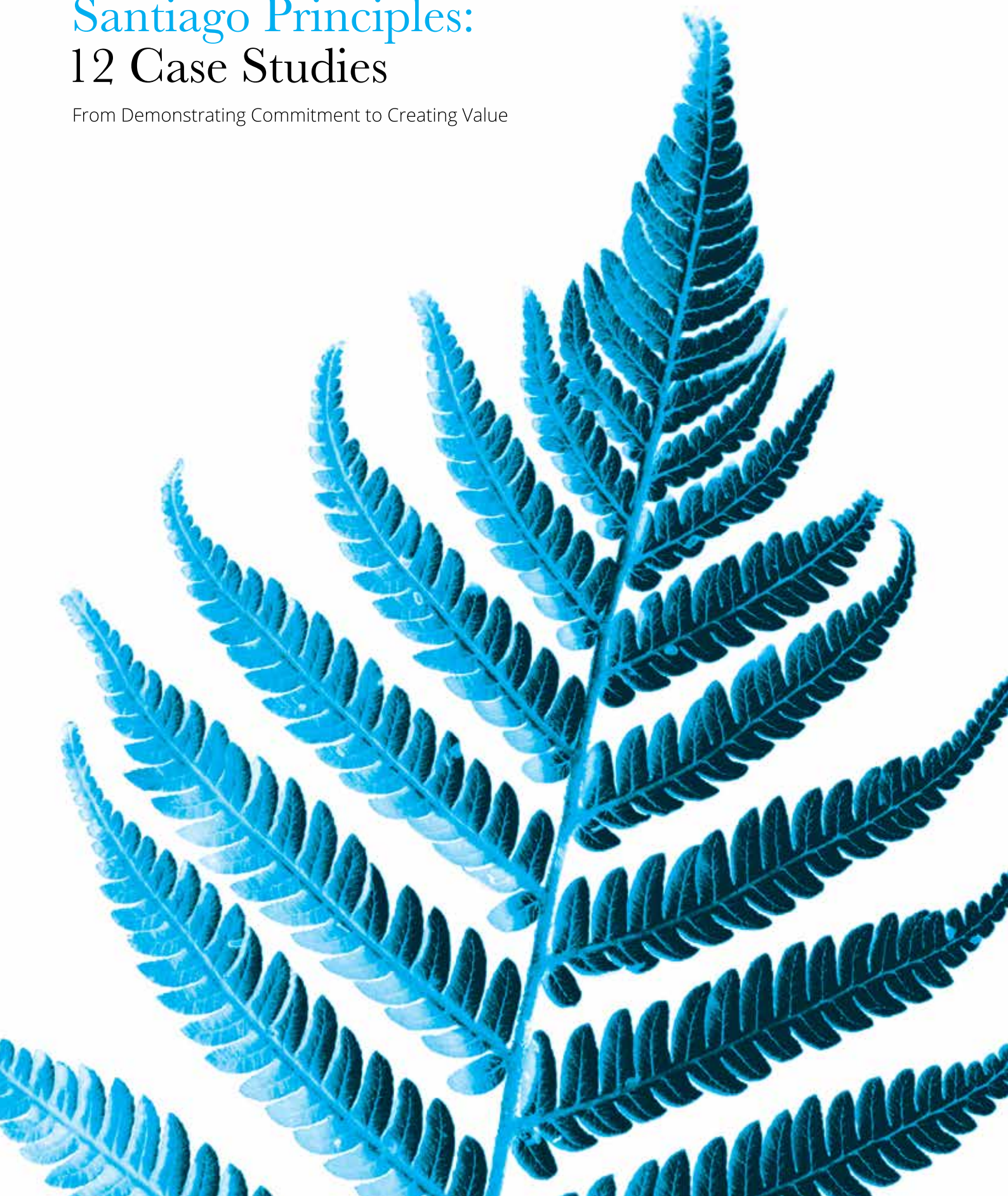




Implementing the Santiago Principles: 12 Case Studies

From Demonstrating Commitment to Creating Value



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Implementing the Santiago Principles: 12 Case Studies

From Demonstrating Commitment to Creating Value
November 2016



8TH ANNUAL MEETING | NEW ZEALAND 2016

Letter from the Chairman

*Adrian Orr
IFSWF Chairman
CEO New Zealand
Superannuation Fund*



The International Forum of Sovereign Wealth Funds (IFSWF) exists to enable all members – and prospective members – to learn from each other’s experiences and thereby strengthen the global sovereign wealth fund community in all its facets.

The Santiago Principles, a voluntary code that highlights that stability and as well as economic and financial purposes that are the defining features of sovereign capital, underpins the activities of the IFSWF. The Principles provide 24 items of practical guidance on the institutional governance and risk management frameworks necessary for sound long-term investment practice.

This year, 2016, is a watershed in our members’ assessment of their implementation of the Santiago Principles and their progress. Twenty-seven members have completed detailed self-assessments, and 12 have completed detailed case studies of their experiences of applying the Santiago Principles, which I am delighted to present to you in this publication. The self-assessments will be published on our website in due course.

IFSWF members commit to working towards implementing the Principles over time. We support our members in this process not only through bringing them together for discussion but also in the activities of the Secretariat and the Forum’s subcommittees, which are the engine room of the organisation’s research and knowledge sharing.

In the eight years since the Santiago Principles were written, our membership has expanded not only numerically, but also in diversity. IFSWF is now a broad group of large and small funds with a wide range of mandates. As such, our understanding of the real-world implications of applying the Santiago Principles at individual organisations has had to evolve and become more nuanced.

Each member starts the process of implementing the Principles from a different place, depending on their history and legacy structures. Increasingly, we also understand that what the evolution looks like may not be the same for every member. Nevertheless, the objective is the same. Members aspire to establish the best possible governance, accountability, and operational methods that will enable them to fulfil their mandate to the highest possible standards for their ultimate stakeholders: the people of their countries.

Under the guidance of Subcommittee 1 on Sovereign Wealth Fund Governance and Purpose, the IFSWF has reflected these changes in the way we assess how our members measure up to the Santiago Principles. We have moved from a purely quantitative approach to using a more rigorous, structured and detailed self-assessment format. This methodology enables us to take account of the different processes each of our members takes, and allows for contextualised measures of progress.

We continue to encourage higher standards of governance, accountability and transparency amongst our membership, and will continue to seek innovative and more effective ways of helping our members to use the Santiago Principles to add value to their stakeholders in years to come.

The Santiago Principles

The Generally Accepted Principles and Practices (GAPP) for sovereign wealth funds (SWFs) are voluntarily endorsed by all members of the International Forum of Sovereign Wealth Funds (IFSOF). These Principles are known as the “Santiago Principles” for the capital city of Chile, where they were drafted by the pre-cursor of the IFSOF – the International Working Group of Sovereign Wealth Funds – in 2008.

The Santiago Principles provide 24 practical items of guidance on appropriate governance and accountability arrangements, and the conduct of investment practices necessary for sound long-term investment practice. The Principles also aim to promote cross-border investments and the openness and stability of financial systems.

- GAPP 1** The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).
- GAPP 2** The policy purpose of the SWF should be clearly defined and publicly disclosed.
- GAPP 3** Where the SWF's activities have significant direct domestic macro-economic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.
- GAPP 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.
- GAPP 5** The relevant statistical data pertaining to the sovereign wealth fund should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macro-economic data sets.
- GAPP 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.
- GAPP 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.
- GAPP 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.
- GAPP 9** The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.
- GAPP 10** The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.

- GAPP 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.
- GAPP 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.
- GAPP 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.
- GAPP 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.
- GAPP 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.
- GAPP 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.
- GAPP 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.
- GAPP 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.
- GAPP 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.
- GAPP 20** The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.
- GAPP 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.
- GAPP 22** The SWF should have a framework that identifies, assesses, and manages the risks of its operations.
- GAPP 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.
- GAPP 24** A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.

Australia Future Fund

David Neal
Managing Director



Introduction

The Future Fund Board of Guardians invests for the benefit of future generations of Australians. It's an important task and one that inspires our organisation to continually test and refresh what we do and how we do it. The quality of our investment thinking and strategy, how that is turned into investment policies and how those policies in turn are applied through governance and investment decision-making is central to the pursuit of our investment objectives.

Thinking deeply about these issues in the context of our legislation and investment mandate has been enormously important since we were set up in 2006. It has helped us move from a start-up organisation with a handful of staff and a portfolio invested entirely in cash, to an institution of over 130 people, supported by deep and valuable relationships with peers, investment managers and advisers and a broadly diversified global portfolio that has doubled the value of the contributions we originally received.

While our approach to investing has remained essentially the same since we began, we have refined and improved what we do. We have thought carefully about how to preserve what works for us, even as the size and complexity of our organisation and investment portfolio has changed and as the market environment has developed.

I hope that this short case study gives a flavour of how we approach our task and our approach to investment strategy and decision-making.

Endorsement of the Santiago Principles

The Future Fund Board of Guardians is a founding member of the IFSWF and its predecessor the International Working Group of Sovereign Wealth Funds.

We worked alongside other founding members and the International Monetary Fund during 2008 to develop the Santiago Principles and we were honoured that our then Chairman, Mr David Murray AO, served as the inaugural Chair of the Forum. Since then we have continued to be an active member.

The Santiago Principles are a valuable summary of what constitutes best practice for Sovereign Wealth Funds. They provide guidance for countries that are setting up a Sovereign Wealth Fund and we have had the pleasure of engaging and working with a number of countries as they establish and develop their institutions. This invariably provides us with new perspectives on our own challenges and opportunities and allows us to test our assumptions and practices.

The Santiago Principles also help us explain our purpose as a sovereign wealth fund to our stakeholders. Our founding legislation provides a clear articulation of our purpose and membership of the IFSWF helps to set this in the context of the diverse purposes and structures that are used by sovereign wealth funds globally. The very diversity of the community means that it offers a rich source of experience for comparison.

Our 2009-10 annual report included our first self-assessment of how we apply the Santiago Principles and we have published updates each year since then. Our annual report, including our self-assessment, is formally tabled in Parliament.

Just as importantly, we work alongside other sovereign wealth funds during the annual meetings of the IFSWF and through the year in its subcommittees looking at investment risk and the international investment environment. Alongside this we maintain direct relationships with members and non-members alike through our investment programme and our commitment to best practice.

Turning investment strategy into practice

GAPP 18, 19 and 23 in particular focus on investment policy and implementation, investment decision-making and monitoring performance.

Our response to these Principles is detailed in our self-assessments. In summary:

- Our publicly available Statement of Investment Policies details our investment strategy and risk appetite while legislation addresses matters of financial risk, leverage and role of external investment managers;
- Legislation sets the requirement to pursue risk-adjusted financial returns and the obligation to operate in a manner consistent with international best practice for institutional investment; and,
- Reports to the government and through public quarterly updates and audited annual financial statements provide reporting and measurement against clearly defined standards.

The Santiago Principles help us explain our purpose as a sovereign wealth fund to our stakeholders.

But how do we turn our approach to these issues into practice?

At the heart of our approach is a set of investment beliefs. These beliefs provide the bedrock for our investment programme. Each year we review them and test whether they continue to reflect the views not just of our management team, but of our Board of Guardians who have ultimate responsibility for the portfolio. Ensuring we have real commitment to these beliefs is the foundation of our investment programme and has shaped what we do, how we do it and how we have refined our processes.

We aim to allocate capital to the best investment opportunities in a given environment rather than target a particular set allocation. In doing this we strive to be flexible and dynamically manage the portfolio to position it to be as robust as possible to the environment and the potential scenarios we believe may play out. We formally review our asset allocation plans twice a year, and more often where the situation demands it.

The combination of seeking the best ideas and a desire to be dynamic, drives our focus on operating as a single team. We call this our “one team, one portfolio” approach. Rather than asking our people to focus on their particular asset class or area of responsibility, we want them to think about the construction and performance of the portfolio as a whole.

We work hard to break down silos between investment teams and to encourage teamwork and dialogue across teams. We use formal and informal mechanisms and committees to drive this. Over the last two years we have refined our management structure and enhanced our decision-making committees to improve the way we do this.

To help align staff to the whole portfolio, sector specialists receive performance related payments on the basis of the performance of the whole portfolio, rather than the asset class on which they typically focus.

This kind of thinking also shapes how we work with our external investment managers. We want our people to stay focused on the total portfolio and we want them to work with our external partners to bring insights and ideas to the portfolio. We aim to have our internal investment people working closely with our managers to identify investment opportunities and risks from the bottom up while avoiding them becoming so embroiled in transactions and detail that they stop thinking about the bigger picture.

This drives how we recruit, our culture – in which silos are avoided, teamwork is prioritised and challenge is welcomed – and our desire to form deep and valuable relationships with external investment managers who are able to contribute to our investment thinking and perspectives.

The nature of these internal and external relationships also means that we go to great lengths to prioritise qualitative assessment of our programme. Tracking our progress qualitatively based on mutual understanding and insight of issues and thought processes helps us avoid some of the alignment issues and tendency towards short-term thinking that benchmark tracking can promote.

Building understanding of our long-term view and our obligation to seek to maximise returns, by taking acceptable risk, is important to maintaining the trust of our stakeholders. Consequently, we supplement our management approach with providing detailed public disclosures supported by commentary on how we think about investing and why we have positioned the portfolio a particular way.

Summary and next steps

Our investment model and strategy works for us in our context. Other sovereign wealth funds, operating in different contexts and markets, with different purposes and cash flow profiles, will take other paths.

Understanding and exploring the similarities we have with some IFSWF members, and the differences we have with others, together with our common position as sovereign investors with the obligations and responsibilities this brings, enriches our thinking and provides an additional perspective to what we can learn from non-sovereign institutional investors.

The Santiago Principles and the IFSWF provide a structure for thinking about the purpose and legal, governance, investment and risk management frameworks of sovereign wealth funds. We have been active members in the IFSWF's annual meetings, workshops and collaborative research exercises. This work, and the valuable informal relationships and connections we have formed with IFSWF members, helps us to compare approaches and explore best practice.

