



International Forum of Sovereign  
Wealth Funds

**Santiago Principles:  
15 Case Studies**

**2014**

**How IFSWF Members implement  
the Santiago Principles**

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### ABBREVIATIONS AND ACRONYMS

AHSTF	Alberta Heritage Savings Trust Fund
APF	Alaska Permanent Fund
AUM	Assets under Management
CEO	Chief Executive Officer
CFA	Chartered Financial Analyst
CIC	China Investment Corporation
ESG	Environmental, Social, and Governance
ESSF	Economic & Social Stabilization Fund (Chile)
FF	Future Fund (Australian)
GAPP	Generally Accepted Principles and Practices (The Santiago Principles)
GIC	GIC Private Limited
GIPS	Global Investment Performance Standards
GPFG	Norway Government Pension Fund Global
HSF	Trinidad & Tobago's Heritage and Stabilization Fund
IFRS	International Financial Reporting Standards
IFSWF	International Forum of Sovereign Wealth Funds
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IPSAS	International Public Sector Accounting Standards
IWG	International Working Group of Sovereign Wealth Funds
KIA	Kuwait Investment Authority
KIC	Korea Investment Cooperation
NDFI	National Development Fund of Iran
NPRF	National Pensions Reserve Fund (Ireland)
NZSF	New Zealand Superannuation Fund
OECD	Organization for Economic Cooperation and Development
PF	Pula Fund (Botswana)
PFTL	Petroleum Fund of Timor-Leste
PRF	Pension Reserve Fund (Chile)
QIA	Qatar Investment Authority
SC1	Sub-Committee 1 of the IFSWF
SCEAI	Supreme Council for Economic Affairs and Investments
SOFAZ	State Oil Fund of the Republic of Azerbaijan
SP	Santiago Principles
SWF	Sovereign Wealth Fund

## FOREWORD

The board and membership of the International Forum of Sovereign Wealth Funds are pleased to present this publication **Santiago Principles: 15 case studies**. The intention is to add to the global body of knowledge about the investment and operational practices of IFSWF-member sovereign funds. Enhancing transparency about what sovereign wealth funds are, and what they do, is a key objective.

The Santiago Principles are a voluntary framework of investment and operational principles and practices. They emphasise appropriate governance, accountability arrangements and prudent, commercial investment activity. The principles are also endorsed by our members as the key element of achieving and retaining IFSWF membership. From a practical perspective we have the following aspirations: we hope to provide guidance to countries establishing, or considering, a sovereign wealth fund.

For existing sovereign wealth funds, we hope the study of countries' practices provides a useful reference point for peer review. We hope to also assist those interested in the activities of sovereign wealth funds to see how these different funds apply the Santiago Principles in their own countries on a voluntary basis. Adding 15 case studies to the Santiago Principles builds a solid foundation for research by those observers – including international institutions and academia – who review the progress made globally in the principles' application since they were publicised in 2008.

The Board expresses its appreciation for the collaborative work between our members, the assigned working group and our Secretariat that made this publication possible.

We stand open for feedback in this continuous work stream of the Forum.

With our best wishes,



Bader M. Al Sa'ad  
IFSWF Chair



Adrian Orr  
IFSWF Deputy Chair



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## EXECUTIVE SUMMARY

This report is a compilation of case studies from 15 members of the International Forum of Sovereign Wealth Funds (IFSWF). These case studies are provided by the SWFs on a voluntary basis and offer factual insights into how the SWFs have implemented the Santiago Principles. While some of the information is already available on IFSWF members' websites, we believe that value is added by offering a combined publication for ease of reference.

There are two parts in this publication. Part I looks across the 15 case studies provided and highlights interesting similarities, differences, changes and trends in how the IFSWF Membership implements the Santiago Principles. Part II offers a reference library of the actual case studies, as they were submitted by the 15 IFSWF members in their desired format.

The Santiago Principles comprises 24 Generally Agreed Principles and Practices (GAPPs), broadly arranged in three 'pillars':

- ❖ *Pillar 1: Legal Framework, Objectives, and Coordination with Macroeconomic Policies.*
- ❖ *Pillar 2: Institutional Framework and Governance Structure.*
- ❖ *Pillar 3: Investment and Risk Management Framework.*

Generally, the following may be observed from these case studies:

❖ ***Observations from Pillar 1: Legal Framework, Objectives, and Coordination with Macroeconomic Policies.***

- The legal frameworks are clearly defined in the legislation of their respective countries. Although the legal frameworks vary, they allow SWFs to operate and invest in observance of both domestic and international legislation.
- The policy objectives of SWFs are clearly defined in the relevant legal documents and disclosed to the public commonly through the SWFs' websites.
- SWFs' policy objectives include fiscal stabilization, saving, pension reserve, and management of excess reserves, and these objectives are often coordinated with the host government's broader macroeconomic policy.
- SWFs typically have funding and withdrawal rules set out in legislation that is publicly disclosed.

❖ ***Observations from Pillar 2: Institutional Framework and Governance Structure.***

- SWFs' institutional arrangements include governance structures clearly established in legislation.

- For SWFs established as independent legal entities, a clear distinction exists between the owner and the manager of the sovereign assets.
- Accountability requirements are defined in SWFs' relevant legislation.
- Audited financial statements are typically published in the SWF's annual report available on its website.
- Professional and ethical standards are typically utilized by SWFs.

❖ ***Observations from Pillar 3: Investment and Risk Management Framework.***

- SWFs' investment return objectives are typically aligned with the funds' overall policy objectives and enshrined in their investment policy.
- SWFs aim to maximize risk-adjusted total returns over a given time horizon consistent with their investment policy and strategic asset allocation.
- SWFs apply various portfolio construction techniques appropriate to the purpose for which the SWF is established.
- As sophisticated investors, SWFs apply a range of policies and tools to implement advanced risk management and performance measurement techniques.
- SWFs in the IFSWF Membership tend to have established processes to review their voluntary endorsement of the Santiago Principles.

## INTRODUCTION

### **The Santiago Principles**

The Santiago Principles were agreed to in October 2008 in a unique collaborative global effort between countries with sovereign wealth funds, investment recipient countries and international organizations. In October 2007, the International Monetary and Financial Committee (IMFC)<sup>1</sup> expressed the need for further analysis of key issues for investors and recipients of SWF flows, including a dialogue on identifying best practices for SWF policies, governance, and behaviour. The IMFC's call for collaboration was the mandate that resulted in the establishment of the International Working Group of SWFs (IWG). The IWG held a number of meetings to establish the 24 Generally Accepted Principles and Practices (GAPP), better known as the Santiago Principles - named after the Chilean capital hosting the last of a series of international meetings in 2008. With the Santiago Principles, a voluntary and generally agreed global framework for SWFs was established.

### **The International Forum of Sovereign Wealth Funds**

The International Forum of Sovereign Wealth Funds was established in 2009 to facilitate an understanding of the Santiago Principles and SWF activities. In presenting the Santiago Principles to the IMFC, the IWG recognized that the framework suggested by the Santiago Principles could benefit from an ongoing exchange of views and study of SWF activities. To facilitate this, and to follow-up on the work undertaken in the context of the Santiago Principles, the IWG reached a consensus ("Kuwait Declaration") on April 6, 2009 in Kuwait City to establish the International Forum of Sovereign Wealth Funds ("IFSWF or The Forum").

The Forum serves a global role of ownership and guardianship of the Santiago Principles, which are voluntarily endorsed by IFSWF members. In addition, and more importantly, the Forum is responsible for furthering the mission and mandate on which both the Santiago Principles and the Forum were established. The Forum, which had its 5<sup>th</sup> anniversary on April 6, 2014, has brought together SWFs in a unique international network focused on inclusiveness and the voluntary exchange of knowledge. The Forum is open to new members and welcomes sovereign funds willing to endorse the Santiago Principles and the values on which the Forum rests. The work program of the Forum is agreed annually with members and executed in a joint and inclusive effort between the members, the Board, and the Forum's Secretariat headquartered in London.

A key aspect of the mandate for the Forum is the sharing of views and experiences on how the Santiago Principles are implemented in practice. This is an ongoing effort now continued in this publication. In reports from 2011 and 2013, the Forum shared IFSWF members'

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<sup>1</sup> The IMFC is a committee of the Board of Governors of the IMF, comprising representatives – especially ministers of finance and central bank governors – of the 188 IMF member countries.



experiences<sup>2</sup> in applying the Santiago Principles with only some references to individual members. This is what sets these case studies apart from previous reports.

## **Structure**

The structure of this publication is divided into two parts:

- Part I features a summary of cross-country practices to depict commonalities between the case studies in relation to the Santiago Principles; while
- Part II offers a detailed reference library with granular insights into the application of each of the 24 GAPPs found in the Santiago Principles. IFSWF members have provided these case studies to detail – in their own words – how they have chosen to endorse the Santiago Principles – in full observance of the local legislation.

## **Limitations**

The nature of case studies is that they are a self-selected sample of the universe of potential information. This is inescapable and is, for instance, also the case with the IMF guidelines of foreign exchange management – and associated case studies – that are widely applied by central banks globally.

Despite these recognized limitations, these particular case studies illustrate how a genuinely representative selection of the global IFSWF membership implements the Santiago Principles. IFSWF consistently urges its members to provide as much information as their country circumstances permit; as such IFSWF acknowledges the significant and sustained voluntary effort which has made this publication possible.

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<sup>2</sup> See: <http://www.ifswf.org/pst/stp070711.pdf> and <http://www.ifswf.org/pst/oslo2013/2013ifswfreport.pdf> for the 2011 and 2013 reports on the IFSWF Members Experiences in the Application of the Santiago Principles.

## PART I. SUMMARY OF COUNTRY PRACTICES

This section will demonstrate the common practices and differences of the Santiago Principles across different countries. Reflecting the structure of the Santiago Principles, the discussion follows a three-pillar approach:

- Pillar 1: Legal framework, objectives and co-ordination with macroeconomic policies.
- Pillar 2: Institutional framework and governance structure.
- Pillar 3: Investment and risk management framework.

### **Pillar 1: Legal framework, objectives and co-ordination with macroeconomic policies**

#### **Legal framework**

Pillar 1 covers the observations from GAPP 1-5 in the case studies reference library<sup>3</sup>. This library of case studies demonstrates that the legal frameworks that support the existence, mandates and activities of SWFs are clearly defined in country legislation. Even though the frameworks vary significantly, SWFs are all authorised to operate and invest under their domestic law. Three types of legal structures may be distinguished among IFSWF members:

- i. SWFs established as independent legal entities governed by a specific constitutive law. Examples include the Australian Future Fund (FF), the Kuwait Investment Authority (KIA), the Korea Investment Corporation (KIC), and the State Oil Fund of the Republic of Azerbaijan (SOFAZ).
- ii. SWFs set up as state-owned corporations governed by company law.
- iii. SWFs made up from a pool of assets owned by the state (national or sub-national governments) or the central bank. Examples are the Botswana Pula Fund (PF), the Canada Alberta Heritage Savings Trust Fund (AHSTF), Chile's Economic and Social Stabilisation Fund (ESSF) and Pension Reserve Fund (PRF), and Norway's Government Pension Fund Global (GPFPG).

SWFs typically disclose the main features of their legal basis and structure to the public through their own official websites.

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<sup>3</sup> See Appendix 1 for the 24 principles. For the full document on the Santiago Principles see: <http://www.iwg-swf.org/pubs/eng/santiagoprinciples.pdf>

## Policy objectives and macroeconomic co-ordination

SWF policy objectives vary but can generally be grouped into the following:

- Stabilisation funds established with the primary objective of off-setting macroeconomic volatility in fiscal balance and the economy. This volatility can result from fluctuating commodity and natural resource prices. The stabilisation fund is counter-cyclical in its construct and generally has short- to medium-term investment horizons. Given the contingent need for liquidity and a potential short-term investment horizon, the strategic asset allocation tends to be relatively conservative and favours liquid asset classes.
- Savings funds exist to ensure inter-generational equity by allowing future generations to benefit from a windfall stemming from the current generation's exploitation of natural resources. They can also serve a pension reserve function by off-setting known or unknown future liabilities related to ageing populations. Also, SWFs that serve any additional purposes that may result in a temporal smoothing of an economy's consumption-savings profile may be classified under this headline. To fulfil these objectives, savings funds tend to have long-term investment horizons and invest in accordance with a broad and diversified strategic asset allocation designed to preserve and build long-term wealth. Savings funds have higher return objectives, can invest in a countercyclical manner, and may provide liquidity to global markets.
- Reserve investment corporations manage excess foreign exchange reserves. They typically invest in portfolios that are more broadly diversified and longer-term than traditional reserve portfolios, and by doing so reduce the overall portfolio's holding cost. They can provide liquidity to global markets as long as the country has ample reserves. If needed, however, they will be called on to supplement the liquid reserves used for sustaining a country's external accounts or exchange rate policy. Finding the right balance between safety, liquidity and return is crucial for these funds.

In most cases, and particularly when an SWF's policy objective includes macroeconomic stabilisation, SWFs must necessarily allocate a portion of their portfolio to liquid assets to meet short-term liquidity needs. When SWFs are established to meet the funding needs associated with specific liabilities, the policy purposes are more clearly defined.

In general, policy objectives are clearly defined in relevant legal documents and disclosed to the public through the SWFs' websites.

Table 1 summarises the policy purposes of SWFs, where some may have dual purposes.

Table 1: Policy purposes of SWFs.

Main Source	Country / Fund	Policy purpose			
		Stabilisation	Saving		Reserve Investment Corporations (excess foreign exchange reserves)
			Intergenerational equity	Future pension obligations	
Oil and natural gas	Azerbaijan: State Oil Fund	X	X		
	Canada: Alberta Heritage Savings Trust Fund		X		
	Iran: National Development Fund of Iran		X		
	Kuwait: Kuwait Investment Authority	X	X		
	Norway: Government Pension Fund Global		X	X	
	Qatar: Qatar Investment Authority		X		
	Timor-Leste: Petroleum Fund	X	X		
	Trinidad & Tobago: Heritage and Stabilisation Fund	X	X		
	United States (Alaska): Alaska Permanent Fund		X		
Other mineral resources	Botswana: Pula Fund		X		
	Chile: Economic and Social Stabilisation Fund and Pension Reserve Fund	X		X	
General government / foreign exchange reserves	Australia: Future Fund			X	
	Korea: Korea Investment Corporation				X

	New Zealand: New Zealand Superannuation Fund			X	
	Singapore: GIC Private Limited				X

Source: IFSWF.

The majority of members do not invest domestically to avoid the risk of overheating their domestic economies. Therefore, they do not have standard procedures for policy coordination with the monetary and fiscal authorities regarding overall macroeconomic policies. However, it is noted that the managers of stabilisation funds and excess reserves generally put more emphasis on coordination due to their macroeconomic policy objectives, for example in Botswana, Chile and Timor-Leste.

An example of Australia's procedure for policy coordination can be seen in Box 1:

**Box 1: Australia's procedure for policy coordination**

The Australian Government is responsible for determining the timing and extent of withdrawals from the Future Fund, Nation-building Funds and DisabilityCare Australia Fund, subject to legislative constraints. The Commonwealth's financial position – including the assets of the Future Fund, the Commonwealth's unfunded superannuation liabilities and the assets held in other Funds invested by the Board of Guardians – is a matter for government. Full details are published annually in the Australian Government budget papers and other related documents.

The Board of Guardians does not have control or influence over management of the liabilities and frames its investment strategy around the mandate directions issued by the responsible ministers under the legislation. The investment mandate does not direct the board to invest in particular sectors or asset classes, domestically or internationally. Based on its mandate, the board manages a diversified global portfolio seeking to maximise returns with an acceptable, but not excessive, level of risk.

In establishing the Nation-building Funds, the Australian Government made a commitment that spending proposals would be delivered in line with prevailing macroeconomic conditions. Spending from the Nation-building Funds is undertaken consistent with legislated process and as part of the usual budget process within the limits of general drawing rights. Coordination with all relevant fiscal and monetary authorities is undertaken as part of this process. Withdrawals from the DisabilityCare Australia Fund will be made in accordance with the governing legislation.

Source: Part II of this publication. See also Future Funds answers to GAPP 3.

## Funding and withdrawal rules

IFSWF members generally have clear funding and withdrawal rules which are enshrined in legislation and a publicly-disclosed charter. These rules generally align with the policy objectives of the SWFs.

- Stabilisation funds: Funding and withdrawal rules for these funds are closely linked to the government budget surplus/deficit, with the amount of funding and withdrawals being determined as part of the annual budget process or by pre-agreed rules.
- Savings funds: The funding and withdrawal rules for savings funds are designed to account for known or unknown future liabilities. When liabilities are known, or can be estimated with some certainty, the rules allow for a pre-defined minimum contribution. In many instances, however, it may be very difficult to establish the future liabilities with certainty and the funds have characteristics such as endowments or stabilisation funds with a specific return objective in real terms. A clear return requirement allows policymakers to project the targeted value of the funds in future years, and can also serve as a benchmark for evaluating whether the fund is meeting its objectives. Withdrawals may occur only if the fund has exceeded its targeted level, and may require legislative approval.
- Reserve investment corporations: Funding and withdrawal rules focus on meeting reserve adequacy targets. Funds may be transferred from the reserve manager to the reserve investment corporation when reserves exceed the reserve adequacy requirement, and vice versa if the reserves are considered inadequate. Excess reserves could be used to reduce foreign debt, particularly in emerging market countries where debt issuance tends to be more costly. When the authorities have no debt, excess reserves can be invested with a higher risk/return objective in mind in a broader global asset allocation than traditionally liquid reserves.

