyond the territory of Kazakhstan both in national and foreign currency;
- the Company develops and approves the internal documentation;
- the Company has a right to establish subsidiaries and affiliates and to take part in the equity capital and activity of other legal entities both in the territory of Kazakhstan and abroad in the manner specified by the Charter and the legislation of Kazakhstan;

In accordance with the procedure specified by the legislation of Kazakhstan and the Charter, the Company may establish branches and representative offices both in the Kazakhstan and abroad to act for and on behalf of the Company based on the Regulations thereon. The Company may allocate to them main assets and working capital from its own assets and define their operating procedures in accordance with the legislation of Kazakhstan. The property of a branch or representative office shall be stated on its own balance sheet and the balance sheet of the Company as a whole;

The persons appointed by the Management Board of the Company hold the guidance of branches and the representative offices. Directors of branches and representative offices shall act under the power of attorney issued by the Company.

**Principle 17 Description:**

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.

**Principle 17 Implementation:**

The Company annually publishes financial reports as required, and within the timeframe stated by the Law of Kazakhstan.

### **Pillar 3**

## **Investment and Risk Management Framework**

**Principle 18 Description:**

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.

**Principle 18 Implementation:**

The Company's primary goal is to improve asset management efficiency as well as to increase assets yield in the long-term by maximising risk-adjusted returns through assets diversification in a manner consistent with the Investment Strategy.

To achieve its goal, the Company invests in traditional and alternative assets in the international financial markets with the investment horizon of 10-20 years, and other types



of activities involving trust asset management.

The Company realises to a full extent the risks it is exposed to in the investment process. The risk management procedures are clearly identified in the Investment Strategy. Specifically, to manage risk, the Company introduces the limits, with an aim to regulate the level of risks. According to the Investment Strategy, the limits are imposed on:

- Types of financial instruments
- Asset allocation
- Geographic allocation
- Currency
- Value at risk
- Strategies
- Investment structure

In terms of the leverage level, it is important to note, that the Company assigns its level to each asset class and manager individually.

The Company actively implements risk management by monitoring possible risks, including credit risk, market risk, liquidity risk and operational risk.

The current allocation and the asset classes the Company invests in are described in the Investment strategy.

The Company conducts a tender process in order to select the alternative investment and active equity managers. The manager selection process is described below:

- the Company publishes the tender announcement on its website, Bloomberg and through the distribution of formal notifications to potential managers from the Company's contacts list;
- the potential managers, who fit the minimum criteria described by the type of mandate, compete in the tender by providing the information defined in the request for proposal (hereinafter - RFP);
- the Company analyses the proposals based on the predefined evaluation criteria and forms the long list of potential managers;
- investment due diligence and operational due diligence are held on the long list of potential managers prior to recommending the list to the Investment Committee. The Investment Committee selects the most competitive managers and defines the short list;
- the short list is presented to the Board of Directors of the Company who defines the final list of managers. Finally, the managers are approved by the Executive Board of NBK.

The agreements are signed with each of the selected managers, where all terms and conditions, as well as the responsibilities (including reporting procedures) of the manager, are identified.

The Company monitors the performance on a constant basis.

Disclosure of the Investment strategy is subject to the NBK's decision and can be provided

upon request (given the NBK's agreement to do so).

**Principle 19 Description:**

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.

**Principle 19 Implementation:**

Refer to GAPP 18.

The Company only invests for economic and financial considerations.

The Company manages the entrusted assets in accordance with the Legislation of Kazakhstan.

**Principle 20 Description:**

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

**Principle 20 Implementation:**

The Company fully understands its governmental status that may bring privileges such as special tax treatments and immunity; however, the Company does not have and does not seek access to privileged information or inappropriate influence by the Government. The Government does not direct or interfere into investment decision process.

The Company's internal policies provide further framework for staff to prevent access to and use of privileged information.

**Principle 21 Description:**

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.

**Principle 21 Implementation:**

The Company understands the need to alleviate concerns about non-commercial investment objectives and national security in recipient countries.

The Company's investment decisions aim to maximise risk-adjusted financial returns and achieve targets set in its investment policy.

The Company will exercise ownership rights in its investments, where appropriate, to protect the financial interests of the assets under management. The Company's general approach to voting securities is guided by financial considerations.

**Principle 22 Description:**

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.

**Principle 22 Implementation:**

Identifying, assessing and managing risk is an integral part of management at all levels. Different people and groups are specifically charged with the task of identifying, analysing, monitoring, reporting and managing risks.

The Company uses an external platform for its risk identification and management purposes.

The Company's operations and financial statements are audited annually by an independent third party auditor. An independent internal audit function, which reports directly to the CEO, is also in place.

The risk management policy is publicly disclosed on the Company's website: [www.nicnbk.kz](http://www.nicnbk.kz) [6]. The English version is available upon request.

**Principle 23 Description:**

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.

**Principle 23 Implementation:**

According to the standards defined in the Charter and in the Investment Strategy, the Company submits the reports including the report on the assets and investment performance with detailed explanation on the performance of each asset class to NBK. The reporting frequency is defined for each report type separately in the Investment Strategy.

**Principle 24 Description:**

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

**Principle 24 Implementation:**

The Company confirms its strong intention of complying with the GAPP, i.e. to properly reflect appropriate governance and accountability arrangements as well as to conduct its investment practices on a prudent and sound basis. This will be delivered through a regular review of its implementation.

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[1] <http://www.ifswf.org/node/460>

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