As the IFSWF and its members continue to develop we look forwards to sharing our experiences and to learning from the insights of others.

Azerbaijan State Oil Fund of the Republic of Azerbaijan

The State Oil Fund of the Republic of Azerbaijan (SOFAZ) was established by presidential decree in 1999. Its main objectives are the preservation of macroeconomic stability and transformation of finite hydrocarbon reserves into financial assets, thus ensuring a perpetual income for current and future generations. SOFAZ places great importance on a high degree of transparency, which is essential to achieve the main objectives of SOFAZ and the successful management of the hydrocarbon revenues of the country. The Fund has stringent mechanisms to ensure accountability in all aspects of its activities to the owners of the Fund: the current and future generations of the country.

Why and how has SOFAZ endorsed the Santiago Principles?

SOFAZ joined the International Working Group of Sovereign Wealth Funds in 2008 and is one of the founding members of the IFSWF. SOFAZ hosted the inaugural meeting of IFSWF in Baku, Azerbaijan, in 2009. As the Forum was taking its first steps as an institution that would provide grounds for sovereign wealth funds to exchange views on issues of common interest, and to facilitate an understanding of the Santiago Principles and sovereign wealth fund activities.

The Santiago Principles serve as a crucial vehicle in augmenting the global understanding of sovereign wealth funds. As industry standards, we believe that the Santiago Principles are clear, understandable and easy to implement. Even though SOFAZ had implemented most of the processes and practices found in the Santiago Principles before 2008, the Fund finds it useful to review its compliance with them periodically to ensure that recent developments are aligned with the industry best practices.

In its 2010 annual report SOFAZ was one of the first sovereign wealth funds to disclose its Santiago Principle self-assessment. SOFAZ reviews its self-assessment annually to include the most current information and it is disclosed in its annual report. SOFAZ's review of its implementation of the Santiago Principles is performed by a dedicated internal team and submitted to heads of relevant departments for their comments before final approval by the Fund's senior management.

Finally, since the establishment of IFSWF in 2009, SOFAZ has been an active member of the Forum, has participated in all its annual meetings and actively contributed to the work of its committees. In March 2016, SOFAZ hosted the first Santiago Principle knowledge-sharing workshop in Baku, which was also the first IFSWF event organised outside of the annual meetings. The workshop invigorated knowledge-sharing activities among IFSWF members on different aspects of the operational management of sovereign wealth funds and generated additional ideas and proposals for the Forum's future Santiago Principles knowledge-sharing workshops.

Transparency and accountability

The Santiago Principles are generally accepted principles and practices for sovereign wealth funds, which properly reflect their appropriate governance and accountability arrangements, as well as their conduct of investment practices on a prudent and sound basis. Since its inception, SOFAZ has placed a particular focus on both accountability and transparency in its operations. These are two important aspects of the Santiago Principles.

SOFAZ has multiple layers of accountability including to the legislature and a wider public. The Fund publicly discloses most of its financial statements as well as quarterly and annual reports. SOFAZ regularly issues press releases covering its assets, projects and overall investment activities. To keep the public updated and informed on recent developments, SOFAZ also organises press conferences for media representatives with the participation of the CEO. SOFAZ addresses all public enquiries within the timeframe envisaged by the Law of the Republic of Azerbaijan on Right to obtain information – “as soon as practicable and in the manner most applicable for the requestor.”

Transparency is a key element in building the trust both at international and domestic level, mainly due to the promotion of accountability both between the Fund’s different stakeholders and within the policy process related to the Fund’s budget and investment mandate. All information about the Fund – its objectives, the institutional arrangements and governance structure, the risk management framework, investment policies, the audited financial statements, auditors’ notes, accounting policies and all other relevant information – is publicly available.

The Fund won the 2007 UN Public Service Award in the category of “Improving transparency, accountability and responsiveness in the Public Service” for Extractive Industries Transparency Initiative (EITI). Azerbaijan is recognised as the first country to implement the Initiative worldwide.

SOFAZ is eager to share knowledge and learn from peers bilaterally and through international initiatives. From this angle, transparency assists the Fund to benefit from knowledge sharing. With this initiative going forward, SOFAZ expects to witness and be part of more active knowledge sharing in the framework of IFSWF, particularly after the recent developments. As a unique group of long-term institutional investors, even though they are very different in some aspects of governance and operational practices, sovereign wealth funds have a lot to share with one another, especially in the area of investment and risk management.

Summary and next steps

The Santiago Principles are universal principles for sovereign wealth funds that encourage them to target best practices. We believe these principles are going to play significant role in further development in the sovereign wealth fund community and specifically to assist new and prospective sovereign wealth funds to set up better institutional and governance frameworks. Sovereign wealth funds around the globe will perform as an important part of this process through transparent activities. As a unique platform of sovereign wealth funds, the IFSWF has driven ambitious plans to further good governance and accountability and we do strongly believe that more dynamic knowledge sharing between Forum members will benefit them both institutionally and financially.

Botswana The Pula Fund

The Pula Fund is a long-term investment portfolio or sovereign wealth fund, which forms part of the overall foreign exchange reserves of Botswana. The fund was launched in 1993 under the Bank of Botswana Act (55:01), which provides for the establishment of a long-term investment fund in addition to the Primary International Reserve (Liquidity Portfolio), which consists of liquid short-term assets.

Foreign exchange reserves in excess of what is needed for short-term transactions are transferred into the Pula Fund and invested in accordance with approved investment guidelines. This is intended to preserve part of the income from diamond exports for future generations.

Due to its experience in managing the Pula Fund, in 2008 the Governor of the Bank of Botswana participated in formulating the Santiago Principles. Thus the Bank of Botswana was also a founding member of the IFSWF in 2009.

Endorsing the Santiago Principles

The Bank endorsed the Santiago Principles to promote openness and financial accountability in its investment management. The Santiago Principles emphasis on sound governance, adequate operational controls, as well as risk-management and accountability frameworks, was already enshrined in the Bank of Botswana Act. The Pula Fund’s investment and operational practices also conform to the Santiago Principles.

The Pula Fund is invested in developed-market assets and its investment decisions and strategy comply with the regulatory framework and disclosure requirements in these countries. The Fund’s investment decisions are executed in line with the highest standards for fund management and the investment framework is guided by a clear governance structure based on the separation of duties, impartiality and accountability in all investment decisions.

By adhering to the Santiago Principles, the Pula Fund demonstrates its commitment to the highest standards of governance and responsible investing. Additionally, as a signatory to the Santiago Principles, the Pula Fund is subject to peer review, which allows for a further strengthening of the investment framework and heightens transparency and improves governance. This, creates a virtuous cycle of conformity to best practice.

The legislative mandate

Bank of Botswana Act

The Pula Fund is established in accordance with the Bank of Botswana Act. According to Section 35 of the Act, if the primary international reserve is in excess of the funds needed to accomplish the Bank’s principal objectives and finance the international transactions of Botswana, the Bank may, after consultation with the Minister of Finance and Development Planning, establish a separate long-term investment fund to invest those assets, mainly derived from mineral revenues, for the benefit future generations. The Bank determines the investment policy and strategy of the Pula Fund including the selection of appropriate investments and agrees with the Ministry of Finance and Development Planning the dividend paid to the government.

The Bank of Botswana endorsed the Santiago Principles to promote openness and financial accountability in its investment management.

The Pula Fund comprises two accounts, the Government Investment Account, which is owned by the Government, and the Foreign Reserves Account, that belongs to the Bank. The Government Investment Account reflects savings from accumulated fiscal surpluses, and the accumulation of foreign exchange savings in excess of the Bank's target for liquid reserves. The Liquidity Portfolio is currently set at a neutral level of six months of import cover. According to Section 31(2) of the Bank of Botswana Act, the Governor is mandated to consult and make recommendations to the Minister of Finance and Development Planning regarding drawdowns from the Pula Fund. Consequently, if reserves in the Liquidity Portfolio fall below three months of import cover for goods and services, funds will be transferred from the Pula Fund into the Liquidity Portfolio; and if the balance on the Liquidity Portfolio is above nine months of import cover, the excess funds will be transferred to the Pula Fund. Overall, therefore, the Pula Fund, performs both savings and stabilisation functions.

The Bank's role in managing the Pula Fund

The Bank of Botswana is directed by Section 35 of the Bank of Botswana Act to manage the Pula Fund. Specifically, the activities of the Pula Fund fall under the oversight of the Board, which decides on the asset allocation, and overall investment policy and guidelines. The Pula Fund's assets and operations Pula Fund are reported in the Bank's annual report. At year-end, the Bank pays a dividend to the Government for its share of the Pula Fund through the Government Investment Account.

Within the enabling legislative framework provided by the Bank of Botswana Act, other parties in the reserve management process are the Board, Investment Committee, and Financial Markets Department. The Board is ultimately responsible for running the Bank. The Investment Committee decides on tactical deviations from the strategic asset allocation; while the Financial Markets Department implements decisions of the Investment Committee, in line with the Board approved guidelines.

Investment policy

The Pula Fund prioritises its objectives as safety, return and liquidity. Its investment strategy is directed at preserving capital while generating returns within acceptable levels of risk and adequate liquidity. Consequently, the Fund is invested in a prudent and diversified manner. The main asset classes are global bonds and equities. The eligibility of these assets is guided by the investment policies and guidelines, which are reviewed periodically. These guidelines are a set of rules that define the investment policies and parameters.

The Pula Fund's asset allocation is 65 per cent global fixed income securities and 35 per cent global equities. Part of the Pula Fund is managed by the Bank in global fixed-income assets. Additionally, the Bank retains external fund managers, with expertise in global equities and global bonds, to manage part of the Fund. The Bank provides both internal and external managers with specific guidelines and precise benchmarks for the measurement and assessment of investment performance. The Bank's global custodian provides custody services and measure performance, which are reconciled with external fund managers and subjected to performance attribution analysis. An external portfolio consultant also assists in asset allocation, manager search and monitoring. The Board is provided with a reserve management report containing, amongst others, performance data.

The Pula Fund's financial and investment activities are reported in the Bank's financial statements. In accordance with the Act, the Bank of Botswana publishes its annual report on its operations and audited financial statements and presents them to the Minister of Finance and Development Planning. Thereafter, the Annual Report must be presented to the National Assembly within thirty days to provide parliamentary oversight over the management of the Pula Fund.

The activities of the Pula Fund fall under the oversight of the Board, which decides on the asset allocation, and overall investment policy and guidelines.

Beyond fulfilling a statutory requirement, the annual report is the principal means through which the Bank of Botswana reports to the general public on its operations, including the management of the Pula Fund. Following publication of the annual report, the Bank of Botswana undertakes a series of economic briefings for stakeholders, including parliamentarians, senior government officials, the media, business leaders and the diplomatic community to provide an update on recent economic developments and operational activities of the Pula Fund.

Practical experiences

The Government of Botswana has, in the past, withdrawn funds from the Government Investment Account's portion of the Pula Fund. For example, in 2001, the Government used funds to form a defined-contribution pension scheme, the Botswana Public Officers Pension Fund, which is invested by selected pension managers.

In 2012 and 2016, the Pula Fund performed a stabilisation function. At those times, the Liquidity Portfolio, which caters for the country's international transactions, declined significantly following a deterioration in the overall balance of payments. This situation prompted a drawdown from the Pula Fund to restore import cover for the Liquidity Portfolio. As a result, in accordance with Section 32 of the Bank of Botswana Act the Bank rebalanced the portfolios to achieve the required level of import cover in the Liquidity Portfolio.

Conclusion

The Bank of Botswana Act and the Santiago Principles have guided the structure, governance and investment practices of the Pula Fund. By adhering to these rules, the Fund fosters confidence that the country's savings are prudently and responsibly managed. Furthermore, by participating in preserving the integrity of capital markets, the Pula Fund stands to benefit from stable growth and sufficient depth and liquidity conditions.

Chile

Economic and Social Stabilization Fund

Pension Reserve Fund

In 2006, the Chilean government enacted the Fiscal Responsibility Law with a view to formalizing the fiscal policy framework based on a structural balance rule¹. As part of this framework, the government created two sovereign wealth funds: the Economic and Social Stabilization Fund (ESSF) and the Pension Reserve Fund (PRF). The ESSF's purpose is to accumulate resources during periods of high growth and high copper prices, which could be used to finance fiscal deficits during periods of low growth and low copper prices. The PRF is designed to back funding of fiscal pension liabilities aimed at improving the pension of the poorest people in the country.

Each fund has its own legal framework under the umbrella of the Fiscal Responsibility Law, though the institutional framework is identical. Under Chilean law, the Minister of Finance holds ultimate responsibility for the sovereign funds and all policy decisions reside with the Ministry of Finance. The Minister then delegates operational management of the sovereign wealth funds to third parties such as the Central Bank of Chile (CBC) and external asset managers, though the Minister of Finance retains responsibility for fund oversight and supervision.

Why and how has the Chilean Government endorsed the Santiago Principles?

As part of Chile's commitment to best sovereign wealth fund practices, in 2008 the Government decided to participate in initiatives launched by several international organisations in a bid to establish an operating framework for sovereign wealth funds and promote their transparency. In this context, the Finance Ministry played an active role in the International Working Group of Sovereign Wealth Funds, to assist in drawing up the Santiago Principles. Like most sovereign wealth funds that endorsed the Principles, the Chilean Government decided to become a member of the IFSWF with a view to giving continuity to the initiative.

The Chilean Government also decided to carry out and disclose our self-assessment of the Santiago Principles, in keeping with the twenty-fourth principle, which provides for a process of regular review of the Principles' implementation, and the example of other sovereign wealth funds that were already in the process of disclosing that information. The first self-assessment was published under the Chilean sovereign wealth funds' 2010 annual report. The intent of this publication was to demonstrate to domestic and international audience our commitment to the principles and to positioning ourselves among the most transparent sovereign wealth funds.