Members typically disclose their funding sources through their websites. In most cases, withdrawals from SWFs are made within the government budget framework to ensure consistency with other macroeconomic policies.

**Box 2: Singapore's (GIC) withdrawal rules**

The sources of the Singapore Government's assets, as stated by the Ministry of Finance, include proceeds from issuance of Government debt, Government surpluses and proceeds from the Government's land sales.

The Constitution of Singapore stipulates a spending rule that determines how much the Government can spend of investment returns on its reserves. The spending rule allows up to 50% of the long-term expected real return on the reserves managed by GIC, and those owned by the Monetary Authority of Singapore, to be taken into the Government's annual budget.

Source: Part II of this publication. See: GIC's answer to GAPP 4.

**Statistics compilation and reporting**

All members provide their owner<sup>4</sup> with relevant statistical data on a quarterly to annual basis. The state or sovereign is typically represented by the ministry of finance or similar ministries of government. The information is typically published either on websites or in newspapers. The financial statements of the SWF are often presented in its annual report and may be reported in connection with the annual report of the central bank, if the SWF is co-owned by the central bank and government (for example, in Botswana).

**Box 3: Azerbaijan's statistics, compilation and reporting**

The SOFAZ submits monthly statistical reports to the President of the Republic and Ministry of Finance, as well as quarterly and yearly reports to the State Statistical Committee. SOFAZ also reports on its revenues and expenditures to the Parliamentary Chamber of Accounts. It reports on other relevant information to the Ministry of Taxes, State Social Protection Fund and other relevant government agencies. SOFAZ regularly provides the relevant information on its activities to the World Bank and International Monetary Fund.

Audited financial statements are published in SOFAZ's annual report, which is publicly available. Quarterly reports and all other relevant financial information about the SOFAZ's activities are published on the Fund's website.

Source: Part II of this publication. See: SOFAZ's answer to GAPP 5 and GAPP 17

<sup>4</sup>Here "owner" refers to the government as the beneficial and/or the legal owner of the SWF, or assets managed by the SWF, depending on its legal structure. See: <http://www.iwg-swf.org/pubs/eng/santiagoprinciples.pdf>

## **Pillar 2: Institutional Framework and Governance Structure**

This covers the observations from GAPP 6-17 in the case studies reference library.

### **Governance framework**

A SWFs' governance structure is typically established in each host nation's legislation, which may be disclosed publicly. SWF governance aims to create a balanced relationship, preserving the SWF's operational independence to fulfill its policy objective while ensuring accountability to the host government.

Although SWFs' legal ownership resides in the state, in many cases policy oversight is delegated to the ministry of finance. For example, in the cases of Chile, Norway and Timor-Leste, the ministry of finance sets the investment mandate and oversees the SWFs. In the case of Australia, the Treasurer and Minister for Finance fulfil these roles. In Trinidad and Tobago, a board of governors, appointed by the President, with the advice of the Ministry of Finance, sets the investment mandate but oversight is carried out by the latter.

In New Zealand the investment mandate is established by legislation, although the Ministry of Finance may offer guidance on the fund performance expectations. Oversight is also the responsibility of the Ministry of Finance. It is important to point out that in most cases oversight is ultimately carried out by the legislature, which receives periodic reports of the SWFs' performance. For example, in Alaska, the Legislative Budget and Audit Committee, and in Canada, the Standing Committee of the Legislative Assembly, are charged with oversight of the funds.

For SWFs established as independent legal entities there is a clear distinction between the owner and the governing body. The latter usually takes the form of a board (such as Alaska, Australia, Azerbaijan, Iran, Korea, Kuwait, New Zealand, and Singapore) responsible for setting the policies that will guide the SWF's management to achieve its objectives.

The governance structure is similar to that of private corporations, where the board is the final authority on policy and strategy, while the operational management is delegated to an executive director/managing director or a CEO reporting to the board. Boards typically have five to nine members.

In most cases, board members are appointed by an authority that represents the government (for example of Alaska, Australia, Azerbaijan, Alberta, Chile, Korea, New Zealand, Norway, Singapore, Timor-Leste and Trinidad & Tobago). Among the typical qualification requirements for Board members are that they be reputable and credible individuals with significant experience in management, economics, finance and investments, as well as a mix of local and international expertise. SWFs tend to establish board committees with responsibility for overseeing specific areas, such as investment policy, risk, and staff remuneration.



Box 4 provides an example of the governance structure of the Korea Investment Corporation:

**Box 4: Governance structure of the Korea Investment Corporation**

Steering Committee

The Steering Committee is the highest decision-making body of the Korea Investment Corporation (KIC). Committee members include six professionals from the private sector and three official members who are representatives of institutions that have entrusted assets exceeding a set amount, namely the Minister of Strategy and Finance, the Governor of the Bank of Korea, and the CEO of the KIC. The six private sector members serve two-year terms. They are nominated by the Civil Member Candidate Nomination Committee and appointed by the President of the Republic of Korea. The Chairman of the Steering Committee is elected from among the civil members.

The Steering Committee oversees the basic policy and direction of the KIC, and has the authority to deliberate and resolve the following matters: mid- and long-term investment policies, modification of financial status, such as the increase or decrease of capital, entrustment of assets to the KIC, appointment and dismissal of executive officers, approval of the budget and account settlement, evaluation of the management performance of the KIC and inspection of the business. The investment subcommittee and the risk management subcommittee provide support on matters related to the mid- and long-term investment policies of the Steering Committee. Furthermore, the budget deliberation subcommittee and the evaluation & compensation subcommittee deliberate on issues relating to the operation of the KIC and performance evaluation.

Board of directors

The KIC maintains a board of directors. The CEO and directors resolve matters related to the management of assets entrusted by the government and institutional investors, overall research and studies to improve asset management efficiency, and exchange and cooperation with related institutions and authorities.

CEO

The CEO of the KIC is appointed by the President of the Republic of Korea upon recommendation by the Minister of Strategy and Finance, through the presidential recommendation committee and deliberation by the Steering Committee. The CEO represents the KIC and presides over its business, convenes meetings of the Board of Directors and serves as chairman of such meetings.

Statutory auditor

In accordance with the KIC Act, it has an independent audit function separate from management. The full-time statutory auditor is appointed by the Minister of Strategy and Finance through deliberation by the Steering Committee. The auditor's role and responsibilities are to audit the business and accounting activities at the KIC.

Directors

The KIC's directors are appointed by the CEO through deliberation by the Steering Committee. The term of office is three years.

Source: Korea Investment Corporation. See: [www.kic.kr/en/in/in030100.jsp](http://www.kic.kr/en/in/in030100.jsp)

For SWFs established without legal independence, the roles of the governing body and the owner are typically merged at the ministry of finance (for example, in Chile and Timor-Leste). In these SWFs the operational management is usually delegated to the central bank, which invests according to the guidelines provided by the ministry of finance. In some cases, such as Chile and Timor-Leste, an advisory board has been established to discuss investment policy and monitor funds with the minister of finance.

See Box 5 for a more detailed description of the investment advisory board of Timor-Leste's responsibilities:

**Box 5: The Petroleum Fund of Timor-Leste**

The Investment Advisory Board (IAB) is established under the requirement of Article 16 of Law No 9/2005 on the Petroleum Fund. It is to provide strategic investment advice concerning the investments of the Petroleum Fund to the Minister of Planning and Finance. The responsibilities of the IAB are:

- developing for the Minister performance benchmarks of desired returns from, and appropriate risks of, the investments of the Petroleum Fund;
- advising the Minister on the investment instructions that he shall provide to the investment managers of the Petroleum Fund appointed pursuant to Article 12;
- advising the Minister on the performance of the external investment managers and making recommendations to him on their appointment or removal;
- advising the Minister on the need for changes in the overall investment strategy or management of the Petroleum Fund.

According to Article 17.1 of the Petroleum Fund Law, the IAB shall consist of five or more members. At least three of its members shall possess significant experience in investment management. The members are appointed by the Prime Minister on the advice of the Finance Minister.

Source: Central Bank of Timor-Leste. See: [www.bancocentral.tl/pf/IAB.asp](http://www.bancocentral.tl/pf/IAB.asp)

For the province of Alberta in Canada, the President of the Treasury Board and the provincial Minister of Finance have responsibility for investing the fund; implementation of the investment policy has, however, been delegated to the Alberta Investment Management Corporation.

## **Accountability and integrity of operations**

The accountability framework is clearly defined in the legislation of all members. Most members are required to prepare annual reports – in some instances, SWF's provide monthly, quarterly and semi-annual reports available for public examination.

For members not established as separate legal entities (such as Alberta, Chile, Timor-Leste, and Trinidad & Tobago), the ministry of finance is accountable to parliament/congress and presents the annual report that typically includes the financial statement. In cases where members are a separate legal entity, the accountability structure varies. In the case of Iran, for example, the Board of Directors and the Supervisory Board are accountable to the Board of Trustees, and Parliament through financial and oversight reports. There may be situations where an annual report is presented to the owner but is not made widely available in the public domain. This may be due to the fact that publication of the information would violate local law.

SWFs are subject to an auditing process conducted by reputable external auditors and also supported by the internal audit structure. Most audits are conducted on an annual basis, although in some cases there may be different time-periods.

Most of the responding members confirmed that professional and ethical standards are clearly defined, with the majority of them adhering to either tailored codes or to internationally recognised codes – such as the CFA Code of Ethics and Standards of Professional Conduct<sup>5</sup> or International Financial Markets Association's rules.

In dealing with third parties, members generally confirm that clear procedures and standards have been established. Engagement with third parties is based on economic and financial grounds. Many members (Alaska, Australia, Azerbaijan, Iran, Korea New Zealand, and Norway) disclose this information on their websites.

Procedures for engaging external managers or other service providers are, in most cases, internally defined. In some funds these procedures are disclosed in the investment policy. In others they are disclosed within their own legislation, depending on the type of body due to engage with a third party.

Members confirmed the operations in investment recipient countries are conducted in compliance with applicable regulations of those countries. SWFs mentioned varying ways of ensuring compliance, such as ensuring it via the investment policy, external manager contracts or custodial arrangements.

In Norway, for instance, the compliance and control unit ensures all applicable regulatory requirements are met (see Box 6):

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<sup>5</sup> CFA Institute. See: <http://www.cfainstitute.org/ethics/codes/ethics/Pages/index.aspx>

**Box 6: Norway’s procedure for ensuring compliance with regulatory and disclosure requirements**

Norges Bank Investment Management (NBIM) has a compliance and control (CC) unit, charged with ensuring compliance with all applicable regulatory and disclosure requirements. NBIM seeks to build a comprehensive picture of all applicable rules through active dialogue with national regulators and other relevant authorities, as well as from a wide range of other information sources. The compliance risks associated with these rules are managed and mitigated through a wide range of activities including extensive training, which is carried out across NBIM, as well as through reporting. NBIM provides a range of reporting, including market disclosures in all countries where they invest. Where NBIM has offices in host countries, a formal relationship has been established with the appropriate authorities. The CC unit may report material risks and conflict of interest issues directly to the executive board when required.

Source: Part II of this publication. See Norway’s (GPF) answer to GAPP 15.

Most members also publicly disclose financial information relevant to their SWF. This information is typically included in their annual reports and is in many cases supplemented with quarterly and/or monthly reports. Some members – such as Alaska, Chile, New Zealand and Timor-Leste – additionally publish monthly reports or updates of the SWF’s relevant financial information. These reports usually include information about the SWF’s size, performance, and asset allocation.

See Box 7 as an illustration of how Timor-Leste provides financial information to the public:

**Box 7: Timor-Leste’s procedure for publishing the SWF’s financial information**

The Petroleum Fund annual report and audited financial statements are prepared by the Ministry of Finance and submitted to Parliament. They are also distributed to key stakeholders and are publicly available on the Ministry of Finance website. In addition the operational manager issues quarterly and monthly updates on the investment performance for the Minister of Finance, and this is made available to the general public on the Central Banks' (BCTL) website. The Ministry of Finance, on its own initiative or as requested, conducts public information sessions with the general public – including public servants, NGOs and students – to update them on the fund’s activities, operations and performance.

Source: Part II of this publication. See: Timor-Leste’s (PFTL) answer to GAPP 17.

### **Pillar 3: Investment and risk management framework**

Pillar 3 covers the observations from GAPP 18-24 in the case studies reference library.

Members' return objectives are typically aligned with the SWF's economic policy function. Each member seeks to maximise risk-adjusted returns over a relevant time horizon by utilizing portfolio construction and implementation approaches that each member regards as appropriate for its specific function. SWFs develop their strategic asset allocations to meet their return objectives and tolerance for risk within the set of eligible asset classes and acceptable investment universe. Based on the overall investment policy statement, a range of sub-policies are developed – including an external manager policy, ethics policy, policy for voting of proxies and similar policies that operationalise the SWFs investment objectives. For a typical illustration of the investment policy, see the statement of investment policies at the Future Fund: [http://www.futurefund.gov.au/investment/investment\\_policies](http://www.futurefund.gov.au/investment/investment_policies)

From the case studies it can also be observed that:

- A number of members cannot invest domestically: SWFs prohibited from investing domestically include Azerbaijan, Chile, Norway and Timor-Leste. A key reason underlying this prohibition is that domestic investment may contradict some of the economic benefits of SWF establishment. For example, domestic investments may lead to local asset booms and reduced competitiveness of local exports in an environment of currency appreciation (also known as “Dutch disease”). Also, the domestic asset market may be too shallow. In countries where domestic investments are possible, this may be due to domestic development objectives (Iran) or an explicit strategy of contributing to the skills-building of its private sector (Kuwait).
- Members typically approach leverage conservatively: Many members, including Botswana and Chile, are not permitted to use leverage, while others may do so only in certain circumstances.
- Members typically face restrictions on the use of derivatives: In particular, restrictions often prohibit the use of derivatives to seek active returns. This includes outright prohibition (Norway) or requirements which constrain their use only to hedging, currency optimisation or achieving benchmark exposures (Azerbaijan and Chile).
- Some members apply a materiality test in respect of how they exercise their ownership rights. Their stance is typically neutral for company holdings of 1 percent or less. When members do exercise their ownership rights, their voting actions focus on improving long-term investment return. Other members (such as New Zealand and Norway) explicitly state that, in respect of environmental, social and governance matters, they will vote in accordance with their views on appropriate risk management and corporate conduct (albeit subject to a belief that appropriate management of such issues is conducive to long-term corporate performance).

See boxes 8 to 12 for a range of examples on how SWFs define their investment objectives and put their investment policy into practice.

**Box 8: How New Zealand makes investment decisions (GAPP 19)**

The New Zealand Superannuation Fund (NZSF) exists as part of the response to fiscal pressure posed by the country's ageing population.

The balance between risk and return is the key decision for structuring the fund, and it was decided that a weighting toward growth assets is required by its long-term, intergenerational purpose. Given the intergenerational purpose, and that the fund's chosen structure tends to produce short-term volatility, founding legislation requires a high level of transparency about how it invests, why it has chosen to invest that way, and on the progress it is making.

The mandate

NZSF's founding legislation includes an investment mandate which states that we must invest the fund on a prudent, commercial basis. We must also manage and administer it consistent with:

- Best-practise 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.

Importantly, the legislation provides no guidance as to how NZSF should interpret any of these terms; this is left to NZSF to decide.

Disclosing how NZSF aims to maximise risk-adjusted financial returns consistent within the investment policy

Regular disclosures include:

- **Statement of Investment Policies. Standards and Practices (SIPSP)** is the framework set by the guardians of New Zealand Superannuation for the governance and investment of the fund; it provides a clear statement of the investment policies, standards and procedures that must be adhered to in making investments.
- Significant details on the individual policies cover how the fund allocates risk, and manages investments internally. They also covered how it selects, evaluates, manages and terminates external managers. In addition they undertake dynamic asset allocation (our strategic tilting program).
- All these policies (and more) are on our website.

The NZSF has also produced a public guide, which explains how it makes investments. The document is called "How we invest". The fund provides (i) a comprehensive annual update about what progress it is making on its mandate; and (ii) a public update on its returns and a high-level account of asset allocation on a monthly basis.

Are investment decisions subject to considerations other than economic and financial ones?  
The NZSF mandate requires managing and administering the fund so as to “avoid prejudice to New Zealand’s reputation as a responsible member of the world community”.

The fund is also required by legislation to have a responsible investment (RI) policy. We have a responsible investment framework that sets out in detail how NZSF seeks to enhance shareholder value and protect its reputation by encouraging high standards of corporate behaviour.

In summary this framework commits the guardians to integrating environmental, social, and governance (ESG) issues into NZSF investment decision-making process.

Consistent with the transparency we adopt around our broader investment activity, we disclose comprehensive information about the progress of our RI program, including:

- our process for engaging with companies and reporting on how we vote, and on the securities we have excluded from our fund for ESG reasons;
- key details of work we have completed in each financial year, within the responsible investment section of our annual reports;
- a global reporting index guide to our annual reports.

Finally, the NZSF is a founding signatory of the United Nations Principles for Responsible Investment (UNPRI). The UNPRI conducts a yearly review of how its signatories have structured and executed their ESG integration programmes. The NZSF reports that assessment, which assigns them a top quartile ranking relative to all of its peer signatories.