The SWF Unit is responsible for Santiago Principle implementation sits within the Ministry of Finance, and is responsible for all aspects relating to the investment policy definition and oversight of the funds. The Ministry has decided to carry out a biennial internal review on the sovereign wealth funds' adherence to the Santiago Principles. This two-year review period was selected as the aspects addressed by the Principles are relatively stable over time.

¹ Additional information about the structural balance rule can be found in Box 1, Annual Report Sovereign Wealth Funds, 2014, at www.hacienda.cl/english/sovereign-wealth-funds/annual-report.html

Nonetheless, additional reviews may be performed if it is believed that the assessment may be outdated or if significant changes occurred in some of the areas covered by the Santiago Principles. As part of this process, the SWF Unit prepares a self-assessment document that contains our explanation on how we believe we are meeting each objective. This document is analysed by our legal department, and discussed with the Capital Market and International Finance Coordinator, the direct advisor of the Ministry of Finance. Once it has been approved by this body, it is disclosed on our website.

The Santiago Principles as a tool for continuous improvement

The Santiago Principles were based on existing sovereign wealth funds practices. As a result, the Principles addressing the legal, institutional and governance, investment and risk management frameworks, accommodated the diversity and idiosyncrasies of the global sovereign wealth fund community. In this context, it is unsurprising that shortly after the Santiago Principles were adopted, some sovereign funds – specifically those known for being very transparent – began disclosing their self-assessments and stating that they were in compliance with the Principles.

The Chilean funds complied with most of the principles at the time of their endorsement, but they needed to improve in some areas to comply better with the Principles.

In particular this was done for GAPP 11 and 12, which provide for the need to prepare an annual report that should include audited financial statements. When the Santiago Principles were endorsed, Chile had not published an annual report or audited financial statements for the funds since they were legally only required to publish monthly and quarterly reports². In this context, the Ministry of Finance decided to publish the first annual report for the funds at the beginning of 2009, which presented 2008 results, in an effort to better comply with the Principles. This report included a considerable volume of financial information about the funds and their investment-related risks, but did not include audited financial statements.³

After a year of analysis and discussions with the different units involved in their management, in 2009, the General Treasury was tasked with that responsibility. This was a considerable change since it required developing the right skills within the General Treasury as it had never used International Financial Reporting Standards (IFRS) for public finances. Financial statements were first published in the 2011 annual report and received a clean audit opinion from Deloitte, our external auditor. It is clear that having the principles as a benchmark for good management aided us in allocating the necessary resources to introduce all these changes and align the priorities of the various units involved in order to achieve this objective.

Some of the challenges

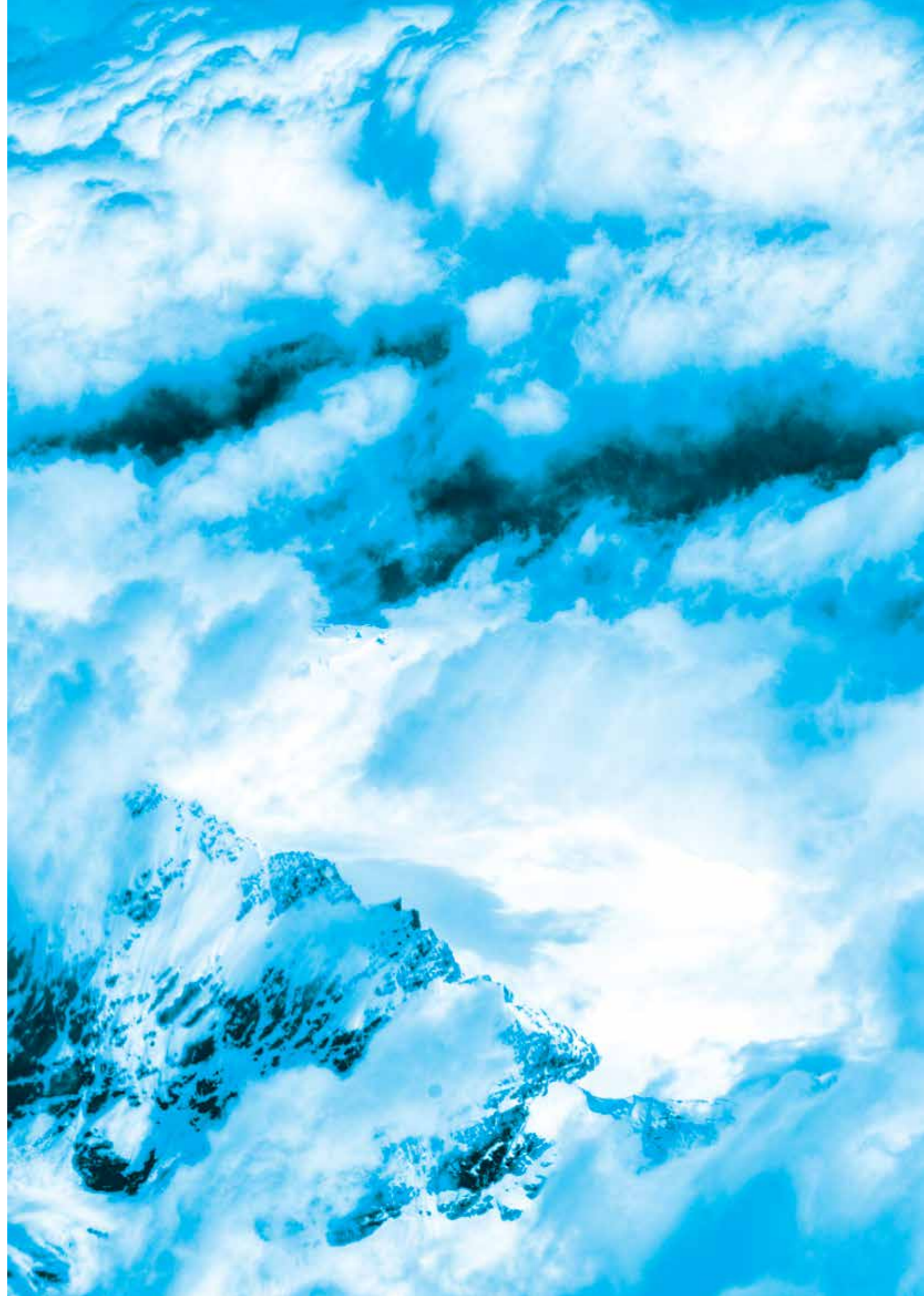
Chile has opted for a simple institutional framework in which the achievement of the funds' objectives resides mainly in the choice of asset allocation. No dynamic or tactical allocations are allowed, and the investments are made with a passive emphasis although some flexibility could be provided to fund managers with a view to addressing some market conditions (e.g. negative bond yields).

² Nonetheless, the Financial Advisory Committee, an independent body and responsible for advising the Minister in all aspects related to the investments of the sovereign wealth funds, prepared an annual report that provided information about their activities and some general information about the funds.

³ Although the CBC, which acts as Fiscal Agent of our sovereign wealth funds, prepared audited financial statements for them, they were not intended for public distribution since they were prepared according to the Bank's internal accounting standards and not necessarily complied with our requirements.

In this context, some principles may not be directly applicable. For example, GAPP 21 attributes a great of value to exercising ownership rights in a way that protects the financial value of the investments. As the Chilean sovereign funds only invest passively and are relatively small shareholders in the stocks making up the benchmark (MSCI All Country World Index), we have opted for a neutral approach to proxy voting. In practice, this has translated into simply not voting. However, we are studying the possibility of delegating this responsibility to asset managers after reviewing their proxy voting practices.

As our funds mature and their holdings become increasingly complex, special attention will be required to be aligned with the Principles. In this regard, learning from the experience of other sovereign wealth funds and having the opportunity to share knowledge at the IFSWF level will be important. We believe that the Santiago Principles will help Chile, and its peers, continue to grow as the community matures. As the complexity of our institutions increases, the Principles provide a useful framework for maintaining clarity of economic purpose and governance alignment.



China China Investment Corporation

China Investment Corporation (CIC) was incorporated in September 2007, as a sovereign wealth fund to diversify China's foreign exchange holdings and seek maximum returns for its shareholder within acceptable risk tolerance. Since its inception, CIC has been an active participant in the sovereign wealth fund community, playing an active role in drafting the Santiago Principles and making continuous efforts to implement the Principles to the fullest extent. In the meantime, as a charter member of the IFSWF since its establishment, CIC feels privileged to be able to contribute to the Forum's efforts to advance dialogue and communication among members and to elevate the global awareness and confidence in sovereign wealth funds.

Why and how CIC has endorsed the Santiago Principles

As a large institutional investor with mandate to invest in overseas markets, CIC understands the importance of frequent dialogue with stakeholders in the global economic community to not only demonstrate CIC's role as a responsible financial investor, but also to better understand and address the interests and concerns of government agencies and regulators in recipient countries, learn experience from peer institutions and contribute to the promoting of open, fair and non-discriminatory access to capital markets globally.

CIC joined as one of the 26 Charter Members of the International Working Group established in May, 2008. Along with other members, CIC participated and played an important role in reviewing, debating, defining and drafting the Santiago Principles, which were officially promulgated in October, 2008. CIC was also actively involved in the development and implementation of the permanent structure of the IFSWF, which was officially established in April, 2009. Moreover, CIC is proud that its then Chairman of Board of Supervisors, Mr Jin Liqun was elected and served as Vice Chair, Chair and Honorary Chair of the Forum from the very beginning for the span of six years. In May, 2010, CIC hosted the third Meeting of the IFSWF in Beijing with over 300 participants from around the globe including Forum members and representatives of government agencies of recipient countries, supranational economic and financial organizations and the private sector. In the meeting, Mr Li Keqiang, then Vice-Premier of China's State Council, delivered special remarks in which he said "The Chinese Government will continue to support CIC to pursue independent investment and operational management subject to commercial obligations and implementation of the Santiago Principles on a voluntary basis. He also added, "We call for concerted efforts by the international community to open up more areas for cooperation and to create an open, fair and non-discriminatory environment for sovereign wealth fund."

CIC proactively discloses its governance structure, investment beliefs and philosophy, investment and risk management strategy, major investment activities, key operational actions, and financial performance.

Currently, with a membership of 30, the Forum has become an important international organisation with far-reaching influence and serves as a platform for communication among sovereign wealth funds across the world. As a Board member of the Forum, CIC has implemented the Santiago Principles in good faith and actively participated in the Forum's various activities. CIC serves as a member of the subcommittee I and III and has continuously contributed to the discussion and decision-making on key issues related to the Forum's governance and development. At the 2015 annual meeting of the Forum in Milan, Italy, the then Vice Chairman, President and Chief Investment Officer of CIC, Mr. Li Keping was elected member of the new Board of Directors by members of the Forum. Also in 2015, CIC carried out a detailed self-evaluation on the implementation of the Santiago Principles, which was publicised on IFSWF's official website.

Reputational benefits of implementing the Santiago Principles

As China's sovereign wealth fund, CIC has been committed to international exchanges and dialogues, greater transparency and credibility and strict compliance in our investment activities, making continuous efforts to honour the requirement of Santiago Principles.

To demonstrate our commitment to timely and comprehensive information disclosure and transparency, CIC proactively discloses its governance structure, investment beliefs and philosophy, investment and risk management strategy, major investment activities, key operational actions, and financial performance through diversified forms and channels. CIC started to publish its annual report since the first complete accounting year, and launched its bilingual official website first year of its operations. In 2014, CIC further upgraded the website with enriched contents and functions to make it more informative and accessible. Also, CIC established the "spokesperson information disclosure" mechanism to provide information in a more timely and interactive fashion.

To enhance communication and exchanges with stakeholders in the global market, senior executives of CIC paid numerous visits to government agencies and business partners in many countries and regions and participated in a series of important bilateral and multilateral conferences and dialogues, including the China-US Joint Commission on Commerce and Trade, the China-UK Business Summit, the China-Russia Investment Cooperation Committee, the French Strategic Investment Attractiveness Council, the China-Japan CEO and Former Senior Officials' Dialogue, the World Economic Forum, the Boao Forum for Asia, the Asia Financial Forum, etc. They also took interviews and published articles with mainstream media from China and abroad to provide information on CIC's operations and to showcase CIC's image as a professional, responsible and transparent institutional investor.

At the same time, CIC also received over a thousand groups of guests from around the globe at its Beijing headquarters, including foreign political leaders, foreign governments and regulatory authorities, officials of international organisations, senior executives of business partners, representatives of peer institutions, and scholars in research institutes to exchanges views and promote better understanding of CIC. In our investment practices, for investment transactions that would involve foreign governmental or regulatory authorities, we would take an open and proactive approach to communicate with them to explain our philosophy and practices as a loyal follower of Santiago Principles in terms of investing on a long-term, commercial basis and fully abiding by laws and regulations of recipient countries and regions.

Through continuous efforts of communicating and with the Santiago Principles widely recognised by the international community as good standard of practices for sovereign wealth funds, CIC has built up a favourable image as a commercial, responsible, and trustworthy institutional investor, which is instrumental for us in attracting like-minded partners and facilitating our investment activities around the world.

Summary and next steps

Over the years, with the great wisdom and efforts of all member institutions, IFSWF has managed to grow into a well-established organisation with an improved governance structure, increased number of participants, uplifted operational effectiveness and organisational capability, and elevated global reputation and influence. The strong commitment and remarkable cooperative spirit demonstrated by Forum members all along is the underlying driver of IFSWF's sound developments and success. We firmly believe that with concerted efforts of all members, IFSWF, as representative of the sovereign wealth fund community, will continue its course of growing and thriving in strength and significance and will play an increasingly important and meaningful role in the international arena.

Going forward, CIC will remain to be a committed and active contributor to the growth and development of the IFSWF. Also, CIC will continue to observe in good faith the Santiago Principles and prove to be a professional, responsible, and respected world-class institutional investor.

Ireland Ireland Strategic Investment Fund

Eugene O'Callaghan
Director



Introduction

The Ireland Strategic Investment Fund (ISIF) is an €8 billion long-term investment fund that has been fully operational since late 2014. ISIF's mandate is to invest on a commercial basis to support long-term economic activity, productivity, competitiveness and employment in Ireland. As a result, the fund is one of a subset of sovereign wealth funds with a “double bottom line”: a mandate to contribute to economic activity and employment, in addition to delivering commercial investment returns.

Since inception, the fund has committed to infrastructure development in the areas of renewable energy, waste-to-energy power generation, housing finance and development (a significant bottleneck in the Irish economy), schools and roads. The fund has also invested in the food and agriculture sector – a sector of major competitive advantage for Ireland – and backed promising, growth-oriented Irish companies through some direct investments and commitments to venture capital funds (mainly technology and life-sciences sectors), and to private equity funds (debt, mezzanine and equity) that focus on small- and medium-sized enterprises (SMEs). Finally, ISIF is investing in real estate, seeking to complement private market participants as the economy continues to recover from the financial crisis. In summary, the fund aims to be a consistent provider of long-term, patient capital to the Irish economy.

ISIF invests in companies and projects that may be unable to develop quickly or successfully without its involvement. The fund identifies gaps in the corporate finance market, which typically relate to longer investment horizons and very flexible risk appetite, where ISIF investment can make the difference.

The National Treasury Management Agency (NTMA) provides a range of services to the Irish Government including ISIF.

ISIF completed its first self-assessment against the Santiago Principles at the end of 2015, after a full year of operations under its new mandate.

Why and how ISIF has endorsed the Santiago Principles

In September 2011 the Irish Government announced its intention to redirect the remaining National Pensions Reserve Fund (NPRF) assets¹ towards strategic investment in Ireland. A number of investment areas of “strategic importance” were identified as being in need of capital including water, infrastructure, venture capital and long-term financing for SMEs. In June 2013, the Government announced its legislative proposals to establish the ISIF on a statutory basis and stated that its mandate would be to invest on a commercial basis to support economic activity and employment in Ireland. The NTMA (Amendment) Bill was published, enacted and commenced over 2014.

The change of mandate for the fund required a new business model, as the fund shifted away from global investments, largely outsourced to third-party managers, towards more direct investment in Ireland.

Because of its size, ISIF is a substantial investor in the Irish economy. The Fund aims to be best-in-class, operating at all times to high international standards and in accordance with the relevant global standards of corporate governance and transparency. A significant element of this commitment is the adherence to the Santiago Principles and by extension to the IFSWF network. NTMA continues to engage peer sovereign wealth funds and sovereign development funds to share experiences and ideas and seek to develop best practices.

ISIF completed its first self-assessment against the Santiago Principles at the end of 2015, after a full year of operations under its new mandate. Having gone through a business planning and investment strategy exercise prior to the establishment of the fund, the self-assessment exercise provided us with comfort regarding our continued focus on key issues including structures, transparency, investment processes and implementation. The self-assessment process worked seamlessly and the IFSWF Secretariat provided good feedback in terms of emphasising the unique aspects of our mandate. The final submission involved contributions from senior team members across the fund and was approved by the ISIF Director.

In our published investment strategy, ISIF has articulated its commitment to the Santiago Principles and sees it as entirely consistent with its long-term commitments to best practice standards of governance, transparency and responsible investment.

For the purpose of this case study ISIF has chosen to focus on the economic impact element of its mandate and specifically GAPP 2, 3, and 5.

GAPP 2: Clarity and transparency on purpose

After the relevant section of the National Treasury Management Agency (Amendment) Act 2014 passed into law in December 2014, the assets of NPRF became the assets of ISIF. As set out in the Act, the Minister for Finance is the owner of the fund and NTMA is the controller and manager of ISIF. The Act sets out the mandate and governance structures of the fund.

NTMA is committed to ensuring that ISIF reporting is high-quality and transparent. In July 2015 the NTMA published the ISIF Investment Strategy, following consultation with the Minister for Finance and the Minister for Public Expenditure and Reform. This is published on the Fund's website and outlines how it intends to execute its mandate in the short-to-medium term.

¹ In 2009 and 2010, the NPRF was directed to invest a total of €10.7 billion in Allied Irish Banks and Bank of Ireland. In late November 2010, it was announced that the Fund would further provide a further €10 billion as part of the State's €17.5 billion contribution to the €85 billion EU/IMF Programme of Financial Support for Ireland.

Some key elements of the mandate and strategy are outlined below:

Double Bottom Line

In seeking to support economic activity and employment as well as generating commercial return, ISIF has a so-called “double bottom line” requirement. This mandate necessitates that all of the fund's investments generate both investment returns and a positive economic impact in Ireland.

Commercial

Within the context of the ISIF's bottom line, all investments must be commercially viable. Whilst investments will differ in terms of expected returns, risk profiles and time frames, each must pass the commerciality test. Commerciality requires an appropriate risk adjusted expected return for each investment.

Economic Impact

In targeting economic impact, ISIF's investment focus is on investments that build the Irish economy's productive capacity and promote its enterprise sector. ISIF's characteristics – scale, long-term perspective, flexibility – mean that it can target such investments in a way that many other investors and financiers cannot.

GAPP 3: Consistent with Government policy

As a public fund, it is important to ISIF's success that the investment decisions taken under its mandate are consistent with Government policy and that investment-related policymaking by Government agencies and departments be coherent, consistent and co-ordinated. Successful ongoing development and investment of ISIF will, therefore, be dependent on maintaining strong two-way working relationships with relevant State departments, bodies and agencies.

Strong working relationships at all levels within economic development agencies, such as Enterprise Ireland and Ireland's foreign direct investment promotion agency IDA, are important to enabling ISIF to support indigenous high-growth and exporting companies, identifying financing gaps and attracting foreign direct investment (FDI).

ISIF has good working relationships across a range of Government departments. ISIF's Head of Government and Public Affairs manages a programme of strategic engagement with Government, the wider political system, State sector and other relevant stakeholders, including trade and industry representative bodies, on how ISIF is fulfilling its mandate. Through this programme ISIF can inform stakeholders about its activities, quickly and effectively communicate key milestones and identify synergies between ISIF's activities and those of Government departments, state agencies and other public bodies, including local authorities.

Finally, to execute the fund's mandate, the ISIF Business Unit, with the support of the NTMA Chief Executive, constantly confer with wider stakeholders to ensure that commercial investment resources are available to fulfil Government policy, but do not duplicating the roles. Wider stakeholders include European counterparts, such as the European Investment Bank, European Investment Fund and the European Fund for Strategic Innovation.

To generate a positive economic impact over time, ISIF uses the economic concepts of additionality, displacement and deadweight to assess how an investment will affect economic activity.

GAPP 5: Relevant statistical data

To generate a positive economic impact over time, ISIF uses three key economic concepts to assess how an investment will positively affect economic activity:

- **Additionality:** the additional economic benefits to Gross Value Added (GVA)/Gross Domestic Product (GDP) that are likely to arise as a result of any considered investment.
- **Displacement:** instances whereby the additionality created from an investment is reduced at the national economic level due a decline in such benefits elsewhere in the economy.
- **Deadweight:** instances whereby the economic benefits created from an investment would have been achieved in any event in the absence of intervention by ISIF.

Investment opportunities that lead to economic additionality and have low levels of displacement and deadweight are likely to result in a high long-term national economic impact.

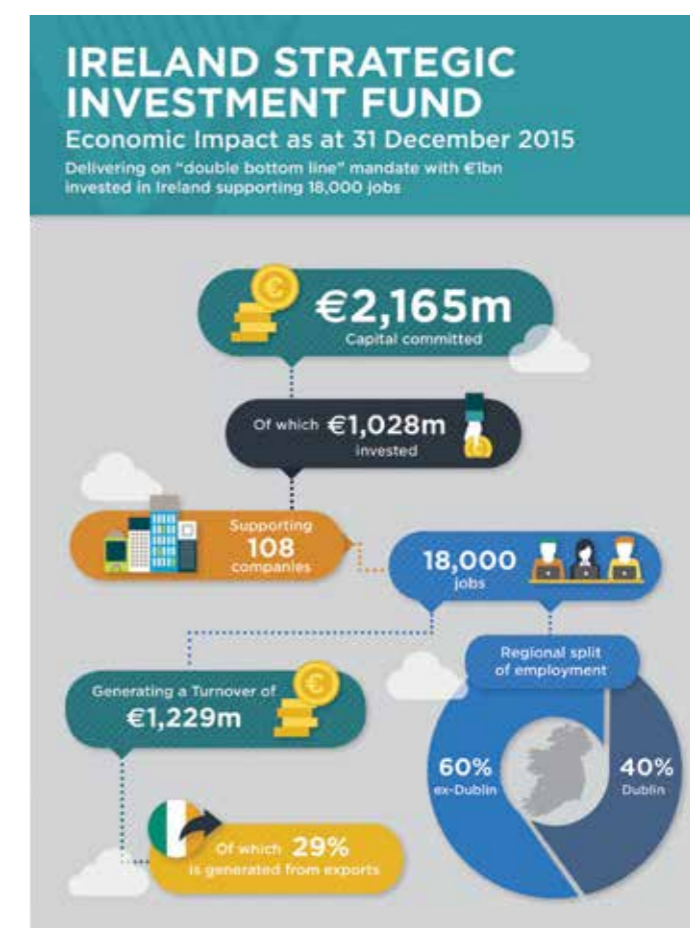
Economic additionality can come in many forms, including increased output (turnover), profits (operating surplus), net exports and capital expenditure. The supply of enabling infrastructure also creates future additionality, by facilitating new economic competitiveness. Similarly, investment in innovation, research and development also have long-term additionality that may not be immediately evident, but are necessary for long-term, sustainable economic growth.

Employment is one important measure of economic additionality. Employment arising from investment can be direct, indirect or induced employment due to the multiplier effect, but (as noted above) it is not the only metric. All metrics mentioned above influence the overall level of economic activity in an economy.

ISIF has committed to publish economic data semi-annually that, over time, will help develop robust expected relationships between investment amounts and economic impacts.

2015 analysis showed that:

- ISIF investments to date support 18,000 jobs – up from 12,000 a year earlier
- 40 per cent of jobs in Dublin, 60 per cent outside Dublin
- ISIF-backed companies/projects generated €1.2bn in turnover in 2015



Summary and next steps

While appreciating the voluntary and inclusive nature of the Santiago Principles as a self-assessment exercise, as a new sovereign development fund, it would be very useful to ISIF to gain a better understanding of how we compare with peer funds. External assessment of our implementation of the Principles to identify both areas of best practice and also potential scope for improvements would be useful. Acknowledging that sovereign funds are generally unique entities, all operating within their own jurisdictions, mandates, scope and restrictions, implementation assessment of the Santiago Principles could provide a comparative toolkit for the mutual benefit of all involved. This could potentially be in the form of a simple scoring system, whether externally validated or not, or could take the form of best practice workshops where funds present their self-assessments for peer group discussion and learning.

Kazakhstan Samruk- Kazyna

Umirzak Shukejev
Chief Executive Officer



Introduction

Sovereign Wealth Fund Samruk-Kazyna plays important role in the economy of Kazakhstan. The Fund's assets under management are primarily in large domestic companies covering almost all key sectors of the Kazakhstan economy. Samruk-Kazyna is the sole or major shareholder in the most part of its portfolio companies. The Fund's main aim is to increase the national wealth of the Republic of Kazakhstan by increasing the long-term value of its portfolio companies and managing its assets effectively.

Samruk-Kazyna goes far beyond the traditional scope of a sovereign wealth fund. Its mandate requires it to deliver investment returns as well as diversifying the economy by participating in a range of investment strategic projects on both national and regional scales. The long-term aim of Samruk-Kazyna is to become a highly efficient and flexible strategic holding company and active investor. The Fund has three strategic objectives: improving long-term value, assisting in the modernisation of the national economy and sustainable development. The engine for achieving these goals is the Transformation Programme launched in 2014, which provided the Fund with a new, more commercial business model.

The new Corporate Governance Code adopted in 2015 is one of Samruk-Kazyna's first milestones on the way to the model of strategic holding company where the boards of the Fund's portfolio companies play a key role. Samruk-Kazyna is focused on implementing this code across its group of companies, strengthening the boards in our portfolio companies and improving transparency. Since Samruk-Kazyna became a member of the IFSWF in 2014, another important process has been implementing the Santiago Principles.

These and other important steps are disclosed below, and we hope this short case study gives insight of how we approach our task.

Endorsement of the Santiago Principles

History

Joint Stock Company Sovereign Wealth Fund Samruk-Kazyna was founded in October 2008 by presidential decree after the merger of two joint stock companies: Kazakhstan Holding for the Management of State Assets SAMRUK and KAZYNA Sustainable Development Fund. The new fund was initially mandated to mitigate the negative impact of the financial crisis on Kazakhstan's economic growth and enhance the country's long-term economic competitiveness and sustainability.

The completion of the anti-crisis programme brought new strategic challenges to light: low productivity, underinvestment and the lack of financial stability in the Fund's portfolio companies. In 2012, Samruk-Kazyna reverted to its original purpose and approved a 10-year strategy focused on improving the commercial value of its portfolio.

The President of Kazakhstan set out Samruk-Kazyna's new business model in his 2014 Transformation Programme. The Transformation Programme is based on three pillars: improving the value of core businesses, portfolio restructuring, and strengthening corporate governance. By making portfolio companies' interactions with government more effective, as well as strengthening their sectoral teams and empowering their boards, Samruk-Kazyna will be able to re-engineer their business processes and simplify their ownership structure. As a result, they should be able to attract investors to core assets, as well establish active investment approaches and other transforming activities. Ultimately, Samruk-Kazyna should transition from an operational holding company to a strategic holding company with less involvement in companies' day-to-day activities.

Samruk-Kazyna has a portfolio of more than 545 companies operating in key sectors, such as oil exploration, railways, postal services and telecoms, electric power generation and distribution, airlines, uranium and mining. As of end-December 2015 Samruk-Kazyna's portfolio was valued at more than \$61 billion, generating \$9 billion of revenue. The group of companies employs 332,000 people.