Source: New Zealand Superannuation Fund. See: <https://www.nzsuperfund.co.nz/>

### **Box 9: How Norway has developed a strategy for ownership rights (GAPP 21)**

The mandate from the Ministry of Finance defines how Norges Bank should exercise ownership rights on behalf of the fund to safeguard its long-term financial interests. Active ownership should be based on internationally recognised principles such as the UN Global Compact, the OECD’s Principles of Corporate Governance and their guidelines for multinational enterprises.

Norges Bank has adopted principles and guidelines that represent the framework for responsible investment, including active ownership provisions. The guidelines require the Bank to put its active ownership on predictability, transparency and compatibility with the long-term investment strategy for the fund. The Bank uses its shareholder rights to promote social and environmental considerations, and to contribute to improved corporate governance standards. It is in contact with companies, investors and authorities. Norges Bank expects companies to handle social and environmental risks that may have a negative impact on the fund’s investments. It has accorded priority to a focus on risks relating to children’s rights, climate change and scarce water resources. It has also prepared

expectation documents for these areas. In 2013, the Bank charted how companies in particularly exposed sectors met its expectations.

The fund may hold up to 10 percent of the voting shares in a company. In its annual report on the GPF, Norge Bank states that voting is the most important formal avenue for investors to express views, keep company boards accountable and influence companies. Voting instruction data is available from 1 July 2012 and can be accessed one business day after the general meeting has concluded. The bank's strategic plan for 2014-2016 shows it intends to make voting intentions public before the annual shareholder meetings.

Source: For more information on responsible investments and the Norwegian Government Pension Fund Global. See: <http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/responsible-investments.html?id=446948> and <http://www.nbim.no/en/responsibility/>

#### **Box 10: How Singapore (GIC Private Limited) reviews its investment approach**

In 2012 GIC launched a holistic review of its investment approach. This was the second major review since GIC's inception in 1981. The aim was to position the GIC portfolio in anticipation of a more challenging and complex investment environment, while continuing to earn good long-term real returns. The review built on GIC's strengths and applied lessons learnt. It also considered changes to both investment strategies and governance.

The main changes to GIC's investment model involve making explicit distinctions between three drivers of long-term performance:

- The reference portfolio. This is based on a balance of global equity and bond market indices, and describes the amount of risk the government is prepared to have GIC take.
- The policy portfolio. This represents GIC's strategy for asset allocation that differentiates it from the passive reference portfolio, and aims to improve returns over the long horizon. The policy portfolio is approved by the GIC board, and has been simplified from 13 to 6 asset classes to focus on the core drivers of returns over the long term.
- The active portfolio. This allows GIC management to undertake skill-based and opportunistic strategies. The active portfolio is the responsibility of GIC management operating within a risk budget set by the GIC Board.

For more information, please see: <http://www.gic.com.sg/>



**Box 11: How Korea Investment Corporation selects and monitors investment managers**

In order to ensure that the KIC has access to the highest quality external fund managers (EFMs), its selection process is competitive and objective. Each selected EFM must have the required experience and capabilities to provide investment services that match the KIC's investment objectives.

The KIC selects the EFMs with the final approval being given by the board of directors, and the result of that selection is reported to the steering committee. The KIC continuously monitors EFMs. They are required to immediately notify the KIC of the following events which may affect their investment capabilities or the value of the portfolio:

- (1) change in management;
- (2) significant change in the financial position;
- (3) change in the business direction;
- (4) change in key officers;
- (5) change in key individuals responsible for investment management;
- (6) breach of laws or regulations;
- (7) or material error, omission or false statement in information provided to KIC.

For more information, please see: <http://www.kic.kr/en/ki/ki010000.jsp>

**Box 12: How Timor-Leste articulates its investment beliefs**

Obtaining financial returns involves taking risk. In general higher risks are rewarded with higher expected returns, but returns may take time to emerge from the underlying risks.

Financial markets are generally efficient, with prices trending towards fundamental value over the long term, though possibly deviating from fundamental value in the short-term.

Known factors, called "rewarded risk factors", provide systemic returns which can be captured over time through a structured investment approach.

Diversification is the primary means of capturing systemic returns. Concentrated risk-taking is not rewarded over time, whereas the systematic investment in multiple-asset classes with less than perfectly correlated risks/returns is (noting that the diversifying properties of assets may change).

A long-term investment horizon allows systemic returns to be captured because the volatility of returns decreases over time and the probability of receiving positive returns increases.

Non-systemic returns, those not explained by rewarded risk factors, can from time to time give rise to other investment opportunities. Opportunities may exist that could add value on

the margin to a portfolio efficiently exposed to long-term premia from rewarded risk-factors. Such opportunities are less reliable than factor returns and are of secondary importance. An ability to identify such opportunities and to control the principal agent-relationship in delegated investment management are required conditions to add value in this manner.

Disciplined skills, systems and procedures can be applied to optimise returns after costs. Financial and operational risks cannot be avoided, but can be identified and managed. Discipline during adverse investment cycles is rewarded, whereas opportunistic strategies generally are not. Costs are important with foregone returns arising from costs compounding over time.

Transparency builds confidence and enables a long-term disciplined approach to be implemented, because investment decisions with wide public acceptance can be maintained through difficult times. A high level of public trust enables discipline to prevail over expediency.

For more information please see: <http://www.mof.gov.tl/budget-spending/petroleum-fund/?lang=en>

According to GAPP 24, SWFs should subject their voluntary endorsement of the Santiago Principles to a regular review. This review process is well established throughout IFSWF Membership.

In Summary, the above overview demonstrates that IFSWF members are keen to share globally their experiences in the voluntary endorsement of the Santiago Principles. In Part II of this publication, each of the contributing countries (listed alphabetically) shares their own experiences and explains how they have used the Santiago Principles to institute sound practices, which emphasise appropriate governance and accountability arrangements as well as prudent, commercial investment activity.

**PART II: CASE STUDIES**

<b>Country</b>	<b>Sovereign Wealth Fund</b>
Australia	Future Fund
Azerbaijan	State Oil Fund
Botswana	Pula Fund
Canada	Alberta Heritage Savings Trust Fund
Chile	Economic & Social Stabilization Fund/Pension Reserve Fund
Iran	National Development Fund of Iran
Korea	Korea Investment Corporation
Kuwait	Kuwait Investment Authority
New Zealand	New Zealand Superannuation Fund
Norway	Government Pension Fund Global
Qatar	Qatar Investment Authority
Singapore	GIC Private Limited
Timor-Leste	Petroleum Fund of Timor-Leste
Trinidad & Tobago	Heritage & Stabilization Fund
United States	Alaska Permanent Fund

## I. Australia - Future Fund

<b>I. Legal Framework, Objectives, and Coordination with Macroeconomic Policies</b>	
<b>Principle</b>	<b>Adherence</b>
<p><b>GAPP 1. Principle</b></p> <p>The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).</p> <p><b>GAPP 1.1. Sub Principle</b> <i>The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.</i></p> <p><b>GAPP 1.2. Sub Principle</b> <i>The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.</i></p>	<p>The legal framework for the Board of Guardians and the Agency, together with arrangements for the governance and operation of the public asset funds for which the Board of Guardians is responsible, are detailed in the <i>Future Fund Act 2006</i> and <i>Nation-building Funds Act 2008</i>. The framework is designed specifically to establish the sound and effective operation of the Fund and achievement of its objectives.</p> <p>The legal basis and structure and the legal relationships between the Board, Agency and Government are detailed in the legislation which is publicly available.</p> <p>Additional detail and discussion of the basis and operation of the Board, Agency and the Funds themselves are available from the Board's annual report and website.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a> <a href="http://www.futurefund.gov.au/investment/investment_mandate">www.futurefund.gov.au/investment/investment_mandate</a></p>
<p><b>GAPP 2. Principle</b></p> <p>The policy purpose of the SWF should be clearly defined and publicly disclosed.</p>	<p>The Future Fund was established to meet unfunded superannuation liabilities that will become payable during a period when an ageing population is likely to place significant pressure on Commonwealth finances. The Nation-building Funds were established to provide financing resources to meet the Australian Government's commitment to Australia's future through investment in critical areas of infrastructure such as transport, communications, energy, water, education, research and health. The Disability Care Australia Fund was established by legislation with the object of reimbursing States, Territories and the Commonwealth for expenditure incurred in relation to the <i>National Disability Insurance Scheme Act 2013</i> and to fund implementation of the <i>National Disability Insurance Scheme Act 2013</i> in its initial period of operation.</p> <p>The Board of Guardians is responsible for the investment of the assets in each of the funds, not for disbursements or other policy issues. Detail on the policy purpose for each of the Funds is provided in the relevant legislation, annual reports and the organisation's website.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a></p>

	<p><a href="http://www.futurefund.gov.au/investment/investment_mandate">www.futurefund.gov.au/investment/investment_mandate</a>  <a href="http://www.futurefund.gov.au/annual_reports">www.futurefund.gov.au/annual_reports</a></p>
<p><b>GAPP 3. Principle</b></p> <p>Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.</p>	<p>The Australian Government is responsible for determining the timing and extent of withdrawals from the Future Fund, Nation-building Funds and Disability Care Australia Fund, subject to legislative constraints.</p> <p>The Commonwealth's financial position, including the assets of the Future Fund, the Commonwealth's unfunded superannuation liabilities and the assets held in other Funds invested by the Board of Guardians, is a matter for Government. Full details are published annually in the Australian Government Budget Papers and other related documents.</p> <p>The Board of Guardians does not have control or influence over management of the liabilities and frames its investment strategy around the Investment Mandate Directions issued by the responsible Ministers under the legislation. The Investment Mandate does not direct the Board to invest in particular sectors or asset classes domestically or internationally. Based on its mandate the Board manages a diversified global portfolio seeking to maximise returns with an acceptable but not excessive level of risk.</p> <p>In establishing the Nation-building Funds the Australian Government made a commitment that spending proposals would be delivered in line with prevailing macroeconomic conditions. Spending from the Nation-building Funds is undertaken consistent with the legislated process and as part of the usual Budget process within the limits of the legislated General Drawing Rights Limit. Coordination with all relevant fiscal and monetary authorities, and relevant departments, is undertaken as part of this process. Withdrawals from the Disability Care Australia Fund will be made in accordance with the governing legislation.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a>  <a href="http://www.budget.gov.au/2014-15/content/bp1/download/BP1_BS7.pdf">http://www.budget.gov.au/2014-15/content/bp1/download/BP1_BS7.pdf</a></p>
<p><b>GAPP 4. Principle</b></p> <p>There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding,</p>	<p>The legislation publicly sets out the funding, withdrawal and spending arrangements and procedures for the Funds, including arrangements for Parliamentary oversight and public disclosure of funding, withdrawals and spending. The source of funding is publicly disclosed together with the approach to withdrawals and spending of monies.</p>

<p>withdrawal, and spending operations.</p> <p><b>GAPP 4.1. Sub Principle</b> <i>The source of SWF funding should be publicly disclosed.</i></p> <p><b>GAPP 4.2. Sub Principle</b> <i>The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.</i></p>	<p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a>  <a href="http://www.finance.gov.au/investment-funds/future-fund/transfers.html">www.finance.gov.au/investment-funds/future-fund/transfers.html</a>  <a href="http://www.finance.gov.au/investment-funds/NBF/NBF_transfers.html">www.finance.gov.au/investment-funds/NBF/NBF_transfers.html</a></p>
<p><b>GAPP 5. Principle</b></p> <p>The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.</p>	<p>Statistical data is consolidated in national financial accounts, government financial statistics, the balance of payments and international investment position by the Australian Bureau of Statistics in accordance with its regular data collection and reporting arrangements. Data is also incorporated into the Government’s budget statements. Audited annual financial statements are tabled in Parliament and quarterly updates on the portfolio are released publicly.</p> <p><a href="http://www.abs.gov.au">www.abs.gov.au</a>  <a href="http://www.futurefund.gov.au/investment/portfolio_updates">http://www.futurefund.gov.au/investment/portfolio_updates</a></p>
<p><b>II. Institutional Framework and Governance Structure</b></p>	
<p><b>GAPP 6. Principle</b></p> <p>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.</p>	<p>The roles and responsibilities of the Government, as asset owner, and the Board (supported by the Agency), as asset manager are detailed in the legislation.</p> <p>Further detail is provided by the Investment Mandates and the Statement of Expectations and Statement of Intent exchanged between the Government and the Board and the Agency.</p> <p>Internal policies, procedures and protocols have been established to further delineate roles and responsibilities at the operational level.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a>  <a href="http://www.futurefund.gov.au/data/assets/pdf_file/0016/3571/SoE_-_Final.pdf">www.futurefund.gov.au/data/assets/pdf_file/0016/3571/SoE_-_Final.pdf</a>  <a href="http://www.futurefund.gov.au/data/assets/pdf_file/0017/3572/SoI_Final_300909.pdf">www.futurefund.gov.au/data/assets/pdf_file/0017/3572/SoI_Final_300909.pdf</a></p>

<p><b>GAPP 7. Principle</b></p> <p>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.</p>	<p>The objective for each Fund, the procedures for the appointment of the Board of Guardians by Government and arrangements for the exercise of oversight are detailed in the legislation.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a></p>
<p><b>GAPP 8. Principle</b></p> <p>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.</p>	<p>The Board is bound by the legislation and Investment Mandates set by Government to pursue the investment objectives detailed in the legislation and to act in good faith. The legislation also provides the Board with the necessary powers to undertake its mandated activities and sets out the experience, expertise and credibility required of appointees to the Board.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a>  <a href="http://www.futurefund.gov.au/investment/investment_mandate">www.futurefund.gov.au/investment/investment_mandate</a></p>
<p><b>GAPP 9. Principle</b></p> <p>The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.</p>	<p>The Board is responsible for investing the assets of the Funds in accordance with the legislation and makes decisions independently of Government. The legislation establishes the Agency to provide support and advice to the Board and to assist in giving effect to the Board's decisions.</p> <p>Clear internal policies, procedures and protocols have been established to further delineate roles and responsibilities at the operational level.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a>  <a href="http://www.futurefund.gov.au/investment/investment_mandate">www.futurefund.gov.au/investment/investment_mandate</a></p>
<p><b>GAPP 10. Principle</b></p> <p>The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.</p>	<p>Accountability arrangements, including the requirement for publication of an annual report and arrangements for the provision of reports and information to the responsible Minister, are detailed in the legislation.</p> <p>Board members are held accountable through the requirements imposed on them through the legislation with civil and criminal penalties applying for breach of specific duties and obligations.</p> <p>Further accountability is also provided through the operation of the Public Governance, Performance and Accountability Act 2013 governing the establishment and</p>

	<p>operation of Special Accounts for each Fund.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about the future fund/legislation</a></p>
<p><b>GAPP 11. Principle</b></p> <p>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.</p>	<p>The annual report and financial statements are prepared in accordance with the Finance Minister's Orders and the Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board (AASB).</p> <p>The legislation requires that the annual report and audited financial statements are presented to the responsible Minister as soon as practicable after the end of each financial year and tabled in Parliament within 15 sitting days of each House of Parliament.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about the future fund/legislation</a>  <a href="http://www.futurefund.gov.au/annual_reports">www.futurefund.gov.au/annual_reports</a></p>
<p><b>GAPP 12. Principle</b></p> <p>The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.</p>	<p>Internal audit services are provided by an external firm reporting to the Board's Audit Committee. The Australian National Audit Office is responsible for an annual independent external audit conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate and Australian Auditing Standards.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about the future fund/legislation</a>  <a href="http://www.anao.gov.au">www.anao.gov.au</a></p>
<p><b>GAPP 13. Principle</b></p> <p>Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management and staff.</p>	<p>The duties and obligations of members of the Board of Guardians are detailed in the legislation together with arrangements for the management of conflicts of interest. The legislation also includes details of the civil and criminal penalties applying for breach of specific duties and obligations. Persons are eligible for appointment to the Board only if the responsible Ministers are satisfied the person has substantial experience or expertise and professional credibility and significant standing in investing in financial assets, managing investments in financial assets or corporate governance.</p> <p>Staff of the Agency are employed under the <i>Public Service Act 1999</i> and are bound by the Australian Public Service Values and Code of Conduct. Details of these obligations are included in internal policies and training activities.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about the future fund/legislation</a>  <a href="http://www.apsc.gov.au/values/conductguidelines.htm">http://www.apsc.gov.au/values/conductguidelines.htm</a></p>



<p><b>GAPP 14. Principle</b></p> <p>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.</p>	<p>The Board's approach to the engagement of third parties, including advisors and investment managers, is outlined in its Statement of Investment Policies available on the internet. Engagement of third parties is based on economic and financial grounds.</p> <p>The purchase of goods and services by the Agency is consistent with the Commonwealth Procurement Guidelines and governed by clear internal policies and procedures to encourage value for money, open and effective competition and fair dealing and ethics.</p> <p><a href="http://www.futurefund.gov.au/investment/investment_policies">www.futurefund.gov.au/investment/investment_policies</a></p>
<p><b>GAPP 15. Principle</b></p> <p>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.</p>	<p>The Board of Guardians requires that all investment activities are undertaken in accordance with applicable regulatory and disclosure requirements. Detailed due diligence and reporting is in place to monitor compliance. The legislation requires the Board of Guardians to act in a way that is unlikely to cause any diminution of the Australian Government's reputation in international financial markets.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a></p>
<p><b>GAPP 16. Principle</b></p> <p>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.</p>	<p>The governance framework and objectives of the Board and the Agency are set out in the legislation and in public annual reports. The framework clearly establishes the independence and accountability arrangements for the Fund, the Board and the Agency.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a>  <a href="http://www.futurefund.gov.au/annual_reports">www.futurefund.gov.au/annual_reports</a></p>
<p><b>GAPP 17. Principle</b></p> <p>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.</p>	<p>An annual report and audited annual financial statements are tabled in Parliament and published via the website. The Board also issues public quarterly updates on performance and asset allocation.</p> <p><a href="http://www.futurefund.gov.au/annual_reports">www.futurefund.gov.au/annual_reports</a>  <a href="http://www.futurefund.gov.au/investment/portfolio_updates">www.futurefund.gov.au/investment/portfolio_updates</a></p>

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**III. Investment and Risk Management Framework**


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**GAPP 18. Principle**

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 18.1. Sub Principle***

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

***GAPP 18.2. Sub Principle***

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

***GAPP 18.3. Sub Principle***

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

The Board's Statement of Investment Policies, published on the internet as required by legislation, details its investment strategy and risk tolerance and its application of portfolio investment principles. Annual reports provide additional insight and discussion of the investment strategy. These documents address matters relating to financial risk, leverage, the use of and extent of the activities and authority of internal/external managers as well as the process for their appointment and monitoring of their performance.

The policies and practices detailed by these documents are consistent with the obligations contained in the legislation.

[www.futurefund.gov.au/about\\_the\\_future\\_fund/legislation](http://www.futurefund.gov.au/about_the_future_fund/legislation)  
[www.futurefund.gov.au/investment/investment\\_policies](http://www.futurefund.gov.au/investment/investment_policies)  
[www.futurefund.gov.au/annual\\_reports](http://www.futurefund.gov.au/annual_reports)

**GAPP 19. Principle**

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 19.1. Sub Principle***

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

***GAPP 19.2. Sub Principle***

The Board's obligation to seek risk-adjusted financial returns is established in the legislation with return and risk parameters detailed through investment mandates created under the legislation. The Board is required to operate in a manner consistent with international best practice for institutional investment.

The limited set of restrictions on the Board's investment activities, such as limits on the size of stakes in Australian and foreign listed companies, are clearly expressed in the legislation. The Board's approach to consideration of environmental, social and governance matters in its investments, and to the universe of investments it considers, is detailed in its Statement of Investment policies and reflects the Board's focus on acting as a prudent investor seeking to maximise risk-adjusted returns.

[www.futurefund.gov.au/about\\_the\\_future\\_fund/legislation](http://www.futurefund.gov.au/about_the_future_fund/legislation)

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<p><i>The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.</i></p>	<p><a href="http://www.futurefund.gov.au/investment/investment_policies">www.futurefund.gov.au/investment/investment_policies</a></p>
<p><b>GAPP 20. Principle</b></p> <p>The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.</p>	<p>The Board does not seek or have a right of access to privileged information from, or inappropriate influence by, the Government in competing with private entities.</p> <p>Under the statutory governance framework the Board operates and makes decisions independently of Government. Policies and processes are in place to restrict and coordinate engagement with the Government in relation to Board and Agency matters. Board members are not permitted to be employees of the Commonwealth or to be a holder of a full-time office under a law of the Commonwealth. Agency staff are bound by the Australian Public Service Code of Conduct.</p> <p>The Future Fund investment mandate also requires the Board, when undertaking its investment activities, to act in a way that is unlikely to cause any diminution of the Government's reputation in Australian and international financial markets.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a>  <a href="http://www.futurefund.gov.au/investment/investment_mandate">www.futurefund.gov.au/investment/investment_mandate</a></p>
<p><b>GAPP 21. Principle</b></p> <p>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.</p>	<p>The Board is required to have regard to international best practice for institutional investment in determining its approach to corporate governance principles, including in relation to its voting policy.</p> <p>The Board's approach to the exercise of ownership and voting rights is detailed in its Statement of Investment Policies. The annual report discusses the application of the Board's policy including reporting in aggregate of how voting rights have been exercised.</p> <p><a href="http://www.futurefund.gov.au/investment/investment_policies">www.futurefund.gov.au/investment/investment_policies</a>  <a href="http://www.futurefund.gov.au/investment/investment_mandate">www.futurefund.gov.au/investment/investment_mandate</a></p>
<p><b>GAPP 22. Principle</b></p> <p>The SWF should have a framework that identifies, assesses and</p>	<p>Consistent with the legislation, investment mandates and obligation to have regard to international best practice for institutional investment, the Board and Agency have established a framework for the identification, assessment</p>

<p>manages the risks of its operations.</p> <p><b>GAPP 22.1. Sub Principle</b>  <i>The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.</i></p> <p><b>GAPP 22.2. Sub Principle</b>  <i>The general approach to the SWF's risk management framework should be publicly disclosed.</i></p>	<p>and management of the risks of its operations, including appropriate reporting and monitoring arrangements. Policies and procedures are in place to support the risk management framework.</p> <p>The approach to risk management is detailed in the Statement of Investment Policies and the annual report.</p> <p><a href="http://www.futurefund.gov.au/investment/investment_policies">www.futurefund.gov.au/investment/investment_policies</a>  <a href="http://www.futurefund.gov.au/annual_reports">www.futurefund.gov.au/annual_reports</a></p>
<p><b>GAPP 23. Principle</b></p> <p>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.</p>	<p>The assets and investment performance of the Funds, including performance against the benchmarks established in the Investment Mandate are reported to the responsible Ministers and publicly through the annual report and audited financial statements.</p> <p><a href="http://www.futurefund.gov.au/annual_reports">www.futurefund.gov.au/annual_reports</a></p>
<p><b>GAPP 24. Principle</b></p> <p>A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.</p>	<p>The Board undertook its first review of its implementation of the Santiago Principles in June 2010 and has repeated the review annually. The Board contributed to the IFSWF's report "Members' Experiences in the Application of the Santiago Principles" published in July 2011 and in 2014 has provided a case study, for publication by the IFSWF, on the Future Fund's application of the Santiago Principles.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/governance">www.futurefund.gov.au/about_the_future_fund/governance</a>  <a href="http://www.ifswf.org/pst/stp070711.pdf">www.ifswf.org/pst/stp070711.pdf</a></p>

## II. Azerbaijan - State Oil Fund (SOFAZ)

I. Legal Framework, Objectives, and Coordination with Macroeconomic Policies	
Principle	Adherence
<p><b>GAPP 1. Principle</b></p> <p>The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).</p> <p><b>GAPP 1.1. Sub Principle</b> <i>The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.</i></p> <p><b>GAPP 1.2. Sub Principle</b> <i>The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.</i></p>	<p>The legal framework of SOFAZ is clearly defined in the “<i>Statute of the State Oil Fund of the Republic of Azerbaijan</i>” (hereinafter “<i>Statute of SOFAZ</i>”) approved by the decree of the President of the Republic of Azerbaijan.</p> <p>SOFAZ is a legal entity separate from the government or central bank. The Fund's operation is guided by the Constitution and laws of the Republic of Azerbaijan, Presidential Decrees and Resolutions, and the Fund's Regulations.</p> <p>All documents relevant to the legal basis and structure and the legal relationships between SOFAZ and the other government agencies are publicly disclosed and they are available on the Fund's website.</p> <p><a href="http://www.oilfund.az/en/content/25">http://www.oilfund.az/en/content/25</a></p>
<p><b>GAPP 2. Principle</b></p> <p>The policy purpose of the SWF should be clearly defined and publicly disclosed.</p>	<p>SOFAZ was established for the purpose of accumulation and management of the revenues generated from implementation of oil and gas agreements.</p> <p>SOFAZ's primary objectives are to help maintain macroeconomic stability in the country (neutralize negative impact of the currency inflows) and to generate wealth for present and future generations.</p> <p>The purpose of establishment and primary objectives discussed above are publicly disclosed on the Fund's website.</p> <p><a href="http://www.oilfund.az/en/content/25/9">http://www.oilfund.az/en/content/25/9</a> <a href="http://www.oilfund.az/en/content/3">http://www.oilfund.az/en/content/3</a></p>
<p><b>GAPP 3. Principle</b></p> <p>Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to</p>	<p>According to its bylaws, SOFAZ is not permitted to invest domestically. Expenditures of SOFAZ constitute part of the consolidated state budget approved by the Parliament. According to Budget System Law the consolidated state budget is prepared in close consultation with all relevant government entities (Ministry of Finance, Ministry of Economy and Industry, etc.) and involvement of SOFAZ.</p>

<p>ensure consistency with the overall macroeconomic policies.</p>	<p><a href="http://www.oilfund.az/en/content/25/154">http://www.oilfund.az/en/content/25/154</a>  <a href="http://www.oilfund.az/en/content/25/156">http://www.oilfund.az/en/content/25/156</a>  <a href="http://www.oilfund.az/uploads/budget%20system-1_eng.pdf">http://www.oilfund.az/uploads/budget%20system-1_eng.pdf</a></p>
<p><b>GAPP 4. Principle</b></p> <p>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.</p> <p><b>GAPP 4.1. Sub Principle</b>  <i>The source of SWF funding should be publicly disclosed.</i></p> <p><b>GAPP 4.2. Sub Principle</b>  <i>The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.</i></p>	<p>SOFAZ's Funding and Withdrawal rules are clearly defined by the "Statute of SOFAZ" and "Rules on the preparation and execution of the annual program of revenues and expenditures (budget) of the State Oil Fund of the Republic of Azerbaijan" (hereinafter "Rules on the budget of SOFAZ") which are publicly disclosed on the Fund's website.</p> <p><a href="http://www.oilfund.az/en/content/25/154">http://www.oilfund.az/en/content/25/154</a>  <a href="http://www.oilfund.az/en/content/25/156">http://www.oilfund.az/en/content/25/156</a>  <a href="http://www.oilfund.az/uploads/budget%20system-1_eng.pdf">http://www.oilfund.az/uploads/budget%20system-1_eng.pdf</a></p>
<p><b>GAPP 5. Principle</b></p> <p>The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.</p>	<p>SOFAZ submits monthly statistical reports to the President and Ministry of Finance, as well as quarterly and yearly reports to the State Statistical Committee. SOFAZ also reports on its revenues and expenditures to the Parliamentary Chamber of Accounts and on other relevant information to the Ministry of Taxes, State Social Protection Fund and other relevant government agencies. Additionally, SOFAZ regularly provides information on its activities to the World Bank and International Monetary Fund.</p> <p>All relevant statistical data pertaining to the fund is publicly disclosed on the Fund's website (audited annual reports, quarterly statements, etc.)</p> <p><a href="http://www.oilfund.az/en/content/25/154">http://www.oilfund.az/en/content/25/154</a>  <a href="http://www.oilfund.az/en/content/25/156">http://www.oilfund.az/en/content/25/156</a>  <a href="http://www.oilfund.az/uploads/budget%20system-1_eng.pdf">http://www.oilfund.az/uploads/budget%20system-1_eng.pdf</a></p>
<p><b>II. Institutional Framework and Governance Structure</b></p>	
<p><b>GAPP 6. Principle</b></p>	<p>SOFAZ has a three-tier governance structure, with the President of the country being a supreme governing and</p>

<p>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.</p>	<p>reporting authority for the Fund.</p> <p>SOFAZ's activities are overseen by a Supervisory Board which is headed by the Prime Minister and consists of the Minister of Finance, Governor of the Central Bank, Minister of Economy and Industry, Vice-Speaker of Parliament and the Economic Advisor to the President.</p> <p>The operational management of SOFAZ is vested in the Executive Director. The relevant duties and responsibilities of the President of the country, Supervisory Board and Executive Director are clearly defined in the “Statute of SOFAZ”.</p> <p><a href="http://www.oilfund.az/en/content/25/154">http://www.oilfund.az/en/content/25/154</a></p>
<p><b>GAPP 7. Principle</b></p> <p>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.</p>	<p>The objectives of SOFAZ are clearly defined in “Statute of SOFAZ” approved by the President of the Republic of Azerbaijan.</p> <p>Please see also the response on GAPP 5 and 6.</p> <p><a href="http://www.oilfund.az/en/content/25/154">http://www.oilfund.az/en/content/25/154</a></p>
<p><b>GAPP 8. Principle</b></p> <p>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.</p>	<p>The Supervisory Board of the Fund, which is headed by the Prime Minister and consists of the Minister of Finance, Governor of the Central Bank, Minister of Economy and Industry, Vice-Speaker of Parliament and the Economic Advisor to the President, has a clear mandate and adequate authority and competency to fulfil its functions. All roles and responsibilities of the Supervisory Board are clearly defined in the relevant legislation.</p> <p><a href="http://www.oilfund.az/en/content/25/154">http://www.oilfund.az/en/content/25/154</a></p>
<p><b>GAPP 9. Principle</b></p> <p>The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.</p>	<p>“Statute of SOFAZ”, “Rules on management of foreign currency assets of the State Oil Fund of the Republic of Azerbaijan” (hereinafter “Investment guidelines”) and “Rules on the budget of SOFAZ” clearly define the role and responsibilities of the Executive Director. In accordance with these role and responsibilities the Executive Director has independence in operational management.</p> <p><a href="http://www.oilfund.az/en/content/25/154">http://www.oilfund.az/en/content/25/154</a>  <a href="http://www.oilfund.az/pub/tiny_upload/Inv_guide.pdf">http://www.oilfund.az/pub/tiny_upload/Inv_guide.pdf</a>  <a href="http://www.oilfund.az/en/content/25/156">http://www.oilfund.az/en/content/25/156</a></p>

<p><b>GAPP 10. Principle</b></p> <p>The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.</p>	<p>The accountability framework of SOFAZ is clearly defined in the “<i>Statute of SOFAZ</i>”, “<i>Investment guidelines</i>”, “<i>Rules on the budget of SOFAZ</i>” and <i>Budget System Law</i> all of which are available on the Fund’s website. The fund produces and publicly discloses audited annual reports and quarterly reports. Information about the Fund’s activities is also disseminated through regular press conferences and published on the Fund’s website.</p> <p>See also response on GAPP 5.</p> <p><a href="http://www.oilfund.az/en/content/25/154">http://www.oilfund.az/en/content/25/154</a>  <a href="http://www.oilfund.az/pub/tiny_upload/Inv_guide.pdf">http://www.oilfund.az/pub/tiny_upload/Inv_guide.pdf</a>  <a href="http://www.oilfund.az/uploads/Inv_policy1.pdf">http://www.oilfund.az/uploads/Inv_policy1.pdf</a>  <a href="http://www.oilfund.az/uploads/budget%20system-1_eng.pdf">http://www.oilfund.az/uploads/budget%20system-1_eng.pdf</a></p>
<p><b>GAPP 11. Principle</b></p> <p>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.</p>	<p>Since the start of its operations, SOFAZ has prepared annual reports and accompanying financial statements. All financial statements are prepared in accordance with International Public Sector Accounting Standards (“IPSAS”) issued by the International Public Sector Accounting Standards Board (“IPSASB”) of the International Federation of Accountants (“IFAC”). IPSAS are developed by adopting International Financial Reporting Standards (“IFRS”) to the public sector context. All annual reports and accompanying financial statements are published on the Fund’s website.</p> <p><a href="http://www.oilfund.az/en/content/25/154">http://www.oilfund.az/en/content/25/154</a>  <a href="http://www.oilfund.az/en/account">http://www.oilfund.az/en/account</a></p>
<p><b>GAPP 12. Principle</b></p> <p>The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.</p>	<p>Since the start of its operations SOFAZ has been audited by reputable international audit firms. In line with the Public Procurement Law, the Fund conducts open market tender processes to select its auditor. Price Waterhouse Coopers has been appointed to audit SOFAZ financial statements for years 2013-2015.</p> <p>All annual reports and accompanying financial statements are available on the Fund’s website.</p> <p>SOFAZ also has an internal auditor who prepares periodic internal audit reports.</p> <p><a href="http://www.oilfund.az/en/content/25/154">http://www.oilfund.az/en/content/25/154</a>  <a href="http://tender.gov.az/new/docs/tlotroa.doc">http://tender.gov.az/new/docs/tlotroa.doc</a></p>



<p><b>GAPP 13. Principle</b></p> <p>Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management and staff.</p>	<p>Professional and ethical standards are clearly defined in the <i>"Investment Guidelines"</i>.</p> <p>Management and staff of the Fund have to comply with ethical norms and rules of the International Financial Markets Association (ACI, Paris) and "Rules of Ethical Conduct for the Employees of SOFAZ".</p> <p><a href="http://www.oilfund.az/pub/tiny_upload/Inv_guide.pdf">http://www.oilfund.az/pub/tiny_upload/Inv_guide.pdf</a>  <a href="http://www.oilfund.az/en_US/about_found/etik-davranis-qaydalari.asp">http://www.oilfund.az/en_US/about_found/etik-davranis-qaydalari.asp</a></p>
<p><b>GAPP 14. Principle</b></p> <p>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.</p>	<p>The fund's activities related to third parties are based on economic and financial grounds. The Fund's <i>"Investment Guidelines"</i> and <i>"Investment Policy"</i> regulate SOFAZ's dealing with third parties.</p> <p>All aspects of dealing with external managers are clearly defined in relevant documentation about the Fund's activity. Appointment of external managers is carried out in compliance with the current legislation of Azerbaijan Republic on "State Procurement". External managers are selected on the basis of the criteria, such as credit rating of the manager, assets under management, experience in the asset management industry, proposed rate of return and risk, proposed fees schedule, etc. Compliance of the external managers' investments to their mandate is monitored daily. Performance of external managers' portfolios is monitored monthly.</p> <p><a href="http://www.oilfund.az/pub/tiny_upload/Inv_guide.pdf">http://www.oilfund.az/pub/tiny_upload/Inv_guide.pdf</a>  <a href="http://www.oilfund.az/uploads/Inv_policy1.pdf">http://www.oilfund.az/uploads/Inv_policy1.pdf</a></p>
<p><b>GAPP 15. Principle</b></p> <p>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.</p>	<p>The Fund conducts its operations and activities in host countries in compliance with all applicable regulatory and disclosure requirements of those host countries.</p>
<p><b>GAPP 16. Principle</b></p> <p>The governance framework and objectives, as well as the manner in</p>	<p>The fund's governance framework, objectives and its operational independence are clearly defined in the relevant legislation.</p>