Samruk-Kazyna's new business model emulates the holding company model of selected OECD countries

	Holding company model of selected OECD countries
Legal oversight	✓
Consistent corporate governance	✓
Active portfolio management	✓
Long term wealth preservation	✓
Systematic catalytic investments	✓
Professional partner to private investors	✓

Source: Samruk-Kazyna

Samruk-Kazyna's founding statute clearly defines the competences and responsibilities of each level of the Fund's governance.

Compliance with Santiago Principles

For the purpose of this case-study, Samruk-Kazyna has chosen to focus on governance issues and specifically GAPP 6, 7 and 8, which address sovereign wealth funds' governance structures, appointment procedures, accountability and authority structures.

In Samruk-Kazyna's founding statute, the law "On Sovereign Wealth Fund", the following governance structure is laid out:

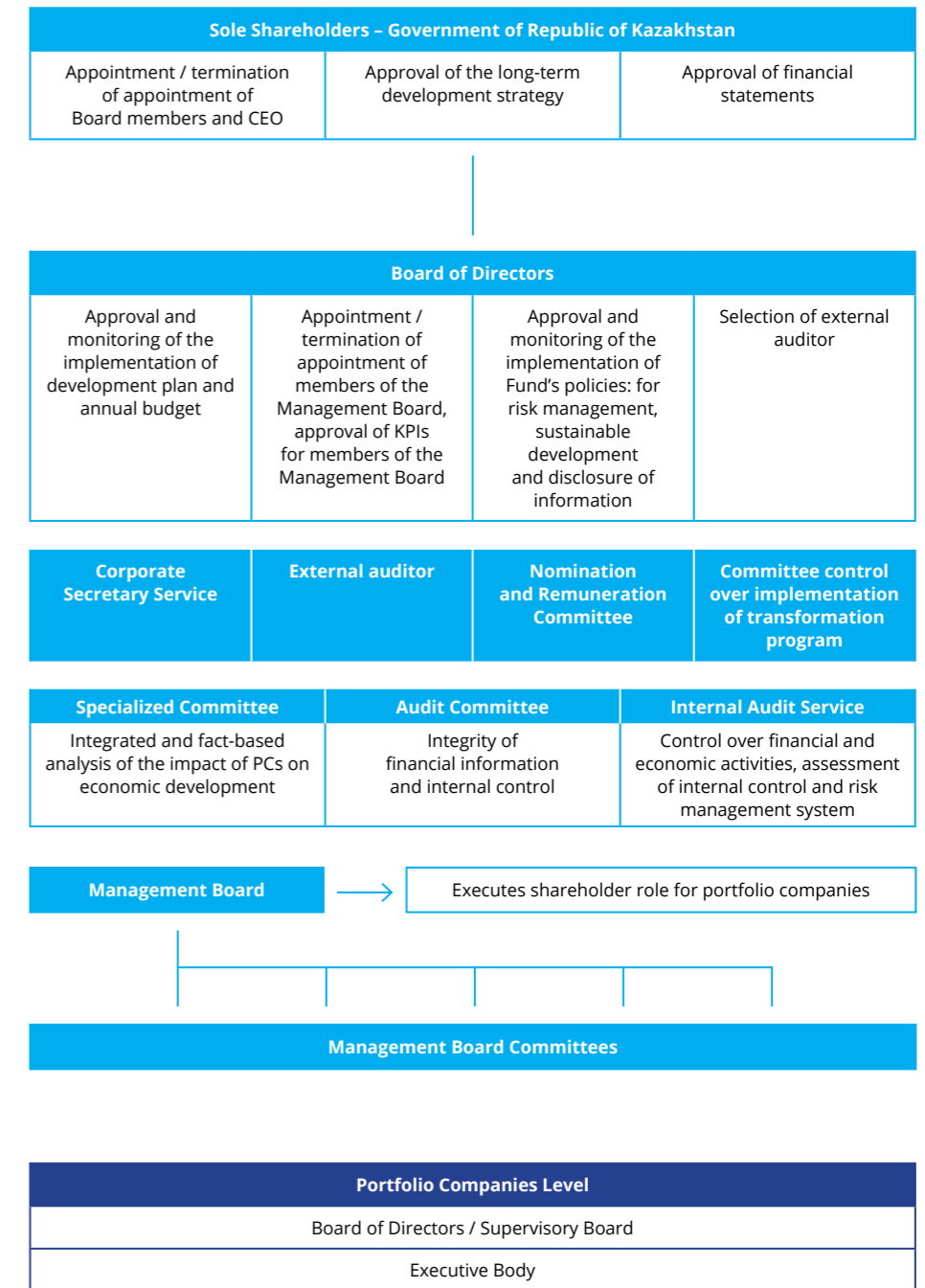
- Superior Body – Sole Shareholder
- Governing Body – Board of Directors
- Executive Body – Management Board

The law clearly defines the competences and responsibilities of each level of governance. According to the law, one of the key principles of interaction between Samruk-Kazyna and its owner is that public authorities cannot interfere in its operational activities or those of its portfolio companies, except for in cases provided by the laws of the Republic of Kazakhstan.

There are some key issues that are the sole responsibility of the Superior Body of Samruk-Kazyna:

- Introduction of amendments and supplements to the charter or approval of its redrafted versions;
- Approval of Samruk-Kazyna's annual financial statements
- Approval of Samruk-Kazyna's development strategy and the introduction of amendments and supplements
- Decision-making on increasing a number of stated shares of Samruk-Kazyna or changes to the type of unplaced stated shares of the Fund
- Determination of term of the board of directors, election of board members and early termination of their authorities
- Decision-making on the liquidation, reorganisation of companies on the list, determined by the sole shareholder of the Fund
- Appointment and early termination of chief executive of the Fund
- Approval of the procedure for distributing of the Fund's net income for the fiscal year, decision-making on the dividend to be paid on ordinary shares and the approval of the amount of dividend
- Decision-making on non-distribution of dividends on ordinary shares of the Company in the events described by the Law of the Republic of Kazakhstan "On Joint Stock Companies"
- Determination of the dividend policy of the Fund
- Approval of Corporate Governance Code as well as amendments and supplements to it

The corporate governance system encompasses governance, control and responsibility of authorities in the whole group of the Samruk-Kazyna's companies from the first to the last level. The Fund's Board of Directors and Management Board are vested with relevant powers and responsibilities to fulfil their mandates.



Source: Samruk-Kazyna

The Board of Directors has the exclusive responsibility to make decisions on:

- Short-term and medium-term planning, and the key performance indicators of the Fund
- Define the audit organisation and determine the auditors' fees
- Policies for risk management, charity, social responsibility and information disclosure
- Credit and industrial-innovation policies
- Committees of the Board
- Composition of the Management Board, election and termination of Management Board members, except for the Chairman
- Composition of the Internal Audit Service, as well as the appointment and termination of office of its head
- Acquisitions by the Fund of 10 per cent or more of shares in other legal entities
- Assessment of corporate governance and performance of the Fund's board of directors
- Related-party transactions;
- Approval of the Fund's annual report

The Board currently has eight members: the ex officio Chairman is the Prime Minister of the Republic of Kazakhstan. There are also three representatives of the Government (Ministers of Economy, Finance and Aide to the President), three independent directors and the CEO. Board members who are state officials are not permitted to receive separate remuneration for their activities on the board or its committees. The number of directors is determined by the founding legislation: two fifths of the board must be independent directors. The role and functions of the chairman of board and chairman of management board are clearly segregated and set out in the founding legislation.

The Board's activities are supported by the Corporate Secretary Service and the Internal Audit Service which controls the Fund's financial and economic activities and assesses its internal control and risk management system.

There are four board committees:

- Nomination and Remuneration Committee
- Committee for control over the implementation of the Transformation Programme
- Audit Committee for integrity of financial information and internal control
- A special committee that carries assesses the impact of portfolio companies' activities on Kazakhstan's economic development.

Samruk-Kazyna now governs portfolio companies through the implementation of shareholder rights and the boards of portfolio companies.

Samruk-Kazyna's management board is accountable to the board of directors and responsible for management of the current activities of the Fund. The management board has the key objectives to:

- Determine the conditions and procedure for conversion of the Fund's securities
- Determine the fees to be paid for valuing property transferred in return for the Fund's shares or being the subject of a major transaction
- Active engagement in the companies in which the Fund owns more than 50 per cent of the equity and development of procedures for that engagement
- Approve the appointment and termination of chief officers of executive bodies of wholly-owned companies
- Intervene promptly to prevent the disruption of the implementation of investment decisions and investment projects
- Create unified policies for finance, investment activities, production and economic activities, money management and human resources management
- Approve recommendations and corporate standards for portfolio companies in which the Fund owns more than 50 per cent of the equity
- Approve the staffing list and organisational structure of the Fund
- Decide upon establishing branches and representative offices of the Fund
- Adopt decisions on the establishment of committees of the management board of the Fund composed of employees of the Fund, companies and other persons for the purpose of elaboration of proposals for the management board of the Fund
- Determine what information about the Fund or its activity should be treated as official, commercial or another legally protected secret.

The key challenge for Samruk-Kazyna's governance stemmed from the specifics inherited from previous governance models when the Government could intervene in some portfolio companies' activities. This situation led to dilution of responsibilities on each level of governance. Samruk-Kazyna now governs portfolio companies through the implementation of shareholder rights and boards of portfolio companies.

Next steps

- One of the key factors determining development of Samruk-Kazyna's corporate governance is portfolio companies' initial public offerings. Upcoming IPOs set high standards for these companies' transparency, Board effectiveness, risk management and internal controls and other issues. Samruk-Kazyna will be focus on further refining these governance processes.
- Samruk-Kazyna is hosting the IFSWF's 2017 Annual Meeting in Astana. This is important event for the whole country and Samruk-Kazyna plans to make great contribution to the IFSWF activities and attract investors' attention to the country and Central Asia region as a whole.
- Samruk-Kazyna has just started Santiago Principles self-assessment and makes the commitment to constantly improve its compliance with the Principles.

Korea Korea Investment Corporation

Sung-Soo Eun
Chairman & CEO



Introduction

The Korea Investment Corporation (KIC) strives to grow the wealth of the Republic of Korea through sustainable long-term investing. Established by the Korea Investment Corporation Act in 2005, our mission is to manage the sovereign wealth of Korea and contribute to developing the domestic finance industry.

We work for the Korean people, including the generations to come. This means we have to hold ourselves to the highest standards of integrity as an organisation and as individuals, and that we are committed to being a transparent, trustworthy, and responsible investor. Our membership of the IFSWF and voluntary adherence to the Santiago Principles help us keep this commitment. The Principles provide a framework of best practices in all areas: ethics, legal affairs, institutional issues, governance frameworks, investment policies, and risk management. They also guide how we communicate with our stakeholders, the media, and the general public.

As we aim to become one of the world's leading sovereign wealth funds, and also become a reliable partner in the global investment community, we are proud to be part of the IFSWF and value the long-term relationships and knowledge exchanges among members.

We hope this case study offers some insights into how we have benefited from implementation of the Santiago Principles.

KIC's endorsement of the Santiago Principles

Sovereign wealth funds are important participants in the global economy. But their perceived role can vary widely, from that of a stabilising saviour to a much-maligned threat. That is why sovereign wealth funds should work together to prevent misunderstandings about our roles and intentions. Though our mandates and activities differ, we all want to pursue and promote transparency. By defining a common set of principles, we can go a long way towards educating the public about sovereign wealth funds, both individually and collectively. Understanding this from the outset, KIC became a founding member of the IFSWF. Prior to this, we had actively participated in the International Working Group of Sovereign Wealth Funds and helped develop the Santiago Principles.

Our Investment Strategy department oversees the implementation of the Principles and ensures organisation-wide buy-in through regular updates. We also highlight our IFSWF activities in our Annual Reports and on our website, where we have included a full list of the Santiago Principles and related information.

Overall, the Santiago Principles have helped KIC define its role, for the betterment of stakeholders and the general public. They provide general guidance on our own challenges and opportunities and allow us to test our practices.

As a proud member of the IFSWF, we work tirelessly to adhere to the Principles in all that we do and have submitted to the secretariat our Santiago Principles self-assessment. We are a regular participant of the IFSWF Annual Meetings and active in the member working groups, in particular leading and assisting with research on investment and risk management for Subcommittee 2.

In short, the Santiago Principles are an invaluable tool, and the IFSWF an invaluable resource for upholding our standards as a responsible long-term investor.

The benefits of adhering to the Santiago Principles

KIC's primary benefits from adhering to the Santiago Principles have been twofold. First, the transparency they promote supports the free flow of capital globally. Transparency, through the clear communication and reporting of our ethical standards, governance framework, and performance results, also helps us to gain the trust of our government sponsors and our ultimate stakeholders, the Korean people. Second, our adherence ensures and communicates our independence and enables us to define our own investment policy. This is vital to KIC's achieving its goal of preserving and enhancing Korea's national wealth.

Ensuring transparency and instilling trust

Adhering to the Santiago Principles ensures that KIC meets transparency standards that allow interested parties to understand our behaviour and intentions. Through proactive communication with the stakeholders, reporting monthly to our sponsors, issuing annual reports, making information publicly available through our website, and participating in National Assembly audits, we ensure that our sponsors and the public are well informed of our role, responsibilities, and performance.

For example, in adherence to GAPP 2, we clearly state on the KIC website that our mission is to preserve and enhance the international purchasing power of sovereign assets by consistently generating returns that exceed inflation levels, and to contribute to the development of the domestic finance industry. Furthermore, in adherence to GAPP 11 and GAPP 12, we publish an annual report that includes assets under management, return on assets, the asset mix, and our independently audited financial statements.

In addition to the above, KIC is able to gain the trust of our sponsors and the Korean public through adhering to GAPP 13. KIC has a clearly defined and a Code of Ethics & Conduct, which is published on our website, and that is communicated to the members of our governing body, management, staff, and general public. The ultimate proof of this trust is that our two direct sponsors, the Ministry of Finance and Bank of Korea, our central bank, have entrusted us with additional assets on a regular basis since inception.