<p>which the SWF's management is operationally independent from the owner, should be publicly disclosed.</p>	<p><a href="http://www.oilfund.az/en/content/25/154">http://www.oilfund.az/en/content/25/154</a></p>
<p><b>GAPP 17. Principle</b></p> <p>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.</p>	<p>Audited financial statements are published in the Fund's annual report, which is publicly available. Quarterly reports and all other relevant financial information about the Fund's activities are published on the Fund's website. Disclosed financial information includes AUM, asset allocation, benchmark, annual rates of return, etc.</p> <p><a href="http://www.oilfund.az/en/account">http://www.oilfund.az/en/account</a>  <a href="http://www.oilfund.az/en/content/20/249">http://www.oilfund.az/en/content/20/249</a></p>
<p><b>III. Investment and Risk Management Framework</b></p>	
<p><b>GAPP 18. Principle</b></p> <p>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.</p> <p><b><i>GAPP 18.1. Sub Principle</i></b>  <i>The investment policy should guide the SWF's financial risk exposures and the possible use of leverage</i></p> <p><b><i>GAPP 18.2. Sub Principle</i></b>  <i>The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.</i></p> <p><b><i>GAPP 18.3. Sub Principle</i></b>  <i>A description of the investment policy of the SWF should be publicly disclosed.</i></p>	<p>"Investment Guidelines" and "Investment Policy" set up SOFAZ's asset management framework and ensure the transparency in its investment decisions. Among other things, they define strategic asset allocation, currency composition, benchmarks, risk limits, minimum requirements for the Fund's external managers and limitations on the investment directions, as well as the credit quality limits for the Fund's counterparties (custodian banks, correspondent banks, etc.).</p> <p>Derivatives (i.e. swaps, forwards, futures, etc) may only be used for hedging or optimizing the currency composition and asset allocation of the Investment Portfolio.</p> <p>For policies and procedures related to the Fund's external managers please see our response on GAPP 14.</p> <p>The Fund's "Investment guidelines" and "Investment Policy" are available on its website.</p> <p><a href="http://www.oilfund.az/pub/tiny_upload/Inv_guide.pdf">http://www.oilfund.az/pub/tiny_upload/Inv_guide.pdf</a>  <a href="http://www.oilfund.az/uploads/Inv_policy1.pdf">http://www.oilfund.az/uploads/Inv_policy1.pdf</a></p>
<p><b>GAPP 19. Principle</b></p> <p>The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its</p>	<p>According to its "Investment Policy", the Fund's investment decisions should aim at maximizing risk adjusted returns. All investment decisions are made purely on an economic and financial basis according to sound asset management principles.</p>

<p>investment policy, and based on economic and financial grounds.</p> <p><b>GAPP 19.1. Sub Principle</b>  <i>If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed</i></p> <p><b>GAPP 19.2. Sub Principle</b>  <i>The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.</i></p>	<p>See also response on GAPP 18.</p> <p><a href="http://www.oilfund.az/uploads/Inv_policy1.pdf">http://www.oilfund.az/uploads/Inv_policy1.pdf</a></p>
<p><b>GAPP 20. Principle</b></p> <p>The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.</p>	<p>According to its bylaws, SOFAZ is not permitted to invest domestically. In line with the “<i>Investment guidelines</i>”, SOFAZ makes investment decisions independently of the government. Institutional and legal framework of SOFAZ has been designed in a way that the Fund cannot seek or take advantage of any privileged information.</p> <p><a href="http://www.oilfund.az/pub/tiny_upload/Inv_guide.pdf">http://www.oilfund.az/pub/tiny_upload/Inv_guide.pdf</a>  <a href="http://www.oilfund.az/en/content/25/154">http://www.oilfund.az/en/content/25/154</a></p>
<p><b>GAPP 21. Principle</b></p> <p>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.</p>	<p>SOFAZ has only recently started to invest in equities and has chosen not to exercise its ownership rights at this stage.</p>
<p><b>GAPP 22. Principle</b></p> <p>The SWF should have a framework that identifies, assesses and</p>	<p>Identification, assessment and management of the risks of the Fund's operations play a crucial role in the Fund's overall management framework. SOFAZ's risk management system is supported with an appropriate legal</p>

<p>manages the risks of its operations.</p> <p><b>GAPP 22.1. Sub Principle</b>  <i>The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.</i></p> <p><b>GAPP 22.2. Sub Principle</b>  <i>The general approach to the SWF's risk management framework should be publicly disclosed.</i></p>	<p>framework (“<i>Investment Guidelines</i>”, “<i>Investment Policy</i>”, etc), a specialized risk unit (Risk Management Department), internal and external audit functions and tools like RiskManager 4 by RiskMetrics and proprietary models.</p> <p>“<i>Investment Guidelines</i>” and “<i>Investment Policy</i>” set the main principles of the risk management framework and clearly define limits on major factors for market, credit, concentration and liquidity risks. Certain pre-trade limits are set based on these factors. Furthermore, these risk factors are monitored on a daily basis via regular risk and performance reports. In addition to the factors set in the “<i>Investment Guidelines</i>” and “<i>Investment Policy</i>”, a more in-depth analysis and monitoring of the market risk is performed on a regular basis through: interest rate sensitivity analysis (key rate durations, PV01, etc.), risk concentration analysis (duration by groups, VaR by groups, marginal VaR, etc.), tail events (conditional VaR, stress tests) and scenario analyses.</p> <p>Operational risk is managed in accordance with Fund's Operational Manual and business continuity planning.</p> <p><a href="http://www.oilfund.az/pub/tiny_upload/Inv_guide.pdf">http://www.oilfund.az/pub/tiny_upload/Inv_guide.pdf</a>  <a href="http://www.oilfund.az/uploads/Inv_policy1.pdf">http://www.oilfund.az/uploads/Inv_policy1.pdf</a></p>
<p><b>GAPP 23. Principle</b></p> <p>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.</p>	<p>Comprehensive reports on assets of SOFAZ (including information on breakdown of investment portfolio by foreign currencies, asset class, credit ratings, maturities and geographic regions) are disseminated through the quarterly press releases. The performance of the Fund's investments is measured according to best industry standards and reported on an annual basis. Annual reports and quarterly statements are posted on the Fund's website.</p> <p><a href="http://www.oilfund.az/en/account">http://www.oilfund.az/en/account</a></p>
<p><b>GAPP 24. Principle</b></p> <p>A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.</p>	<p>This report was first published on SOFAZ's official website in April, 2011 and it is reviewed on an annual basis.</p>

### III. Botswana - Pula Fund

<b>I. Legal Framework, Objectives, and Coordination with Macroeconomic Policies</b>	
<b>Principle</b>	<b>Adherence</b>
<p><b>GAPP 1. Principle</b></p> <p>The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).</p> <p><b><i>GAPP 1.1. Sub Principle</i></b>  <i>The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.</i></p> <p><b><i>GAPP 1.2. Sub Principle</i></b>  <i>The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.</i></p>	<p>Botswana is among the founding members of the International Forum of Sovereign Wealth Fund (IFSWF) and was one of the architects of the Santiago Principles in 2008.</p> <p>The Pula Fund was established in 1993 and the legal framework supporting the Fund was promulgated in 1996 when the Bank of Botswana Act was amended. The Pula Fund is managed in accordance with Section 35 of the Act stipulating the establishment and the management of long-term investment funds.</p> <p>The management of the Pula Fund is entrusted to the Bank of Botswana to ensure the legal soundness of the Fund and its transactions. The Bank of Botswana assesses the needs for primary international reserves (invested in the Liquidity Portfolio) to accomplish its principal objectives. The assets in excess of what is needed for reserves adequacy are invested in the long-term (Pula Fund) in consultation with the Ministry of Finance and Development Planning (MFDP).</p> <p>The Government of Botswana invests directly in the Pula Fund and its assets are accounted for in the Government Investment Account, which represents the government's ownership of the Pula Fund. The legal specifications for such activities are detailed in the Act.</p>
<p><b>GAPP 2. Principle</b></p> <p>The policy purpose of the SWF should be clearly defined and publicly disclosed.</p>	<p>While the Bank of Botswana Act does not explicitly specify the purpose of the Pula Fund directly, the major purpose of the Fund is to invest proceeds from non-renewable resources (minerals) for the benefit of future-generations. The Government of Botswana also invests some of its assets in the Government Investment Account to meet its policy objectives.</p> <p>These objectives would include a short-term stabilisation objective and a long-term investment objective aimed at ensuring that assets are available for future generations in a situation where Botswana's vast natural resources (predominantly diamonds) are depleted.</p>
<p><b>GAPP 3. Principle</b></p>	<p>By Act, the Bank of Botswana, after consultation with the</p>

<p>Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.</p>	<p>MFDP, determines the policies, terms and conditions for any such long term investment funds, including the selection of appropriate investments and the dividends payable to the Government Investment Account. The Pula Fund investments are all external to Botswana and thus the activities related to those investments do not have any significant direct domestic macroeconomic implications.</p> <p>In practice, there are on-going consultations between the Bank of Botswana and the Ministry of Finance and Development Planning. The Government is also represented in the Bank of Botswana Board. The management of the Pula Fund is subject to recurring reviews and discussions between the Bank of Botswana and the MFDP due to the shared ownership structure of the long-term assets invested in the Pula Fund.</p> <p>Government fiscal policy decisions that give rise to budget surpluses or deficits, or monetary policy decisions that give rise to balance of payments surpluses or deficits can lead to increases or decreases in the level of Pula Fund investments.</p>
<p><b>GAPP 4. Principle</b></p> <p>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.</p> <p><b><i>GAPP 4.1. Sub Principle</i></b> <i>The source of SWF funding should be publicly disclosed.</i></p> <p><b><i>GAPP 4.2. Sub Principle</i></b> <i>The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.</i></p>	<p>The Pula Fund is a prudent and yield-maximising investment alternative until such time as opportunities to invest productively in the domestic economy arise and are incorporated in National Development Plans.</p> <p>The management of the Pula Fund must also be considered in relation to the fiscal policy framework and the three-pronged strategy of spending for development, affording stabilisation and saving for future generations.</p> <p>The Government cannot withdraw more than its share of the Pula Fund, represented by the Government Investment Account, to finance the budget, which has been approved by Parliament. The Pula Fund cannot be used in any quasi-fiscal/off-budget operation to finance investment, or the purchase of goods and services outside the government budget framework.</p> <p>If the need arises, to enable the Government to pursue agreed national development objectives, the Pula Fund could be drawn down as the Government draws down its Government Investment Account. That is, if the Government believed the funds in the Pula Fund are needed to be put into productive investment in the country, then the Pula Fund could be drawn down.</p> <p>The Government has opted for a qualitative approach</p>

	<p>where any withdrawals are discussed by the authorities and agreed in the context of prevailing fiscal conditions, rather than predefined numerical trigger points for withdrawals or deposits. However, such clear trigger points are established for intra-funds transfers (long-term and short-term funds). This approach has served the country well through different economic cycles.</p>
<p><b>GAPP 5. Principle</b></p> <p>The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.</p>	<p>The Botswana Financial Statistics is the Bank's monthly statistical bulletin. Information on the size of the Pula Fund and the government ownership is available in the publication.</p> <p>See: <a href="http://www.bankofbotswana.bw">http://www.bankofbotswana.bw</a></p> <p>In addition, the monthly government gazette publishes details and level of the Pula Fund. The Annual Report provides the audited financial statements and comprehensive details about the Pula Fund.</p>

## II. Institutional Framework and Governance Structure

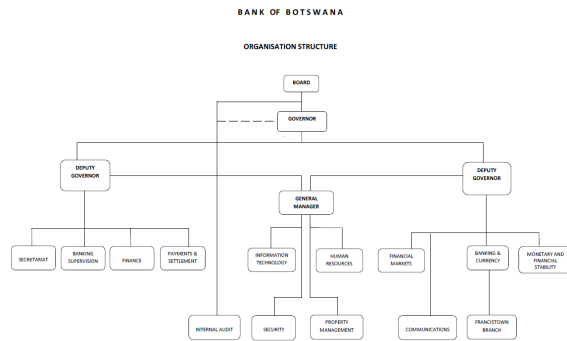
<p><b>GAPP 6. Principle</b></p> <p>The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.</p>	<p>The governance structure is detailed in Part IV of the Bank of Botswana Act.</p> <p>A three-tier structure is followed in terms of governance:</p> <ol style="list-style-type: none"> <li>a) the Board of the Bank of Botswana has overall responsibility for the management of the Pula Fund. The Board includes a member from the MFDP representing the government ownership of the Pula Fund. Other members of the Board include the Governor of the Bank of Botswana and 7 independent non-executive directors. The Board approves the investment policy and establishes the overall strategic asset allocation of the Pula Fund and defines discretionary ranges for tactical asset allocation.</li> <li>b) the Investment Committee decides on the execution of the investment strategy, including tactical deviations from the board-approved strategic asset allocation. The Investment Committee is chaired by the Governor and includes investment experts from the Financial Market Department. The performance of the internally managed Pula Fund is reviewed by a separate Department (Finance Department) with dedicated responsibility in this area over and above the monthly and quarterly performance reports</li> </ol>
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prepared independently by the custodian.

c) the Financial Markets Department executes the investment strategy and ensures that the desired asset allocation is attained in financial markets, using both internal management and external managers. All the activities of the Pula Fund are regularly reported to the Board to ensure operational compliance with the agreed investment strategy.

d) the back office functions are performed by a separate Department (Payments and Settlement Department) in line with international best practice on segregation of duties.

The existing Bank organisation structure, as at April 2014, is illustrated in the figure below.



**GAPP 7. Principle**

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.

Botswana Government performs the ownership role of the Pula Fund via representation on the Board of the Bank of Botswana and through the periodic consultations between the Governor of the Bank of Botswana and the Minister of Finance and Development Planning and annual reporting to Parliament and Cabinet.

The management of the assets in the Pula Fund is subject to a regular review of the entire investment strategy, which is agreed between the Governor of the Bank of Botswana (representing the manager of the Pula Fund) and the Minister of Finance and Development Planning (representing the owner of the assets as in the Government's share of the Pula Fund and as the sole shareholder of the Bank of Botswana).

**GAPP 8. Principle**

The governing body(ies) should act

The Board of the Bank of Botswana executes its fiduciary role in full compliance with the Bank of Botswana Act. Its mandate is clear and its authority and independence are



<p>in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.</p>	<p>well-established, both in the Act and in practice.</p> <p>The Board consists of representatives from the Bank of Botswana, the MFDP and the independent directors with in depth knowledge of the issues pertaining to the macroeconomic management, accounting, auditing and best practices in investment management.</p>
<p><b>GAPP 9. Principle</b></p> <p>The operational management of the SWF should implement the SWF’s strategies in an independent manner and in accordance with clearly defined responsibilities.</p>	<p>The three-tier governance structure ensures that the Pula Fund is managed in an independent manner with clear separation of responsibilities. As such:</p> <ol style="list-style-type: none"> <li>1. the Board approves the overall framework for investment management and establishes the investment policy and strategic asset allocation.</li> <li>2. the Investment Committee decides on tactical deviations from the strategic asset allocation; and</li> </ol> <p>The Financial Markets Department executes the investment strategy in financial markets using both internal and external fund managers.</p>
<p><b>GAPP 10. Principle</b></p> <p>The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.</p>	<p>The accountability framework is enshrined in Section 35 and Sections 66-68 of the <u>Bank of Botswana Act</u>. In this regard, the Bank of Botswana maintains accounts and records in accordance with sound accounting principles and prepares an annual set of financial statements in accordance with the international financial reporting standards. These are audited by independent external auditors approved by the Minister of Finance and Development Planning and the Board of the Bank of Botswana.</p> <p>The Board of the Bank of Botswana has – in accordance with the Act - an Audit Committee of the Board chaired by a non-executive Board member with vast experience in accounting and auditing.</p> <p>The Audit Committee of the Board is responsible for the review of the financial statements of the Bank of Botswana, including the Government Investment Account. The external accountability is ensured by the legislation, as the Auditor General shall, if so requested by the Minister of Finance and Development Planning, examine and report on the accounts of the Bank of Botswana or any aspects of its operations (including the management of the Pula Fund).</p>

<p><b>GAPP 11. Principle</b></p> <p>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.</p>	<p>In accordance with the Act, the Bank of Botswana produces an annual report on its operations, together with audited financial statements. The report covers the calendar year and must be presented to the Minister of Finance and Development Planning by the end of March the following year. Thereafter, the Annual Report must be laid before the National Assembly within thirty days. This ensures parliamentary oversight over the management of the Pula Fund.</p> <p>Beyond fulfilling a statutory requirement, the Annual Report is the principal means through which the Bank of Botswana reports on its operations, including the management of the Pula Fund.</p> <p>Following publication, the Annual Report forms the basis of a series of economic briefings for stakeholders, including His Excellency the President of Botswana, the Cabinet, senior government officials, parliamentarians, the media, business leaders and the diplomatic corps. The Annual Report has been produced annually since 1976 and is available on:</p> <p><a href="http://www.bankofbotswana.bw">http://www.bankofbotswana.bw</a></p>
<p><b>GAPP 12. Principle</b></p> <p>The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.</p>	<p>Under the <u>Bank of Botswana Act</u>, the Bank of Botswana produces an annual report on its operations, together with audited financial statements. The Annual Report includes a discussion of the management of the Pula Fund (see above). The external auditor (currently KMPG) makes an annual attestation that the financial statements are produced in accordance with the International Financial Reporting Standards and the Bank of Botswana Act.</p>
<p><b>GAPP 13. Principle</b></p> <p>Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management and staff.</p>	<p>The Bank of Botswana adheres to high ethical standards and manages the Pula Fund assets in accordance with sound ethical practices. Where applicable, the CFA code of conduct is highly recommended.</p>
<p><b>GAPP 14. Principle</b></p> <p>Dealing with third parties for the purpose of the SWF's operational</p>	<p>The investment policy and guidelines for the management of the Pula Fund are underpinned by the need to preserve purchasing power of assets, maintain liquidity at all times and to maximise return within acceptable risk parameters.</p>

<p>management should be based on economic and financial grounds, and follow clear rules and procedures.</p>	<p>Periodically, the entire investment strategy and strategic asset allocation is subjected to a comprehensive review. All investments, both internally and externally managed, are made in accordance with investment guidelines, where the only motivation is to meet the investment objectives of the Fund. Political and non-commercial reasons are not relevant for the management of the Pula Fund.</p>
<p><b>GAPP 15. Principle</b></p> <p>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.</p>	<p>All investments are undertaken in full compliance with the applicable regulatory framework and disclosure requirements in the countries in which the investments are made. A global custodian is appointed to ensure that legal compliance is always in place on all investments held in the Pula Fund. Also, an international portfolio consultant is engaged to assure that best practice is adopted and followed at all times.</p>
<p><b>GAPP 16. Principle</b></p> <p>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.</p>	<p>The Bank of Botswana in its role as investment manager is operationally independent from the owner represented by the Government Investment Account. The operational independence is enshrined in Section 35 of the <u>Bank of Botswana Act</u>.</p>
<p><b>GAPP 17. Principle</b></p> <p>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.</p>	<p>The Bank of Botswana publishes relevant information in its Annual Reports and in Botswana Financial Statistics.</p> <p>Furthermore, the size of the Pula Fund in relation to the international markets in which it is invested poses no risks to financial stability in international financial markets. The information provided in the Annual Reports and Botswana Financial Statistics, along with the country's investment grade ratings by Standard and Poor's and Moody's Investors Service, enhances trust in recipient countries.</p>
<p><b>III. Investment and Risk Management Framework</b></p>	
<p><b>GAPP 18. Principle</b></p> <p>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.</p>	<p>The investment policy and guidelines for the management of the Pula Fund are underpinned by the objectives of preserving purchasing power of assets, maintaining liquidity at all times and maximising return within acceptable risk parameters.</p> <p>Periodically, the entire investment strategy and strategic asset allocation are subjected to a review and all investments, both internally and externally managed, are done in accordance with investment guidelines approved</p>

<p><b>GAPP 18.1. Sub Principle</b> <i>The investment policy should guide the SWF's financial risk exposures and the possible use of leverage</i></p> <p><b>GAPP 18.2. Sub Principle</b> <i>The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.</i></p> <p><b>GAPP 18.3. Sub Principle</b> <i>A description of the investment policy of the SWF should be publicly disclosed.</i></p>	<p>by the Board in consultation with the MFDP. This consultation process ensures that the owner's risk tolerance and investment objectives are reflected in the agreed investment strategy.</p> <p>The investment strategy does not allow the use of leverage and places emphasis on the application of sound risk management practices.</p> <p>The Pula Fund is invested using both internal and external managers with specific guidelines and precise benchmarks for the measurement and assessment of investment performance. The global custodian assists with performance data, which are reconciled with external fund managers and subjected to performance attribution analysis. Furthermore, an external portfolio consultant assists in the monitoring of the externally managed funds.</p> <p>On a quarterly basis, the performance report is submitted to the Board for monitoring and any remedial action that may be necessary.</p> <p>The Bank's investment policy is guided by key objectives of safety, liquidity and return. The details are contained in the Annual Report.</p>
<p><b>GAPP 19. Principle</b></p> <p>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.</p> <p><b>GAPP 19.1. Sub Principle</b> <i>If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed</i></p> <p><b>GAPP 19.2. Sub Principle</b> <i>The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.</i></p>	<p>The investment policy and guidelines for the management of the Pula Fund are underpinned by the objective of preserving purchasing power of assets, maintaining liquidity at all times and maximising return within acceptable risk parameters.</p> <p>All investment activities are executed in line with the highest standards for sound asset management. The investment management framework is guided by a clear governance structure resting on separation of duties, impartiality and accountability in all investment decisions.</p> <p>All investment decisions are taken on the basis on economic and financial necessity.</p>

<p><b>GAPP 20. Principle</b></p> <p>The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.</p>	<p>The managers of the Pula Fund do not trade on any privileged information and are in no way influenced by the broader government in its activities. As the Pula Fund consists of foreign assets only, accordingly, there is no risk of competing with private domestic entities.</p>
<p><b>GAPP 21. Principle</b></p> <p>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.</p>	<p>The Pula Fund is invested in both fixed income securities and global equities. Ownership rights are exercised as part of the specific external fund management contract with the objective of maximising the risk-adjusted return on all investments. Proxies are voted with this objective in mind.</p>
<p><b>GAPP 22. Principle</b></p> <p>The SWF should have a framework that identifies, assesses and manages the risks of its operations.</p> <p><b><i>GAPP 22.1. Sub Principle</i></b>  <i>The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.</i></p> <p><b><i>GAPP 22.2. Sub Principle</i></b>  <i>The general approach to the SWF's risk management framework should be publicly disclosed.</i></p>	<p>The investment strategy and strategic asset allocation are subject to a comprehensive review and all investments, both internally and externally managed, are subjected to a thorough and disciplined risk management framework. A specialist risk management function at the Bank of Botswana is responsible for the assessment of the overall portfolio risk to ensure that this is consistent with the specified level of risk tolerance and in compliance with the Board approved investment guidelines. The Deputy Governor responsible for the Financial Markets Department (front office) is not responsible for the middle office function which is assigned to the other Deputy Governor. This is to ensure a clear separation of functional responsibility.</p> <p>The non-financial risk is subject to mechanisms for addressing the operational risks, including business continuity planning, separation of the front, middle and back office function and the independent audit of both performance and actual returns on the portfolio.</p> <p>The governance structure details are presented in the Annual Report of the Bank of Botswana as well as the risk</p>

	management framework.
<p><b>GAPP 23. Principle</b></p> <p>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.</p>	<p>The investment performance of the Pula Fund is calculated by the global custodian on a monthly basis and all assets are marked-to-market on a daily basis to ensure compliance with guidelines.</p> <p>The investment performance is presented both in absolute and relative terms vis-à-vis the established portfolio benchmarks. This information is available to the government – together with attribution analysis of the performance.</p>
<p><b>GAPP 24. Principle</b></p> <p>A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.</p>	<p>The voluntary endorsement of the Santiago Principles represented in this assessment of the 24 GAPPs is available on <a href="http://www.bankofbotswana.bw">www.bankofbotswana.bw</a> at any time to indicate the regular review on the implementation of the Santiago Principles.</p>

## IV. Canada - Alberta Heritage Savings Trust Fund

<b>I. Legal Framework, Objectives, and Coordination with Macroeconomic Policies</b>	
<b>Principle</b>	<b>Adherence</b>
<p><b>GAPP 1. Principle</b></p> <p>The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).</p> <p><b><i>GAPP 1.1. Sub Principle</i></b>  <i>The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.</i></p> <p><b><i>GAPP 1.2. Sub Principle</i></b>  <i>The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.</i></p>	<p><b>Section 2 &amp; Preamble</b></p> <p><b>Documents:</b> Alberta Heritage Savings Trust Fund Act</p> <p><b>Comments:</b> The Alberta Heritage Savings Trust Fund is not a separate legal entity. The legal framework is established in the Alberta Heritage Savings Trust Fund Act. Her Majesty, with the advice and consent of the Legislative Assembly, has delegated responsibility for investment of the fund to the President of Treasury Board and Minister of Finance. Her Majesty in Right of Alberta is the legal and beneficial owner of the fund. The President of Treasury Board and Minister of Finance has the legal authority to enter into agreements where the fund is concerned. Operationally the fund is invested independently of the governing body so interactions between other state bodies do not occur.</p>
<p><b>GAPP 2. Principle</b></p> <p>The policy purpose of the SWF should be clearly defined and publicly disclosed.</p>	<p><b>Section: Preamble</b></p> <p><b>Documents:</b> Alberta Heritage Savings Trust Fund Act</p> <p><b>Comments:</b> "The preamble of the AHSTF Act states that "...the Heritage Fund is to provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans"</p>
<p><b>GAPP 3. Principle</b></p> <p>Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.</p>	<p><b>Documents:</b> N/A</p> <p><b>Comments:</b> The fund is a sub-sovereign fund of the province of Alberta in the country of Canada. It has no direct activities with the fiscal framework or monetary authorities of Canada. The fund lacks the size to have any impact on macroeconomic policies.</p>

<p><b>GAPP 4. Principle</b></p> <p>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.</p> <p><b>GAPP 4.1. Sub Principle</b> <i>The source of SWF funding should be publicly disclosed.</i></p> <p><b>GAPP 4.2. Sub Principle</b> <i>The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.</i></p>	<p><b>Section 8</b></p> <p><b>Documents:</b> Alberta Heritage Savings Trust Fund Act</p> <p><b>Comments:</b> Initial funding for the fund came from a portion of Non-Renewable Resource revenues from 1976 to 1987. Current legislation states 5% of the first \$10 billion; 25% of the next \$5 billion &amp; 50% in excess of \$15 billion is to be saved. Money is to be put in the Contingency account and once that reaches \$5 billion in assets the remainder is to be transferred to a prescribed savings account.</p> <p>Realized net income is transferred to the General Revenue Fund, except amounts determined in the Section 4(2) &amp; (3) of the Fiscal Management Act. New legislation enacted in 2014 will only have payments made out of the fund in accordance with the Savings Management Act. Updates to funding, withdrawal and spending are disclosed in annual budget documents.</p>
<p><b>GAPP 5. Principle</b></p> <p>The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.</p>	<p><b>Section:</b> 15(1) &amp; Section 16(1)</p> <p><b>Documents:</b> Alberta Heritage Savings Trust Fund Act</p> <p><b>Comments:</b> Alberta Investment Management Corporation (AIMCo) reports on the results and status of the investments on a quarterly and annual basis. These reports are supplied to the staff of the Department of Finance. Alberta Treasury Board and Finance reports to the Legislature and Albertans on the fund on a quarterly and annual basis. These reports are published on the Department's website. The department also publishes annually a list of holdings which is also available online.</p>
<p><b>II. Institutional Framework and Governance Structure</b></p>	
<p><b>GAPP 6. Principle</b></p> <p>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.</p>	<p><b>Documents:</b> Heritage Fund Statement of Investment Policy and Goals</p> <p><b>Comments:</b> The governance framework is not included in one specific document, but is laid out in many acts and regulations. These documents included but are not limited to the AHSTF Act, AIMC Act, Fiscal Management Act, and Statement of Investment Policy and Goals (SIP&amp;G). The division of roles and accountabilities is clearly defined in the investment policy. The guidelines for the Minister have been clearly defined in the applicable legislation. The</p>



	<p>Minister has delegated certain responsibilities to staff within the Ministry to develop investment policy. Implementation of said policy has been delegated to the wholly owned investment manager AIMCo. The Act establishes a Standing Committee of the Legislative Assembly, which is made of 9 members of the Legislative Assembly from all of the parties. Their function is to receive and review the quarterly reports on operation and results of the fund. The committee is also responsible for approving annual reports and holding public meetings with Albertans on the investment activities and results of the funds.</p>
<p><b>GAPP 7. Principle</b></p> <p>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.</p>	<p><b>Section: 6</b></p> <p><b>Documents:</b> Alberta Heritage Savings Trust Fund Act</p> <p><b>Comments:</b> The Legislative Assembly has set the objectives for the Fund, as set out in the Act. Oversight of the Fund is provided by the Standing Committee of the Legislative Assembly on the Alberta Heritage Savings Trust Fund, whose membership is also set forth in the Act. The President of Treasury Board and Minister of Finance appoint independent board members to the Board of the Alberta Investment Management Corporation, who operate independently of the government.</p>
<p><b>GAPP 8. Principle</b></p> <p>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.</p>	<p><b>Comments:</b> The mandates for the governing bodies are defined in the applicable legislation and documents alluded to in the above section. Authorities to carry out the mandates have been delegated as needed. All staff have been hired through a selection and screen process in order to have the necessary skillset to perform their role. Performance is regularly reviewed and monitored.</p>
<p><b>GAPP 9. Principle</b></p> <p>The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.</p>	<p><b>Section 3(2)</b></p> <p><b>Document:</b> Alberta Heritage Savings Trust Fund Act</p> <p><b>Comments:</b> The responsibility of investment management has been delegated to AIMCo. They are to invest the fund in accordance with the Statement of Investment Policy and Goals.</p>

<p><b>GAPP 10. Principle</b></p> <p>The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.</p>	<p><b>Section 3</b></p> <p><b>Documents:</b> Heritage Fund Statement of Investment Policy and Goals</p> <p><b>Comments:</b> The Crown is the legal and beneficial owner of the assets. The Act provides the Minister the authority to invest those assets. The Minister has then delegated responsibilities to his staff and AIMCo for the investment of the fund. The Minister reports to the Standing Committee, who in turn furnishes copies of the reports to the Legislature.</p>
<p><b>GAPP 11. Principle</b></p> <p>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.</p>	<p><b>Section 16(1)</b></p> <p><b>Document:</b> Alberta Heritage Savings Trust Fund Act</p> <p><b>Comments:</b> The Act states that an annual report and financial Statement are prepared in accordance with Public Sector Accounting Board (PSAB) prior to June 30th of the fiscal year being reported. The fiscal year end is March 31st.</p>
<p><b>GAPP 12. Principle</b></p> <p>The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.</p>	<p><b>Section 16(1)</b></p> <p><b>Documents:</b> Alberta Heritage Savings Trust Fund Act</p> <p><b>Comments:</b> The statements are audited by the Auditor General of Alberta. The Auditor General of Alberta is the independent auditor of every Government of Alberta ministry, department, regulated fund and agency.</p>
<p><b>GAPP 13. Principle</b></p> <p>Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management and staff.</p>	<p><b>Section 3(4)</b></p> <p><b>Documents:</b> Heritage Fund Statement of Investment Policy and Goals</p> <p><b>Comments:</b> The Minister is required by legislation to adhere to investment and lending policies, standards and procedures that a reasonable and prudent person would apply in a portfolio of investments. The department's and AIMCo's staff adhere to the CFA Institute's Code of Ethics and Standards of Professional Conduct. The Code of Ethics and Standards of Professional Conduct are the ethical benchmark for investment professionals around the globe, regardless of job title, cultural differences, or local laws.</p>

<p><b>GAPP 14. Principle</b></p> <p>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.</p>	<p><b>Section 3(1)</b></p> <p><b>Documents:</b> Alberta Heritage Savings Trust Fund Act</p> <p><b>Comments:</b> The AHSTF Act states the fund is to be invested to maximize long-term financial returns.</p>
<p><b>GAPP 15. Principle</b></p> <p>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.</p>	<p><b>Comments:</b> The investment manager complies with CFA Institute's Code of Ethics and Standards, which state that they must comply with the stricter of the local regulatory requirements or the institute's code.</p>
<p><b>GAPP 16. Principle</b></p> <p>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.</p>	<p><b>Section 6(2)</b></p> <p><b>Documents:</b> Alberta Investment Management Corporation Act</p> <p><b>Comments:</b> The fund is managed by an wholly owned Crown corporation which is overseen by an independent board of investment and business professionals.</p>
<p><b>GAPP 17. Principle</b></p> <p>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.</p>	<p><b>Documents:</b> Quarterly Updates &amp; Annual Reports</p> <p><b>Comments:</b> Annual reports are published by June 30th, following the fiscal year end of March 31. The annual report includes audited financial statements. The quarterly report is reported with 60 days of the quarter end, and is published with interim financial statements. These interim statements are not audited. The reports are published and available on the Department's website.</p>
<p><b>III. Investment and Risk Management Framework</b></p>	
<p><b>GAPP 18. Principle</b></p> <p>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</p>	<p><b>Documents:</b> Heritage Fund Statement of Investment Policy and Goals</p> <p><b>Comments:</b> The risk exposures and use of leverage are outlined in the Investment Policy. Leverage is commonly used to rebalance and manage risk in the portfolio. It is also used in asset classes such as real estate and private equity, where it is an integral part of the underlying</p>