Independence from stakeholders and defining our investment policy

To achieve our objectives, it is important that KIC operates independently from the government, and with clearly defined responsibilities. Adhering to GAPP, the Korea Investment Corporation Act stipulates KIC's independent governance framework and the composition, appointment procedure, and role of our Steering Committee and Board of Directors. The Act guarantees KIC's independence by stipulating that other entities, including government organisations and sponsors, are prohibited from directly influencing or interfering with KIC in any way.

The KIC Act also allows us to define our own investment policy and to operate in accordance to it, which is strictly commercial in nature. This is vital for achieving our mission and objectives. In adherence to GAPP 19 and subprinciple 19.2, KIC's Investment Policy Statement includes the following: The Corporation shall (i) minimise the risks from individual markets and assets through portfolio diversification; and (ii) exercise proper flexibility to actively seize investment opportunities as they may occur, while pursuing a sustainable increase in returns under prudent and responsible asset management policies. Investing in line with this statement, and on strictly economic and financial grounds, has led KIC to post a five-year annualised return of 3.38 per cent (2011-2015).¹

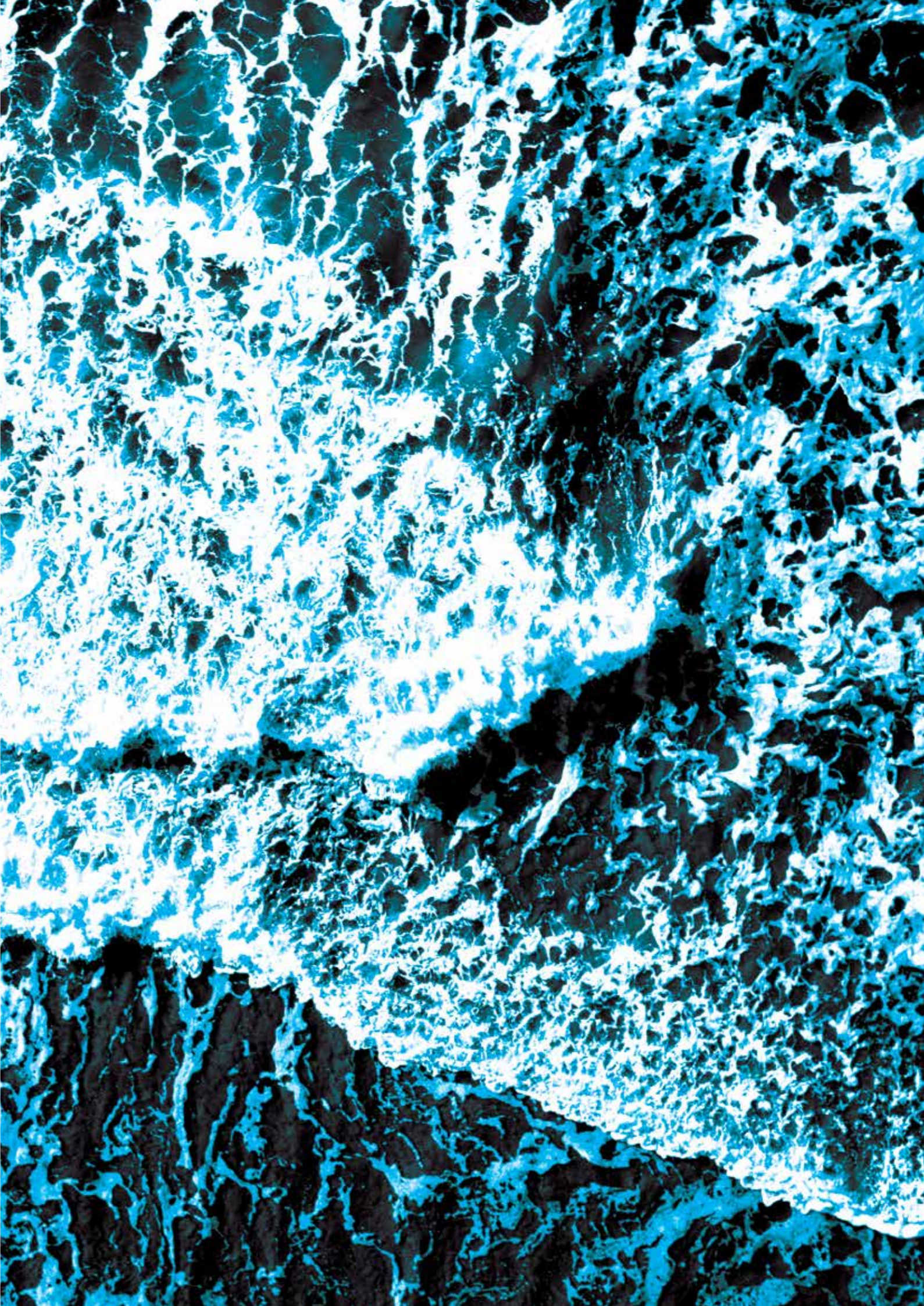
Summary and next steps

The value of the Santiago Principles endures through the ongoing commitment and the priority we give them, as adherence to them is voluntary. KIC will continue to support the IFSWF as they build best practice resources that show the value of endorsing as well as assessing one's adherence to the Principles, resources that can facilitate communication about the Principles with internal and external stakeholders.

The development of the Santiago Principles eight years ago, and subsequent coordination among sovereign wealth funds to uphold them, has helped grow and unify our community. They not only provide a framework for best practices, but serve as a channel for communication. Today, we at KIC welcome the opportunity to continue learning from peers and to share our experiences with others.

¹ Korea Investment Corporation Annual Report 2015.

The value of the Santiago Principles endures through the ongoing commitment and the priority we give them.



Kuwait Kuwait Investment Authority

*Bader M Al Saad
Managing Director
Chairman of the
Executive Committee
of the Board of Directors*



Introduction

The Kuwait Investment Authority (KIA) is the oldest sovereign wealth fund in the world. KIA traces its roots to the Kuwait Investment Board established in 1953, eight years before Kuwait's independence. In 1982, under Law No. 47, KIA was created as an autonomous governmental body responsible for the management of the country's assets. Throughout its history, KIA has served to convert a volatile commodity revenue stream into a diversified portfolio of uncorrelated financial investments.

KIA is responsible for the management of Kuwait's General Reserve Fund (GRF) and its Future Generations Fund (FGF), as well as other funds entrusted to it by the Minister of Finance for and on behalf of the State of Kuwait. The GRF is the main treasurer for the Government and receives all revenues (including all oil revenues) from which all State budgetary expenditures are paid. The FGF was established in 1976 and receives a minimum of 10 per cent of all State revenues, as well as 10 per cent of the net annual income of the GRF.

KIA aims to achieve a long-term investment return on the financial reserves entrusted to it by the State of Kuwait by investing on a commercial basis in the global financial markets. Doing so provides a long-term economic alternative to oil reserves, which will enable Kuwait's future generations to face the uncertainties ahead with greater confidence.

KIA is accountable to the people of Kuwait, whom we report to via their elected representatives, the members of the parliament of the National Assembly. I can say, proudly and confidently, that KIA has one of the strongest governance structures in the industry based on our system of accountability and reporting, clear mandate, strong audit framework, and active parliamentary oversight. I am frequently requested to appear before various Parliamentary Committees in addition to appearing before the full Parliament during discussions on KIA's budget and performance. I believe that checks and balances are very important and that Kuwait's Parliament plays a vital and critical role in this aspect.

Voluntary endorsement of the Santiago Principles

KIA contributed to the creation of, and is an initial signatory to the Santiago Principles. Sovereign wealth funds met in Kuwait City on 5 and 6 April 2009, where KIA met sovereign wealth funds from around the world, and led the process which would culminate in the consensus of the *Kuwait Declaration*. This led to the establishment of the IFSWF, which enshrined the practice of voluntary implementation and endorsement of the Santiago Principles. I consider the formation of IFSWF, via the "Kuwait Declaration", such an important accomplishment that this case study will be on the aspects of KIA's relationship with our owners, within the framework of Kuwait's domestic legislative framework.

KIA supports the Santiago Principles and the work of IFSWF in several ways. KIA publishes its Santiago Principles self-assessment on its website, within the section on KIA's governance structure. KIA also participates actively in IFSWF's member working groups on sovereign wealth funds' Governance and Purpose, and in the Risk Management and Investment subcommittees. KIA also participates in the IFSWF annual meeting. Doing so supports the vision established in the *Kuwait Declaration*: that sovereign wealth funds can learn from one another, jointly develop best practices, and improve cooperation within the global investment community. KIA's participation in these efforts helps to maintain a stable global financial system, and supports full compliance with all the applicable regulatory and disclosure requirements.

KIA pursues corporate governance activities based on industry best practices and the highest international standards of shareholder responsibility. Sovereign wealth funds are important participants in the international monetary and financial systems whose activities help promote growth, prosperity, economic development and financial stability. Through the Santiago Principles, KIA and its peers can align themselves with best operational practices for sovereign wealth funds.

KIA's relationship with its owners, within the framework of Kuwait's domestic legislative framework

KIA's investments are completely transparent to the State of Kuwait, which is responsible for protecting the interests of KIA's beneficiaries, the citizens of Kuwait. As such, KIA benefits from high levels of regulation and oversight domestically. KIA regularly provides reports to the Minister of Finance – who is the *ex-officio* Chairman of the Board of Directors of the KIA – the Council of Ministers, the National Assembly, and to the independent State Audit Bureau. KIA also provides periodic reports to the Board of Directors and to the Executive Committee of the Board on various aspects of KIA's investments and performances. Senior representatives of KIA report periodically to the National Assembly's various committees to discuss any issues raised by the State Audit Bureau.

KIA is an independent public authority managed by its Board of Directors. The Board has complete independence in its decision making process. Kuwait's State Audit Bureau sends a detailed report on all aspects of KIA's activities to Kuwait's Parliament every six months.

By law, KIA's Board consists of members from:

- The Minister of Finance (Chair) – *Ex-officio*
- The Minister of Oil – *Ex-officio*
- The Governor of the Central Bank of Kuwait – *Ex-officio*
- The Under Secretary of the Minister of Finance – *Ex-officio*
- And five other Kuwaiti Nationals from the private sector appointed by Amiri Decree

At least three of the private sector appointees may not hold any other public office.

KIA's strong corporate governance structure is based on a comprehensive system of checks and balances¹ with responsible oversight as follows:

- Board of Directors
- Executive Committee of the Board
- Audit Committee of the Board
- Oversight by the Council of Ministers (Cabinet)
- Oversight by the National Assembly (Parliament)
- Review by various National Assembly Committees:
 - Finance and Economic Committee
 - Closing Accounts and Budget Committee
 - Public Funds Protection Committee
 - Complaints Committee
- Onsite placement of government auditors (State Audit Bureau)
- Two international leading firms of external auditors (KPMG and Ernst & Young)
- Independent internal audit reporting directly to the Chairman (Minister of Finance)

Kuwait's parliament, the National Assembly, is the oldest and most active in the region. All Kuwaiti citizens 21 or older freely elect their chosen representative resulting in a legislative body of 50 members of Parliament. The elected representatives of the National Assembly are regularly informed, at least annually, of KIA's investments and investment performance.

In 2005, a leading global external consultant undertook a comprehensive review of KIA's strategy. The purpose was to ensure that KIA aligns itself to industry best practices in all aspects of asset and investment management. The results affirmed that KIA has one of the best corporate governance structures within its peer group and industry. A similar exercise took place 10 years later through another external consultant to re-examine KIA's governance structure, which yet again reaffirmed KIA's application of global best practices.

History² has shown that all of KIA's investments are made on a purely commercial basis with no political bias, with the aim of maximising returns without taking a controlling interest in investee entities. KIA has been a stable and responsible shareholder and owner based on commonly acceptable international standards for shareholders. KIA always complies with all regulations and laws domestically and in investment recipient countries. Throughout KIA's more than 63-year history, sovereign wealth funds, including KIA, have acted responsibly during difficult financial times and will continue to be responsible investors and shareholders in global markets.

Continued excellence

KIA will continue to cooperate and excel through a healthy environment of checks and balances by complying with domestic laws and continuing to be transparent with the owners of the KIA, the citizens of Kuwait through our National Assembly. KIA strongly advocates the voluntary application of the Santiago Principles, within domestic legal framework, and will continue to play a leading role in IFSWF by working together with our peers, promoting issues of common interest, and supporting the continued development and implementation of best practices for sovereign wealth funds.

¹ KIA's organisational chart can be found on its website.

² More details on KIA's history can be found on its website.

KIA's investments are made on a purely commercial basis with the aim of maximising returns without taking a controlling interest in investee entities.

Morocco Ithmar Capital

Tarik Senhaji
Chief Executive Officer



Introduction

In 2011, The Moroccan Government established a sovereign development fund, Fonds Marocain pour le Développement du Tourisme (Moroccan Fund for Tourism Development), which focused on tourism and real estate investments. In 2016, FMDT became Ithmar Capital and its mandate has been extended to cover all sectors of the economy. Ithmar aims to catalyse foreign direct investment (FDI) into the Morocco and create sub-investment vehicles adapted to the expectations of the international investors.

Ithmar is a strategic publicly sponsored investment organisation with a dual objective: fostering development while delivering financial performance.

Ithmar has a wealth creation role that goes beyond the portfolio management role of a traditional sovereign wealth fund. Its strategy aligns with state's macro-economic strategies. The Fund takes strategic stakes in socioeconomic projects and promotes policies that contribute to the development of key sectors of the national economy. As such, Ithmar has played an important role in financing projects in times when liquidity is scarce and bringing in foreign direct investment.

Ithmar has also developed an accurate knowledge of the local market and privileged access to investment opportunities. Investing directly in emerging markets require specific know-how and hands-on experience of a local partner. Such expertise significantly helps translating local specificities and challenges to international investors and thus provides access to investment opportunities in strategic projects.