<p>portfolio management principles.</p> <p><b>GAPP 18.1. Sub Principle</b> <i>The investment policy should guide the SWF's financial risk exposures and the possible use of leverage</i></p> <p><b>GAPP 18.2. Sub Principle</b> <i>The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.</i></p> <p><b>GAPP 18.3. Sub Principle</b> <i>A description of the investment policy of the SWF should be publicly disclosed.</i></p>	<p>strategy and is monitored.</p> <p>The decision to use external managers is left up to province's investment manager AIMCo. AIMCo selects and monitors the performance of these investment managers.</p> <p>The investment policy is publically available on the Heritage Fund's website.</p> <p><b>Section 6 &amp; Section 9</b></p> <p><b>Documents:</b> Heritage Fund Statement of Investment Policy and Goals</p> <p><b>Section 3 &amp; Section 7</b></p> <p><b>Documents:</b> Heritage Fund Statement of Investment Policy and Goals</p>
<p><b>GAPP 19. Principle</b></p> <p>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.</p> <p><b>GAPP 19.1. Sub Principle</b> <i>If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed</i></p> <p><b>GAPP 19.2. Sub Principle</b> <i>The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.</i></p>	<p><b>Section 3(1)</b></p> <p><b>Documents:</b> Alberta Heritage Savings Trust Fund Act</p> <p><b>Comments:</b> The AHSTF Act states that investments are to be made with the objective of maximizing long-term financial returns. The responsibility for investment decisions has been delegated to AIMCo, which is a wholly owned crown corporation. The investment decisions are made autonomously with the view of meeting objectives set forth in the SIP&amp;G. AIMCo is to invest the fund in accordance with the Statement of Investment Policy and Goals. As per the Act "the Minister shall adhere to the investment and lending policies, standards and procedures that a reasonable and prudent person would apply in respect of a portfolio of investments to avoid undue risk of loss and obtain a reasonable return that will enable the Heritage Fund to meet its objectives."</p> <p><b>Section 9</b></p> <p><b>Documents:</b> Heritage Fund Statement of Investment Policy and Goals</p> <p><b>Section 3(2)</b></p> <p><b>Documents:</b> Alberta Heritage Savings Trust Fund Act</p>

<p><b>GAPP 20. Principle</b></p> <p>The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.</p>	<p><b>Section 2(2.1)</b></p> <p><b>Documents:</b> Alberta Investment Management Corporation Act</p> <p><b>Comments:</b> The government created a crown corporation overseen by an independent board of directors. The government delegated investment decisions to them. The Minister appoints the board of directors of AIMCo, but does not have any direct representation on the board.</p>
<p><b>GAPP 21. Principle</b></p> <p>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.</p>	<p><b>Section 9(6)</b></p> <p><b>Documents:</b> Heritage Fund Statement of Investment Policy and Goals</p> <p><b>Comments:</b> The minister has delegated responsibility of proxy voting to Alberta Investment Management Corporation. Voting shall be done in a prudent manner to enhance investment returns. AIMCo's proxy voting guidelines are public on their website: <a href="http://www.aimco.alberta.ca/pdf/AIMCo%20Proxy%20Voting%20Guidelines%20February%202013.pdf">http://www.aimco.alberta.ca/pdf/AIMCo%20Proxy%20Voting%20Guidelines%20February%202013.pdf</a> as is their proxy voting record.</p>
<p><b>GAPP 22. Principle</b></p> <p>The SWF should have a framework that identifies, assesses and manages the risks of its operations.</p> <p><b><i>GAPP 22.1. Sub Principle</i></b>  <i>The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.</i></p> <p><b><i>GAPP 22.2. Sub Principle</i></b></p>	<p><b>Documents:</b> AIMCo Compliance Manual</p> <p><b>Comments:</b> Operational functions of the fund have been delegated to AIMCo. As the investment manager for the fund they have the responsibility for managing operational risk. AIMCo has created a compliance manual that covers the operational risk management framework of the firm. The manual deals with identifying and monitoring risks, sets the parameters and appropriate controls. This manual is shared with the clients of the AIMCo. Clients are made aware when any changes are made to the manual.</p> <p>AIMCo publishes a section on risk in its operations in its annual report.</p> <p><b>Documents:</b> AIMCo Compliance Manual</p>

<p><i>The general approach to the SWF's risk management framework should be publicly disclosed.</i></p>	
<p><b>GAPP 23. Principle</b></p> <p>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.</p>	<p><b>Section 7</b></p> <p><b>Documents:</b> Heritage Fund Statement of Investment Policy and Goals</p> <p><b>Comments:</b> Performance is measured and reported as detailed in the SIP&amp;G.</p>
<p><b>GAPP 24. Principle</b></p> <p>A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.</p>	<p><b>Comments:</b> This is the first self-assessment of compliance. This review will be done on a regular basis and updated when warranted.</p>

## V. Chile - Economic and Social Stabilization Fund / Pension Reserve Fund

<b>I. Legal Framework, Objectives, and Coordination with Macroeconomic Policies</b>	
<b>Principle</b>	<b>Adherence</b>
<p><b>GAPP 1. Principle</b></p> <p>The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).</p> <p><b><i>GAPP 1.1. Sub Principle</i></b>  <i>The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.</i></p> <p><b><i>GAPP 1.2. Sub Principle</i></b>  <i>The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.</i></p>	<p>The institutional framework for Chile's SWFs is established in a number of laws and decrees that define the rules for their operation. The most important piece of legislation is the Fiscal Responsibility Law (FRL) which sets out the norms and institutional framework for the saving and management of fiscal resources. The FRL created the Pension Reserve Fund (PRF) and permitted the creation of the Economic and Social Stabilization Fund (ESSF) which was officially established under Decree with Force of Law (DFL) N° 1 issued by the Finance Ministry in 2006. The FRL also specifies that the Finance Ministry will define the SWFs' investment policies with the advice of a Financial Committee and may entrust their management to the Central Bank of Chile (CBC).</p> <p>The uses to which the two funds may be put is defined in the FRL, DFL N° 1 and the Pension Law. Withdrawals must be authorized by decree by the Finance Minister, are implemented by the CBC and the General Treasury of the Republic (GTR) and are subject to review by the Comptroller General's Office (CGR).</p> <p>Supreme Decree N° 1.383, issued by the Finance Ministry in 2006, delegated at the beginning the administration of the two funds to the CBC, as Fiscal Agent, and established the general framework for their management. This Decree was modified in 2013 with a view to reducing CBC's responsibility regarding the supervision and monitoring of the equity and corporate bonds portfolios managed by external managers. As a result, as of 2014 the relationship with the external managers is held by the Finance Ministry, who is now also responsible for the oversight of these managers.</p> <p>Supreme Decree N° 621, issued by the Finance Ministry in 2007, created the Financial Committee to advise the Finance Minister on all aspects related to funds' investment policy definition.</p> <p>As a result, the legal framework for Chile's SWFs rests on sound foundations and is publicly disclosed, favouring efficient funds operations and facilitating achievement of the objectives for which they were created. These laws and decrees were published in the Diario Oficial (Official Gazette) and are available on the SWF website at</p>

	<a href="http://www.hacienda.cl/fondos-soberanos/legislacion.html">www.hacienda.cl/fondos-soberanos/legislacion.html</a> .
<p><b>GAPP 2. Principle</b></p> <p>The policy purpose of the SWF should be clearly defined and publicly disclosed.</p>	<p>The purpose of the PRF is established in the FRL and the Pension Law and, in the case of the ESSF, in the FRL and DFL N° 1. All the corresponding legislation is posted at <a href="http://www.hacienda.cl/fondos-soberanos/legislacion.html">www.hacienda.cl/fondos-soberanos/legislacion.html</a>.</p> <p>Their policy objectives are also clearly set out in the annual report prepared by the Finance Ministry which is available for public consultation at <a href="http://www.hacienda.cl/english/sovereign-wealth-funds.html">www.hacienda.cl/english/sovereign-wealth-funds.html</a>.</p>
<p><b>GAPP 3. Principle</b></p> <p>Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.</p>	<p>The funds invest exclusively in foreign currencies and overseas assets. Therefore, their domestic macroeconomic implications are minimal. Only the ESSF has direct domestic macroeconomic implications arising from its objective of financing the fiscal deficits that may occur during periods of low growth and/or low copper prices. The Finance Ministry makes the decision to withdraw resources from the fund and their timing since they could affect the peso-dollar exchange rate. In a bid to minimize this impact, withdrawals from the ESSF and their conversion into pesos have, in the past, been coordinated with other fiscal and monetary authorities and made using a system of auctions with a pre-set calendar. This mechanism provides for enough public information to minimize its market impact.</p>
<p><b>GAPP 4. Principle</b></p> <p>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.</p> <p><b>GAPP 4.1. Sub Principle</b> <i>The source of SWF funding should be publicly disclosed.</i></p> <p><b>GAPP 4.2. Sub Principle</b> <i>The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.</i></p>	<p>The rules for contributions to the SWFs are clearly established in the FRL while the uses to which they can be put are established in the FRL, DFL N° 1 and the Pension Law as part of their legal framework. Legislation authorizes the Minister of Finance to define the timing and the amount of withdrawals, and then publicly disclose this information. However, fiscal expenditures must be approved by Congress. As indicated above, this legislation is posted on the funds' website. Contributions and withdrawals as well as the expenses involved in the funds' operation are publicly disclosed in a clear manner, with contributions and withdrawals set out in the funds' monthly, quarterly and annual reports and expenses in their quarterly and annual reports.</p>
<p><b>GAPP 5. Principle</b></p>	<p>The CBC and external managers prepare daily and</p>



<p>The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.</p>	<p>monthly reports on the state of the funds and the performance of their investments. These reports are supplied to staff of the Finance Ministry and to the GTR. The CBC also prepares quarterly and annual reports.</p> <p>Based on the information supplied by the custodian bank, the Finance Ministry publishes monthly reports that include information about the return on the funds' investments, their size, contributions, withdrawals and their portfolio composition. Quarterly reports prepared by the Finance Ministry complement the information that is publicly available. In addition, the Ministry publishes an annual report on the SWFs while the Financial Committee prepares its own annual report about its activities and recommendations, which is presented to the Finance Minister, the Finance Commissions of both houses of Congress and the Joint Budget Commission of Congress.</p>
<b>II. Institutional Framework and Governance Structure</b>	
<p><b>GAPP 6. Principle</b></p> <p>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.</p>	<p>The clear division of roles and responsibilities established by the funds' legal framework facilitates accountability and operational independence in their management. The FRL specifies that the funds are the property of the State of Chile and that the GTR is the bearer of the resources. Under this law, the Finance Minister is responsible for deciding how the funds are managed and their investment policies.</p> <p>In defining their investment policies, the Finance Minister is supported by a Financial Committee which provides advice on the aspects related to this decision. The Finance Ministry draws up investment guidelines defining the eligible instruments and issuers as well as other matters such as investment limits and the use of derivatives.</p> <p>The CBC was appointed by the Finance Minister as the Fiscal Agent responsible for the operational management of the sovereign fixed income portfolios (which also includes bank deposits in the case of the ESSF). The CBC accepted this role and invests the funds' resources with complete independence in accordance with the instructions and restrictions established by the Finance Ministry in their investment guidelines. External managers, hired by the CBC on behalf of the Ministry of Finance, were given the responsibility for managing the equity portfolios for both the ESSF and PRF, and the corporate bonds mandate in the PRF, all of them invested according to the guidelines prepared by the Finance Ministry.</p> <p>The custodian bank, hired by the CBC on behalf of the</p>

	<p>government, is responsible for custody of securities and also provides a number of middle-office services such as monitoring compliance with investment limits, calculating each manager's performance and preparing financial and accounting reports on the funds.</p> <p>Finance Ministry staff monitors the CBC's and external managers' performance and investment strategy using information provided by the custodian bank and by the managers themselves, and prepares monthly, quarterly and annual reports on the basis of information provided by the custodian bank. In addition, Finance Ministry's staff acts as the Financial Committee's Secretariat and provides support in all tasks related to the funds' investment policies.</p> <p>The GTR is responsible for the funds' accounting, for preparing their audited financial statements, and for their incorporation into Chile's national accounts. As of April 2014, GTR is also responsible for monitoring compliance with the funds' investment guidelines, validating external managers' fees, and other back office tasks. The Finance Ministry's Budget Office is responsible for aspects of the SWFs related to the budget such as contributions and withdrawals.</p>
<p><b>GAPP 7. Principle</b></p> <p>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.</p>	<p>The FRL establishes the funds' policy objectives and also defined the Finance Ministry as the body principally responsible for their governance and the Finance Minister as responsible for decisions about their management and investment policies. The FRL also named the GTR as the bearer of the resources. The Finance Minister is appointed by the President of the Republic while the members of the Financial Committee are appointed by the Finance Minister according to criteria established in Supreme Decree N° 621 issued in 2007 by the Finance Ministry.</p> <p>In the case of oversight, the Finance Ministry is responsible for monitoring the CBC's and external managers' performance and investment strategy. As of April 2014, the GTR monitors compliance with the funds' investment guidelines, reviewing the reports on compliance with investment limits prepared by the custodian bank and also carrying out independent reviews of compliance with these limits.</p> <p>The Comptroller General's Office, an autonomous body, is responsible for auditing public-sector finances and, therefore, the SWFs.</p>

<p><b>GAPP 8. Principle</b></p> <p>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.</p>	<p>The institutional framework for the SWFs is defined in the legislation discussed above. Under the FRL, the Finance Ministry is the body primarily responsible for their governance and the Finance Minister is responsible for decisions about their management and investment policies. To assist the Finance Minister in this task, the FRL also created the Financial Committee which advises him on the analysis and design of the funds' investment policies. Although the Finance Minister is not obliged to follow the Committee's independent recommendations, these are public and the government is publicly responsible for the Finance Minister's decisions. In addition, the Finance Minister has set up a unit within the Ministry for all activities relating to investment of the funds' assets and to provide support to the Financial Committee.</p>
<p><b>GAPP 9. Principle</b></p> <p>The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.</p>	<p>The Finance Minister has defined the funds' investment policy and delegated their operational management to the CBC, who manages the sovereign fixed income mandate for both funds (which includes bank deposits in the case of the ESSF), and to external managers, who manage the equity mandates for the ESSF and PRF, and the corporate bonds mandate for the latter. All of them invest their assets in accordance with the investment guidelines drawn up by the Finance Ministry. These guidelines are reviewed and accepted by the CBC which is an autonomous public body not related to the government. The CBC and external managers have total independence to buy and sell instruments and make other operational decisions within the parameters established by the Finance Ministry in the funds' investment guidelines. The CBC and the external managers provide the Finance Ministry with periodic reports (daily and monthly in the case of external managers and daily, monthly, quarterly and annual in the case of the CBC) about its fulfillment of their role, including details of the funds' investments.</p>
<p><b>GAPP 10. Principle</b></p> <p>The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.</p>	<p>The accountability framework for the funds' operations is established in the laws and decrees discussed under Principle 1. They were published in the Diario Oficial (Official Gazette) and are available on the funds' website at <a href="http://www.hacienda.cl/fondos-soberanos/legislacion.html">www.hacienda.cl/fondos-soberanos/legislacion.html</a> and from the Library of Congress (<a href="http://www.bcn.cl">www.bcn.cl</a>).</p> <p>In order to ensure a proper and effective accountability framework, a range of reports are prepared by the different bodies involved in the funds' management.</p>

	<p>Article 12 of the FRL and Article 7 of DFL N° 1, which regulate the PRF and the ESSF, respectively, establish that the Finance Ministry must present to the Finance Commissions of both houses of Congress and to the Joint Budget Commission of Congress monthly and quarterly reports about the funds. In addition, and although not so required by law, the Finance Ministry publishes an annual report about the funds. All these reports are publicly available on the website indicated above.</p> <p>Under the modification of the Supreme Decree N° 1.383, the CBC is accountable to the Finance Minister for the operational management of the sovereign fixed income portfolios of both funds (which includes bank deposits in the case of the ESSF) and provides the Finance Ministry with daily, monthly, quarterly and annual reports about the portfolios under their management, and the services provided by the custodian. The external managers are accountable to the Finance Minister for the operational management of the portfolios that they manage and provide the Finance Ministry with daily and monthly reports about the portfolios under their management.</p> <p>The Finance Ministry is responsible for both funds oversight, investment policy definition and decides how they should be managed.</p> <p>The Financial Committee is an advisory body and is accountable for its obligations as established in Supreme Decree N° 621. Under Article 7 of this Decree, it must present an annual report on its work to the Finance Minister and send a copy of this report to the Finance Commissions of both houses of Congress and to the Joint Budget Commission of Congress. This report is also available on the funds' website.</p> <p>In addition, the Comptroller General's Office, an autonomous body, is responsible for auditing public-sector finances and, therefore, the SWFs.</p>
<p><b>GAPP 11. Principle</b></p> <p>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.</p>	<p>The Finance Ministry prepares an annual report on the funds using the information supplied by the CBC, the external managers, and the custodian bank. This report includes financial information and is publicly available.</p> <p>As of 2011 the GTR prepares the financial statements according to IFRS, which are independently audited and included in the annual report prepared by the Finance Ministry.</p>