Ithmar Capital and the Santiago Principles

Ithmar joined the IFSWF in 2015. The Forum represents a great opportunity to have a deeper knowledge of sovereign wealth funds' activity and enhance collaboration with them.

The Santiago Principles, endorsed by the IFSWF members, provide a model framework for sovereign wealth funds and their governing bodies. We adhere to the principles to ensure we are operating according to best practices used by international peers. The principles are a useful tool to improve internal processes and reduce risk. It allows Ithmar to track its improvement in governance, transparency and risk management matters. The endorsement of the Principles also improves the Fund's reputation among the international investment community.

Our implementation of the Santiago Principles is based on three pillars:

- **Structure and transparency:** Ithmar is structured as a public limited company. Its framework is defined within Ithmar's decree of creation, together with the applicable laws in the Kingdom of Morocco relative to public limited companies (GAPP 1 and 2). The relationship with third parties is governed by a decree which sets forth policies and procedures relating to public contracts and tenders so they are awarded in a fair manner and ensure transparency and fair competitive market conditions.
- **Governance, independence and ethics:** a clear and sound governance framework has been established to ensure independence of the management that can pursue its objectives in accordance with the law. Ithmar has a chief executive officer and a board of directors with specialised committees (steering and investment committee, audit committee, remuneration committee) (GAPP 7 and 8). In addition, professional and ethical standards applicable to the governing bodies of the Company are defined under the Moroccan code of best practices of governance for SOEs (GAPP 13).
- **Accounting, financial data and reporting:** Ithmar has a clear legal accountability framework. It keeps full records on the accounts and produces annual financial statements. The fund also produces annual reports on operations and performance, a management report and an annual activity report accompanying the annual financial statements in accordance with recognised national and international accounting standards (GAPP 10, 11 and 12).

Case study: Wessal Capital

For the purpose of the case study, we have chosen to share the experience of Wessal Capital, an investment vehicle sponsored by Ithmar.

One of Ithmar's primary objectives was to involve more international partners in its projects and in the economic development of the country. In this context, Ithmar worked on structuring an investment vehicle with four other sovereign wealth funds under the form of a joint venture.

In Wessal Capital, Ithmar partnered with Abu Dhabi's Aabar Investments, the Kuwait Investment Authority, the Public Investment Fund of Saudi Arabia and Qatar Holding, a division of the Qatar Investment Authority, to create one of the largest investment funds in Africa. Each investor committed €500 million.

Our implementation of the Santiago Principles is based on three pillars: structure and transparency; governance, independence and ethics; and accounting, financial data and reporting.

We believe Wessal has an innovative approach to investment and is a relevant case for the following reasons:

Shareholding structure

Wessal Capital has a unique shareholding structure with five sovereign wealth funds. The investors made Wessal Capital a tailor-made investment vehicle to align its operations with their interests as sovereign wealth funds with long-term investment horizons. The two-tier structure has been designed to keep the investors engaged on an organisational level, while creating a flexible operational level through special-purpose vehicles, facilitating on-the-ground execution. The crucial added value offered by such type of co-investment is sharing unique knowledge, expertise and best practices. This automatically raises the bar in terms of projects' execution, transparency and corporate governance by complying with the highest international standards.

Consequently, Wessal plays an important role in attracting FDI and thus represents a significant capital inflow to Morocco. Wessal is in this context a successful example that promotes co-investments and improves foreign investors' confidence in the country.

The endorsement of the Santiago Principles by Wessal Capital were key requirements to facilitate co-investment among such world-class investors (GAPP 6, 7, 8, 10 and 11).

An innovative initiative for encouraging PPP

Wessal Capital's mandate is to focus on structural projects that will have a positive impact on the Moroccan economy and enhance Morocco's socio-economic environment, thus improving the lives of Moroccans as well as attracting international business and tourists. Wessal selects projects on the basis of potential financial return, as well as social and environmental responsibility and cultural relevance. The projects in which it is involved to date are the first of their kind in Morocco.

At the concept stage, the Wessal team ensures the projects are aligned with the Government objectives and sectorial/regional strategies. Investment agreements are signed with the Government outlining its contribution to the project (tax benefits, provision of infrastructure etc.). These projects have significant social and economic impacts in terms of value creation and employment and these are tracked and quantified in line with GAPP 3 of the investment principles.

Wessal takes on large-scale, innovative projects that are outside of the private sector's scope. Once the project is structured, the management invites and encourages the private-sector players to participate, bridging the gap between the public and private investors. This is a key priority as outlined by GAPP 20.

Investment sustainability

Wessal Capital has encouraged foreign investors to invest in Morocco on the basis of attractive profitability and internal rate of return (IRR) levels. The shareholders have, therefore, established a structure and a set of procedures that allow them to control risk and maximise returns. The measures used to monitor profitability are as follows:

- The management uses world-class advisors to structure and execute the projects. The selection process follows a strict procedure that are consistent with GAPP 14 requirements (minimum number of bidders, max threshold approval for managers, requirement for approval committee).

The endorsement of the Santiago Principles by Wessal Capital were key requirements to facilitate co-investment among such world-class investors.

- The green-field nature of the projects also allows more control of the targeted IRR. The management owns the business plan and can adjust the scale or components of the project as well as the timeline and development stages as necessary. Providing such tailor-made requirements needs a careful balance between discipline and flexibility: discipline to ensure the project remains closely aligned with the investors' long-term vision, and flexibility to react to major changes ahead of long-term trends. This approach minimises risk while maximising returns (GAPP 19 and 22).
- To ensure full transparency, the shareholders required a sound governance framework (GAPP 6). Based on the recommendation of external advisers, the structure was set up in accordance with international standards. It has been segregated into management and project companies, each with defined areas of responsibilities, to increase operational efficiency and simplify the decision-making process. Wessal produces a monthly report to shareholders and additional governance bodies have been put in place to strengthen the governance structure, such as steering and audit committees.

Conclusion

By endorsing the Santiago Principles, sovereign wealth funds are part of an investment community that shares the same values. Members talk about their experiences and discuss their investment ideas. This interaction keeps them aware of each other's activity and investment strategy, and facilitates co-investment among the community members.

Practically, and when it comes to investments or setting up joint ventures, investors are aligned on projects' structure, transparency, governance and disclosure requirements. This accelerates the investment process and reduces the negotiation timeframe. Indeed, co-investment goes beyond capital sharing and creates opportunities for sharing of a unique set of know-how, expertise and best practices.

The Principles are a useful guideline that make sovereign wealth funds seek continuous improvement. Members have different levels of adherence to the Principles and comparing their status with each other is a source of inspiration and motivation to progress.

Ithmar's mandate for co-investment in Morocco and Africa is closely intertwined with the implementation of the Santiago Principles. Endorsing the Santiago Principles helps building bridges between investment communities and allows local investment communities to step into the international investment community playground. These bridges are the stepping stone towards the setting up of a worldwide co-investment platform.

New Zealand New Zealand Superannuation Fund

Introduction

Reporting against the Santiago Principles positions the New Zealand Superannuation Fund (NZSF) as a commercial, long-term investor, reliable commercial partner, and responsible participant in the international financial system. The Principles address aspects of transparency, accountability, governance and commercial investment, and so encourage clarity around the ownership, purpose, and funding of the NZSF. They match well with the NZSF's founding legislation, and with our organisational framework, values and practices. As such, the Principles are invaluable in communicating the Fund's constitutional and operational details in an internationally accepted and comparable format to all observers.

This note explains the NZSF's approach to self-reporting against the Santiago Principles, the lessons we have learned, and how we perceive the benefit of doing so.

The New Zealand Superannuation Fund: purpose and context

One element of New Zealand's retirement income system is a publicly-funded, universal, pension ("New Zealand Superannuation") available to all citizens aged 65 and over who also satisfy other basic residency criteria. This superannuation is funded from each year's fiscal revenues, i.e. it is a pay-as-you-go system.

As the population ages, the share of fiscal collections directed to superannuation expense is expected to rise. In response to the challenge of New Zealand's ageing population, the *NZ Superannuation and Retirement Income Act 2001* established:

- The New Zealand Superannuation Fund, a pool of assets on the Crown's balance sheet; and
- The Guardians of New Zealand Superannuation, a Crown entity charged with managing the Fund.

The New Zealand government uses the Fund to save now in order to help pay for the future cost of providing universal superannuation. In this way the Fund helps smooth the cost of superannuation between today's taxpayers and future generations.

The Guardians of New Zealand Superannuation is the Crown entity charged with managing and administering the Fund. It operates by investing initial Government contributions – and returns generated from these investments – in New Zealand and internationally, in order to grow the size of the Fund over the long term.

Between 2003 and 2009, the Government contributed NZ \$14.88 billion to the Fund. Contributions are scheduled to resume from 2020-21. From around 2032-33, the Government will begin to withdraw money from the Fund to help pay for New Zealand Superannuation. The Fund will continue to grow until it peaks in size in the 2080s.

The Fund is therefore a long-term, growth-oriented, global investment fund.

Under the Act, the Guardians must invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund in a manner consistent with:

- Best practice portfolio management
- Maximising return without undue risk to the Fund as a whole
- Avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

An important feature of the Guardians' framework is that it is fully accountable to but operationally independent from the government with regard to its investment decisions.

Summary of investment method

Together with its institutional context and purpose, the usefulness of the Santiago Principles to the NZSF must also be appreciated in the context of its investment methods. Broadly, this framework can be summarised as follows:

- We use a Reference Portfolio, which is set by the Guardians' Board, to benchmark the performance of our actual investment portfolio and the value we are adding through our active investment strategies. The Reference Portfolio is a simple, low-cost, passive implementation. Importantly, in the absence of compelling, value-add, investment activities, the Board gauges that a fully invested Reference Portfolio will satisfy the Fund's legislated mandate.
- Our aim as an active investor is to add more value after all costs to the Fund than the reference approach would do, using strategies based on the Fund's natural advantages as a long-term, sovereign investor with low liquidity requirements.
- Our target operating model is based on a commitment to active investment management where we have a strong expectation of meaningful risk-adjusted returns net of costs, and on the need to build an operation that is agile and scalable. It features simple investment processes which enhance our ability to rank investment opportunities and prioritise our efforts. The results is a more concentrated, active investment portfolio and fewer, deeper, investment manager relationships.
- The Guardians has a long-standing commitment to Responsible Investment. We believe that environmental, social and governance (ESG) factors are material to long term returns. ESG considerations are therefore integrated into all aspects of the Fund's investment activities, from investment selection and due diligence to ownership activities such as monitoring our external investment managers, exercising our voting rights and engaging with companies to improve their ESG policies and practices.

The NZSF and the Santiago Principles

The New Zealand Superannuation Fund has compiled self-assessments with respect to its implementation of the Santiago Principles since first becoming a signatory of IFSWF. Each year, the self-assessment is completed as part of the process of preparing the annual financial report, and a declaration is made therein.

At a basic level, with the Guardians legislatively required to invest in line with global best practices, the Santiago Principles serve as an important marker for what, exactly, constitutes this global best practice. The Principles are the product of academic, policymaker, and practitioner insights garnered from the experiences of well-regarded peer sovereign and other investment funds. Selecting these Principles as a benchmark for operational governance, and publishing a self-evaluations against these, is therefore an important signal of the NZSF upholding the provisions of its founding legislation.

Reputational benefit

The reputational benefits extend far beyond legislative compliance, however. As per the Santiago Principles, our policy purpose is clearly defined and publicly disclosed. We publicly present our performance, releasing monthly, quarterly and annual financial reports. We are also subject to monitoring from the New Zealand Treasury, the Minister of Finance, and regular reviews from auditors on behalf of the government. This transparency – to both the Government and the New Zealand public – has helped in communicating the Fund's commitment to good governance, accountability and professionalism. All three elements are captured by an independent, peer-reviewed, and widely-followed set of standards, the Santiago Principles.

The reputational benefits from the transparency and accountability that the Santiago Principles encourage mean that there is wider public support for the Fund's activities relative to the baseline. (Direct references can be made to GAPPs 1, 2, 3, 5, 6, 10, 11, 21, and 23.) This support is critical in sustaining long-term investment activity, when there are likely to be extended periods of under-performance.

Commercial benefit

This reputational benefit then translates into the important risk and return considerations that are central to the achievement of the Fund's purpose. The increased awareness of the Fund's purpose and performance means that we are likely to have more targeted conversations with our investment partners, reducing search costs. Further, our absolute commitment to these principles means that we look for the same things when identifying and working with investment managers, whether they are directly employed the Fund, or engaged via external asset management firms. Monitoring costs are reduced, risks are better acknowledged and understood, and crucially, alignment of all parties over the Fund's financial goals increases. Each of these has implications for the risk and return that we expect from an individual investment, and from the portfolio as a whole.

We have an extensive network of commercial relationships around the country, providing a good platform for accessing investments and forming strategic partnerships. Over 15 per cent of the Fund is invested in New Zealand, a sizeable and successful part of our portfolio. It is the Guardians credibility that has fostered our reputation as a trusted partner and co-investor, enabled us to deliver superior returns, and allowed the Fund to contribute positively to New Zealand's economy and business community.

Internationally, it has been helpful for the NZSF's commitment to governance and long-term investment to be communicated widely via the Santiago Principles. As a co-investor of choice, we have been able to partner with some of the world's leading institutional investors and make investments throughout the world. By operating transparently and in compliance with the regulatory standards of host countries, as required by the Principles, the Fund has been able to access opportunities around the world and make investments in a broad array of markets. Likewise, our ability to make direct investments in promising private companies overseas has been driven by our reputation as a commercially-oriented investor dedicated to long-term success.

To sum up, globally-constructed and globally-accepted standards for good practice like the Santiago Principles are invaluable, both directly and indirectly, in fostering a reputation for the NZSF that eventually yields financial benefit in the form of access to investment opportunities, and higher risk-adjusted returns.

Global capital flows and long-term investment – the role of the Santiago Principles

The essence of the Principles is that it is critical that sovereign wealth funds are run for long-term economic purposes, with appropriate governance and investment disciplines – mainly because it is very difficult for a current population to put wealth aside collectively for future generations.

Time inconsistency, myopia, asymmetry of information, and principal-agent risks are all well understood economic concepts that drive inappropriate risk taking and rent seeking. Not saving now to meet a known challenge implicitly assumes that it will be safer to meet that challenge by borrowing at some future unknown date and interest rate. Or, it explicitly assumes the challenge will no longer exist or that we will have decided not to meet it. In short, inter-generational fairness and long-term investing are very difficult concepts to hard wire into the political economy of a society. Even in a society with strong and sound institutions such as New Zealand, retaining consistency of policy through time is difficult.

The Santiago Principles go a long way to describing the 'necessary' (but not 'sufficient') tools to achieve long-term, contrarian, investment. By definition, therefore, long-term, contrarian investors such as sovereign wealth funds that follow the Principles are market stabilising through their provision of liquidity and capital when the markets need these most. The NZSF – by design – is a long-term investor.

It is also one of our investment beliefs that truly long-term investors can create superior returns – they have an edge if they use this opportunity correctly. Long-term investors can ride out much of the shorter-term volatility in financial market prices (i.e., risk premia) and not be forced to sell assets when it is not in their interest. Indeed, by having a much more stable 'risk appetite', they can actually profit during periods of extreme risk aversion or outright panic. Similarly, long term investors can also pursue more illiquid investment opportunities with the knowledge they have time to implement investment plans and reap the returns in time to make any future payments.

Perhaps most importantly, long-term investors are not driven by reputational or career concerns derived from – irrelevant – short-term return comparisons. Instead, they remain focused on achieving a goal and ensuring the ability to invest opportunistically as risk premiums fluctuate. In fact, the two biggest mistakes investors make are:

- Pro-cyclical investments – selling when prices are falling and vice versa – and;
- Misalignments between the managers of the investments and the owners of the capital i.e., concern for management fees and performance bonuses over and above the owner's interests.

The essence of the Santiago Principles is that sovereign wealth funds are run for long-term economic purposes, with appropriate governance and investment disciplines.

In our view, these two factors alone help explain a considerable proportion of the turmoil we have seen in global capital markets over the last decade.

Giving in to what may appear easier to explain in the short-term is a trap that significant swathes of the global investment community fall into. Fortunately for some, these two oft-repeated mistakes increase the competitive advantage of truly long-term investors like the NZSF and other sovereign wealth funds that operate by the Santiago Principles.

Third-party assurance

For the 2015-16 financial year, the Guardians undertook third-party assurance of the NZSF's implementation of the Santiago Principles. This exercise was carried out as an additional, independent, signal of the Fund's commitment to the Principles and to the integrity of the self-assessment exercise. Undertaken by the Guardians' provider of assurance services, Ernst and Young, the procedures included, but were not limited to:

- Gaining an understanding of the Guardians' business and approach to applying the Santiago Principles;
- Performing a risk assessment, including considering internal controls relevant to the preparation of the Self-assessment Report against each principle of the Santiago Principles;
- Interviewing management and information owners to obtain an understanding of the systems and the process used for the collation and retention of the subject matter to check that there was nothing that suggested the Santiago Principles have not been accurately applied;
- Evaluating the reliability of the response to each principle through the review of systems, processes and information used to support the Self-assessment Report;
- Collection and evaluation of documentary evidence.
- Testing, on a sample basis, the accuracy and balance of statements within the Self-assessment Report

Conclusion

Good investments will come and go, and views on good investment strategies will change only slightly less often. However, it is a good governance framework that will primarily give the Guardians the discipline, courage and consistency to stay the course and achieve our mission of reducing the tax burdens on future New Zealanders. Having been granted a license to operate on the basis of this framework, we owe it to our sponsors and all New Zealanders to be transparent and accountable for the choices we make. The Santiago Principles help us achieve these goals.

Palestine Palestine Investment Fund

Palestine Investment Fund (PIF) was established in 2002 through the consolidation of commercial assets and investments held by the Palestinian Authority as part of its financial reforms. PIF has a mandate to promote sustainable economic growth and private-sector development in Palestine.

PIF pursues a “double bottom line” mandate of contributing to the economic development in Palestine while achieving an acceptable rate of financial return. In fulfilling this mandate, PIF originates and invests in economically feasible, socially responsible and developmentally sound strategic projects, in vital and viable sectors in the Palestinian economy, through partnership with the private sector.

PIF investments are managed through a number of specialised subsidiaries operating in key sectors of the Palestinian economy including infrastructure (energy, telecoms and natural resources), construction materials, real estate, small and medium-sized enterprises, and capital markets through a holding company operating model.

PIF has an active business development and investment function in charge of developing investment opportunities in sectors considered to be key enablers of the Palestinian economy. These investment opportunities are then transferred to the related subsidiary, or incubated within PIF until they reach a level of maturity to be turned into a separate company.

In addition to its strategic investments with focus on economic development, PIF allocates a portion of its assets for investments in local and international capital markets to diversify risk and to maintain an acceptable level of financial return.

PIF Subsidiaries



Source: Palestine Investment Fund

Why and how PIF has endorsed the Santiago Principles:

Since its inception, PIF has passed through various stages. Initially, it focused on consolidating scattered investments with different forms and objectives, the majority of which were outside Palestine, into a single entity with one vision and a clear mandate. This process involved a thorough assessment of the feasibility of the investments and a detailed review of their objectives in light of PIF's mandate. This exercise resulted in multiple divestments and the consolidation of many entities, and the redirection of the majority of PIF investments into Palestine. The project has culminated resulted in a stronger structure that emphasises good governance, transparency, accountability and disclosure.

The foundations for good governance were established in its inception, and detailed in PIF's bylaws, which established PIF as a separate legal entity, financially and administratively independent of the Palestinian Authority's budgets and government departments. PIF is registered as a public shareholding company with an independent Board of Directors and General Assembly, and is subject to the strict requirements of the Palestinian corporate law, including the financial disclosure requirements.

The governance structure is further articulated in a detailed governance manual, and policies and procedures manuals. These manuals govern the various aspects of PIF operations, and were developed in line with best practices to guarantee strong internal controls, proper authorisation and transparent operations.

PIF's adherence to the principles of good governance and its high level of transparency and disclosure has increased the efficiency of operations and resource use, built trust with stakeholders, and attracted international investors to the Palestinian economy.

Joining IFWSF was a natural next step for PIF to fulfil its commitment to continuous improvement and to adherence to best practices in governance and transparency. Benchmarking our governance structure and practices against a highly acceptable set of industry standards, such as the Santiago Principles, provides the opportunity for continuous improvement. In addition, IFWSF provides an excellent platform for knowledge sharing and collaboration where PIF and other sovereign wealth funds and sovereign development funds can exchange views on issues of common interest.

Finally, PIF's adherence to the Santiago Principles demonstrates its commitment to high standards of corporate governance and transparency. This commitment has improved PIF's reputation locally and internationally and has helped PIF to increase the partners base for its investments and initiatives.

PIF's first self-assessment experience

PIF's first self-assessment against the Santiago Principles was in early 2015, as part of the IFWSF membership application process. The process of self-assessment was both an opportunity and a challenge. It provided the opportunity to benchmark various aspects of our legal structure, transparency and disclosure system, and risk management and investment practices against industry best practices. Meanwhile, it challenged us to continuously improve our operations and practices and to benefit from other members' experiences.

The self-assessment exercise, which initially seemed to be a lengthy process, was largely smooth. The 15 case studies published in 2014 provided valuable insight on how other sovereign wealth funds interpreted and implemented the Principles. However, for certain principles, in particular those related to investments and risk management (GAPP 18, 19, 22), assessing compliance was more challenging and required a higher level of judgement due to the limited guidance provided for these principles.

Our experience with the self-assessment illustrated that for the most part our existing practices, prior to joining the IFSWF, were in line with the Santiago Principles. However, the self-assessment exercise provided PIF with the opportunity to compare its practices with those of other sovereign wealth funds, and highlighted areas for improvement.

On the area of legal framework, objectives, and coordination with macroeconomic policies, PIF is registered as a public shareholding company (owned by the Palestinian People), with a clear and publicly disclosed mandate which is included in PIF's annual report and posted on its website. PIF has a clear and independent governance structure that has representation from the various segments of Palestinian society.

Although by virtue of size and nature of its investments, PIF has a limited macroeconomic impact, the Fund maintains an ongoing communication with the various government ministries and commissions to ensure that relevant government entities are well informed about PIF activities and operations.

However, the self-assessment highlighted reporting as an area of improvement, through expanding standard reports to include additional statistical and other non-financial data related to PIF's economic developmental impact.

On the institutional framework and governance structure front, PIF's bylaws and governance manual set the tone for its governance structure, covering issues related to the General Assembly, Board of Directors and its committees and executive management, including their selection, tenure, responsibility, and authority level. In addition, the governance manual covers business ethics and professional conduct, transparency and disclosure requirements, internal and external audit requirements, and subsidiaries' governance structures.

PIF's investment strategy and investment priorities are set by the Board, and made into annual business plans by the executive management. These plans include detailed asset allocation and investment programmes with specific targets and key performance indicators. PIF has detailed internal and external reporting requirements. PIF's annual financial statements are prepared in accordance with the IFRS, and are audited by PIF's external auditors (currently Ernst & Young). Audited financial statements are published within 90 days subsequent to year end and included in PIF's annual report, which also includes information related to the governance framework, investment objectives, and nature of investments and other relevant information. The annual report is widely distributed and is published on PIF's website.

PIF and its subsidiaries are also subject to audit by PIF's internal audit department, which operates in cooperation with an international accounting firm (currently Deloitte Touche Tohmatsu). Finally, PIF accounts and operations are also subject to audit by the State Audit and Administrative Control Bureau.

On the investment and risk management framework front, PIF's investment strategy is derived from its mandate and sets the investment priorities, which focuses PIF investments on:

- Strategic sectors in the Palestinian economy
- Projects that contribute to economic development while also delivering a reasonable financial return
- Partnerships with the private sector, or projects that have the potential for future partnerships
- A specific portion of assets is allocated to highly liquid, low risk investments in capital markets outside of Palestine

PIF's self-assessment exercise provided an opportunity to compare its practices with those of other sovereign wealth funds, and highlighted areas for improvement.

PIF investments can take the form of capital market or private equity investments. Investment performance is monitored at multiple levels, including the internal portfolio managers, the related subsidiary's management and Board of Directors, and PIF's executive management and Board of Directors.

Risk management is an ongoing process that is embedded within the different functions at PIF through policies and procedures, internal controls and a clear reporting and monitoring systems.

The self-assessment exercise indicated that PIF could benefit from the experience of other sovereign wealth funds to improve our investment strategy and risk management practices. More specifically, our investment strategy can be expanded to include more details, performance measurements can be articulated to include financial and non-financial measures related to the strategic goals, and finally, a comprehensive risk management framework can enhance the risk management practices at PIF and can take PIF risk management practices to a higher level.

Summary and next steps

The self-assessment process provided a reference point for us to compare our practices with those of our peers. It was a learning exercise and throughout the process we gained insights to how other sovereign wealth funds are interpreting and implementing the Santiago Principles. This process helped us identify a number of areas of improvement.

We understand that sovereign wealth funds are not a homogeneous group of institutional investors and are different in many ways: mandates, legal structures, sizes, operating models, etc. However, the Santiago Principles have addressed these differences by providing a general framework that emphasises appropriate governance, accountability arrangements and proper investment activity.

As a general framework, the Santiago Principles are subject to various interpretations based on each entity's understanding of them. The maturity and operations of each sovereign wealth funds also plays a role. Therefore, only by sharing their understanding of the Principles, and their experiences and challenges of implementation, can sovereign wealth funds maximise their benefit from endorsing the Santiago Principles.

PIF is not a static entity; as its operations, structure and activities continue to change, so will its understanding and implementation of the Santiago Principles. Therefore, we are committed to conducting the self-assessment annually, and improving our operations and practices.

IFSWF

About us

About the International Forum of Sovereign Wealth Funds

The International Forum of Sovereign Wealth Funds (IFSWF) is a voluntary organisation of global sovereign wealth funds committed to working together and strengthening the community through dialogue, research and self-assessment.

IFSWF was formed in 2009 by a group of 23 leading state-owned international investors from around the world. The Forum's initial aim was to maintain an open and stable investment climate by setting and adhering to a set of Generally Accepted Principles and Practices, known as the Santiago Principles, for sovereign wealth funds' institutional governance and risk-management frameworks.

Today, helping members implement the Santiago Principles remains the foundation of the IFSWF's activity. But the Forum now represents a group of more than 30 sovereign wealth funds from all corners of the globe, with a variety of mandates and at various stages in their development. As a result, the Forum's focus has evolved. In addition to encouraging ongoing commitment to the Santiago Principles, the Forum also undertakes research, facilitates peer assistance exercises and holds workshops and seminars to help members enhance their existing investment capabilities. The IFSWF also undertakes to represent its members to the global financial and policy communities.

About Subcommittee 1: Sovereign Wealth Fund Governance and Purpose

IFSWF's Subcommittee 1 on Sovereign Wealth Fund Governance and Purpose is responsible for helping members apply the Santiago Principles to their own governance structures and processes. The committee is led by the State Oil Fund of the Republic of Azerbaijan (SOFAZ). Other members of the subcommittee with include the Sovereign Wealth Fund Unit of Chile's Ministry of Finance and the Palestine Investment Fund as well as Botswana's Pula Fund, the China Investment Corporation, the Kuwait Investment Authority and Kazakhstan's Samruk-Kazyna.

In recent years, Subcommittee 1 has sought to understand how the Santiago Principles more valuable for members as the membership has expanded and evolved. During this process, the Subcommittee has moved away from its initial quantitative approach to developing a more rigorous, structured and detailed self-assessment format. This methodology enables IFSWF members to take account of the different circumstances of each of its members, and allows for contextualised measures of their progress.



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