<p><b>GAPP 12. Principle</b></p> <p>The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.</p>	<p>The funds' operations are audited by internal CBC auditors.</p> <p>As of 2011 the GTR prepares the financial statements according to IFRS, which are independently audited in keeping with Chilean auditing standards.</p>
<p><b>GAPP 13. Principle</b></p> <p>Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management and staff.</p>	<p>The authorities and staff involved in work relating to Chile's SWFs are subject to legally-established professional and ethical norms, such as the principle of probity, which call for impeccable professional conduct and efficient and loyal exercise of their functions in accordance with the common good.</p> <p>In addition, the CBC has defined professional and ethical standards that are made known to its employees and are available on its website (<a href="http://www.bcentral.cl/transparencia/pdf/Manual_probidad/Manualdeprobidad.pdf">www.bcentral.cl/transparencia/pdf/Manual_probidad/Manualdeprobidad.pdf</a>). External managers have also developed ethical standards that are applicable to staff involved in the management of the funds. Members of the Financial Committee are subject to the ethical norms established in the Decree which created the Committee as well as to other internally-defined norms. Finance Ministry staff and advisors involved in the funds' management have internally adopted a code of ethics along the same lines of communicating and complying in the best possible way with the legally-applicable professional and ethical norms. This code of ethics is available at <a href="http://www.hacienda.cl/fondos-soberanos/codigo-de-etica.html">http://www.hacienda.cl/fondos-soberanos/codigo-de-etica.html</a>. Staff and advisors may, in addition, be subject to other codes of professional ethics (such as that of the CFA Institute).</p>
<p><b>GAPP 14. Principle</b></p> <p>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.</p>	<p>All transactions with third parties are based on economic and financial grounds. The Finance Ministry has rules and procedures that define the steps to be followed in acquiring or hiring services from third parties and the CBC and GTR also have a series of clearly defined rules and procedures for these situations.</p>
<p><b>GAPP 15. Principle</b></p> <p>SWF operations and activities in host countries should be conducted in</p>	<p>The procedures established by the CBC and external managers aim to ensure that the funds' operations and activities are implemented in accordance with the applicable regulatory and disclosure requirements of host</p>

<p>compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.</p>	<p>countries.</p>
<p><b>GAPP 16. Principle</b></p> <p>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.</p>	<p>The funds' institutional framework and objectives are defined by the legal framework discussed under Principle 1 above. Operational management is carried out by the CBC and external managers, both independent bodies of the government. The operational framework for management by the CBC is defined in Supreme Decree N° 1.383. This Decree and its modification were published in the Diario Oficial (<i>Official Gazette</i>). All relevant legislation is published in the Official Gazette. This information is also available on the funds' website (<a href="http://www.hacienda.cl/fondos-soberanos/legislacion.html">www.hacienda.cl/fondos-soberanos/legislacion.html</a>) and on the Library of Congress (<a href="http://www.bcn.cl">www.bcn.cl</a>).</p>
<p><b>GAPP 17. Principle</b></p> <p>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.</p>	<p>The size of the funds, their absolute returns and the countries where their assets are invested are reported on a monthly and quarterly basis. The funds' annual report contains additional financial information. All these reports are available on the funds' website.</p>
<p><b>III. Investment and Risk Management Framework</b></p>	
<p><b>GAPP 18. Principle</b></p> <p>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.</p> <p><b><i>GAPP 18.1. Sub Principle</i></b>  <i>The investment policy should guide the SWF's financial risk exposures and the possible use of leverage</i></p> <p><b><i>GAPP 18.2. Sub Principle</i></b>  <i>The investment policy should address the extent to which internal</i></p>	<p>In our view, the investment policies in force for the ESSF and PRF are consistent with their objectives and risk tolerances.</p> <p>The financial risks to which each fund is exposed are determined by its investment policy. Given their essentially passive management, these risks depend principally on their strategic portfolios and benchmarks. As of today, the use of leverage is not permitted while the use of derivatives is permitted only for currency hedging purposes or for gaining exposure to some part of the benchmark. At present, the funds' operational management is in the hands of the CBC and the external managers, and it's supervised by the custodian bank, the Finance Ministry and the GTR. In general, external managers shall be hired through a selection process carried out by the CBC, according to its internal policies and procedures. Up to now, external managers have only been</p>

<p><i>and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.</i></p> <p><b>GAPP 18.3. Sub Principle</b>  <i>A description of the investment policy of the SWF should be publicly disclosed.</i></p>	<p>used for those asset classes where the CBC lacks the expertise. The scope of external managers' responsibilities and activities is set forth in the corresponding investment guidelines as well as their monitoring by the custodian bank, the Finance Ministry and the GTR.</p> <p>As of 2012 the investment guidelines are disclosed in Spanish in the section available for each fund on the web site <a href="http://www.hacienda.cl/fondos-soberanos.html">www.hacienda.cl/fondos-soberanos.html</a>.</p>
<p><b>GAPP 19. Principle</b></p> <p>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.</p> <p><b>GAPP 19.1. Sub Principle</b>  <i>If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed</i></p> <p><b>GAPP 19.2. Sub Principle</b>  <i>The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.</i></p>	<p>The funds' operational management has been delegated to the CBC and external managers who implement investment decisions autonomously based only on economic and financial grounds and according to a passive investment approach. The CBC applies the same operational standards as for the international reserves and it has been audited and reviewed by international consultants. Likewise, external managers investment processes controls are independently audited. The results from this audit are disclosed to the Finance Ministry annually. The funds' investment policies and guidelines are, moreover, established by the Finance Ministry, taking into account the opinion of the Financial Committee.</p>
<p><b>GAPP 20. Principle</b></p> <p>The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.</p>	<p>Investment decisions are implemented independently by the CBC and external managers who apply standards and operating procedures that meet high probity standards. In addition, when making recommendations, the members of the Financial Committee must do so using only public information.</p>
<p><b>GAPP 21. Principle</b></p> <p>SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its</p>	<p>The PRF invested in equities for the first time in 2012, whereas the ESSF did in 2013. Nonetheless, given that the funds are invested with a passive approach and that the size of the investments is small relative to each instrument's size in the benchmark, the Finance Ministry decided to follow a neutral approach for exercising</p>

<p>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.</p>	<p>ownership rights.</p>
<p><b>GAPP 22. Principle</b></p> <p>The SWF should have a framework that identifies, assesses and manages the risks of its operations.</p> <p><b><i>GAPP 22.1. Sub Principle</i></b>  <i>The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.</i></p> <p><b><i>GAPP 22.2. Sub Principle</i></b>  <i>The general approach to the SWF's risk management framework should be publicly disclosed.</i></p>	<p>The different bodies that comprise the SWFs' organizational structure have procedures and controls in place that, together, constitute a proper framework for managing the risks to which they are exposed. The annual report prepared by the Finance Ministry includes a description of the main risks.</p> <p>The investment guidelines defined by the Finance Ministry determine the funds' maximum permitted exposure to the main risks arising from investment of their assets. In addition, the CBC and external managers, responsible for deciding and implementing financial transactions, monitor the funds' compliance with the limits established by these guidelines. Moreover, the CBC applies the same operating framework as for investment of the international reserves which includes a series of procedures and controls that mitigate not only operational but also reputational and market risk. External managers investment processes controls are independently audited. The results from this audit are disclosed to the Finance Ministry annually. The custodian bank also reports to Finance Ministry staff on the CBC and external managers' compliance with investment limits and the level of portfolio risk. As of April 2014, the GTR monitors the CBC and external managers' compliance with the funds' investment guidelines. The reports presented by the custodian bank, CBC and external managers contain relevant information about the resources invested, ensuring the funds' correct management. As stated hereinabove, the principal risks to which they are exposed are publicly disclosed in the annual report prepared by the Finance Ministry.</p>
<p><b>GAPP 23. Principle</b></p> <p>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</p>	<p>The returns are reported in absolute terms and relative to the benchmark. The CBC, external managers and the custodian bank report to the Finance Ministry the returns. The latter informs them to the Financial Committee and the public. The methodology used to calculate the funds' returns and performance is based on Global Investment</p>



defined principles or standards.	Performance Standards (GIPS®).
<p><b>GAPP 24. Principle</b></p> <p>A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.</p>	<p>A self-assessment of compliance with the Santiago Principles is carried every two years. The self-assessment is publicly disclosed at <a href="http://www.hacienda.cl/english/sovereign-wealth-funds/good-governance-practices-santiago.html">www.hacienda.cl/english/sovereign-wealth-funds/good-governance-practices-santiago.html</a>.</p>

## VI. Iran - National Development Fund of Iran (NDFI)

<b>I. Legal Framework, Objectives, and Coordination with Macroeconomic Policies</b>	
<b>Principle</b>	<b>Adherence</b>
<p><b>GAPP 1. Principle</b></p> <p>The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).</p> <p><b><i>GAPP 1.1. Sub Principle</i></b> <i>The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.</i></p> <p><b><i>GAPP 1.2. Sub Principle</i></b> <i>The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.</i></p>	<p>NDFI was established under Article 84 of the Fifth Five Year Development Plan (Articles of Association (AoA)) as an independent entity. The assets are owned by the state of I. R. Iran. The objectives and responsibilities of various levels have been clarified in the AoA.</p> <p>NDFI is operated by its Board of Executive Directors. Board of Trustees sets the strategies and policies while Supervisory Board oversees NDFI operations.</p> <p>NDFI has an independent legal personality. Its three-tier management includes: Board of Trustees, Board of Executive Directors and Supervisory Board. The AoA, bylaws, contracts, structure and other documents are made public and posted on its website: <a href="http://www.ndf.ir">www.ndf.ir</a>.</p>
<p><b>GAPP 2. Principle</b></p> <p>The policy purpose of the SWF should be clearly defined and publicly disclosed.</p>	<p>NDFI AoA stipulates that:</p> <p><i>NDFI objective is to turn a portion of revenues originated from selling oil, gas, gas condensates and oil products into durable wealth and productive investments as well as conserving the share of future generations. In this direction, AoA and Bylaws clearly define the purpose and objectives which are available on NDFI website.</i></p>
<p><b>GAPP 3. Principle</b></p> <p>Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.</p>	<p>The developmental aspect of NDFI is achieved by strengthening the private sector, attracting foreign investment and supporting Iranian contractors abroad. NDFI is also tasked with investing overseas in money and capital markets. The only impact of NDFI in currency and financial market is through the amount of inflow and outflow of resources which are rebalanced by Central Bank of Iran. In addition, NDFI's economic department monitors the macroeconomic policies of Iran and makes sure that NDFI policies are not conflicting with the country's macroeconomic policies. It should be noted that the pertinent members of board of trustees including minister of Economic Affairs and finance and governor of central bank of Iran, among others, make sure the alignment with macroeconomic policies is achieved.</p>

<p><b>GAPP 4. Principle</b></p> <p>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.</p> <p><b><i>GAPP 4.1. Sub Principle</i></b> <i>The source of SWF funding should be publicly disclosed.</i></p> <p><b><i>GAPP 4.2. Sub Principle</i></b> <i>The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.</i></p>	<p>AoA, Bylaws and parliament approvals as well as Board approvals clearly define the general arrangements regarding inflows and outflows, deposits, withdrawals and spending operations. All are available on the website.</p> <p>NDFI AoA states that at least 20% of revenues originated from selling oil, gas, gas condensates and oil products should go to NDFI. The figure increases by 3% annually. Any changes to that 3% is to be approved by Parliament. The assets, inflows and outflows, loans and other financial activities are made public in a timely manner.</p> <p>Based on AoA, Government has absolutely no access to NDFI resources. No financial facility is extended to Government or state-owned firms. The balance sheet and financial statements are published in official Gazette and a newspaper of mass circulation.</p>
<p><b>GAPP 5. Principle</b></p> <p>The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.</p>	<p>AoA requires the chairman of Board of Executive Directors to prepare reports on the assets, outflows and expenditures to be submitted to Parliament, Supervisory Board and Board of Trustees. Balance sheets and financial statements are published in Official Gazette and a newspaper of mass circulation.</p>
<p><b>II. Institutional Framework and Governance Structure</b></p>	
<p><b>GAPP 6. Principle</b></p> <p>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.</p>	<p>NDFI was established as a separate statutory entity to turn oil and gas revenues into productive investments and conserve share of future generations. The Board of Trustees, as described in AoA, manages NDFI and oversees activities of Board of Executive Directors. Roles and responsibilities of the Board of Trustees and Board of Executive Directors have been clearly mentioned and level of responsibility and accountability clarified in AoA.</p>
<p><b>GAPP 7. Principle</b></p> <p>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.</p>	<p>The Parliament has approved AoA and delegated levels of power, responsibility and accountability to the three Boards. Members of Board of Trustees include cabinet ministers, MPs, Attorney General, private sector representatives among others where appoints members of Board of Executive Directors for a period of 5 years. Timely reports are prepared and submitted to supervisory bodies, Parliament and Board of Trustees to keep NDFI on</p>

	<p>the right track. NDFI budget is approved by the Board of Trustees.</p>
<p><b>GAPP 8. Principle</b></p> <p>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.</p>	<p>Based on NDFI Articles of Association, the objective of NDFI is to turn a portion of revenues originated from selling oil, gas, gas condensates and oil products into durable wealth and productive investments as well as conserving the share of future generations of these oil and gas resources and oil products.</p> <p>The Board of Trustees has a clear mandate and authority to manage the funds through the Board of Executive Directors. AoA determines who may sit on the Board of Trustees, and Executive Directors are determined through approval of Board of Trustees and appointed by the President (who is also Head of Board of Trustees). The Supervisory Board is comprised of the main three supervisory bodies of the state.</p> <p>The management mandate is clearly defined by AoA where the all policies and operations are rooted. The board of executive directors has the competency to operationalize these policies through its organizational structure i.e. NDFI.</p>
<p><b>GAPP 9. Principle</b></p> <p>The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.</p>	<p>NDFI strategies are proposed by the Board of Executive Directors and approved by Board of Trustees. Board of Executive Directors implements the strategy and is overseen by Board of Trustees and Supervisory Board. The Board of Executive Directors has authority, with some limitations, to make investment and operational decisions, hire staff and so on, in line with constitutive laws and regulation.</p> <p>NDFI was established as an independent legal entity in order to make its decisions based only on economic principles.</p> <p>Investments are made on risk adjusted, return based basis within or outside of the country. Members of the Board of Executive Directors are full time employees without holding any other position or economic activity except teaching.</p>
<p><b>GAPP 10. Principle</b></p> <p>The accountability framework for the SWF's operations should be clearly</p>	<p>AoA requires the Board of Executive Directors to prepare balance sheets and financial statements to be approved by Board of Trustees. NDFI financial year is March 21 to March 20.</p>

<p>defined in the relevant legislation, charter, other constitutive documents, or management agreement.</p>	<p>The Board of Executive Directors prepares Financial reports and the Supervisory Board prepares oversight reports semi-annually to be submitted to Parliament and the Board of Trustees.</p>
<p><b>GAPP 11. Principle</b></p> <p>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.</p>	<p>The Chairman of The Board of Executive Directors prepares performance reports on a quarterly basis to be submitted to the Board of Executive Directors. The Board of Executive Directors prepares financial reports and the Supervisory Board prepares oversight reports semi-annually to be submitted to Parliament and Board of Trustees.</p> <p>The Head of State Audit Court is a member of the Supervisory Board (i.e. accounting and financial reporting standards are overseen by him).</p>
<p><b>GAPP 12. Principle</b></p> <p>The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.</p>	<p>The Supervisory Board is mandated with inspecting NDFI performance regarding compliance with statutory and regulatory criteria, AoA and NDFI objectives.</p> <p>Statutory and regulatory criteria, including accounting and auditing standards, must be met.</p> <p>Currently the State Audit Organization (an independent body) audits the NDFI financial statements.</p>
<p><b>GAPP 13. Principle</b></p> <p>Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management and staff.</p>	<p>The three-tier structure of NDFI is in line with professional and ethical standards.</p> <p>NDFI code of Ethics has been approved, disclosed on its website and must be observed.</p>
<p><b>GAPP 14. Principle</b></p> <p>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.</p>	<p>The laws and regulations clearly explain the procedures for NDFI entering into contracts with third parties. All transactions are based on legal, economic and financial grounds and, along with the manuals and bylaws, are available at: <a href="http://www.ndf.ir">www.ndf.ir</a>.</p> <p>Based on the objectives of NDFI, all economic activities are to achieve optimized risk-adjusted economic return.</p>
<p><b>GAPP 15. Principle</b></p>	<p>NDFI Ethics underscore alignment of NDFI activities with</p>

<p>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.</p>	<p>the host countries' laws, rules and regulations.</p> <p>The Investment Policy Statement (IPS for investing abroad) of NDFI ensures that external asset managers are fully aware of and in full compliance with the recipient country's laws and regulations.</p>
<p><b>GAPP 16. Principle</b></p> <p>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.</p>	<p>NDFI AoA clearly stipulates that NDFI assets are owned by the State and policy making, operational activities and supervisory oversight is done by NDFI's three Boards. Board of Trustees is comprised of cabinet members, the Attorney General, MPs and private sector representatives. AoA was published in the Official Gazette and is available on NDFI website. Any changes to AoA and related laws and regulations are published in the Official Gazette and a newspaper of mass circulation.</p>
<p><b>GAPP 17. Principle</b></p> <p>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.</p>	<p>NDFI inflow has been set by Parliament, i.e. 20% of oil and gas revenues, at the inception, with incremental increase of 3% per annum up to the end of Fifth Five Year Development Plan (2011-2015). The Sixth Development Plan will set the annual increase thereafter. Relevant financial information including outflows and inflows are reported to Parliament, the Board of Trustees and the Supervisory Board, and are publicly disclosed.</p>
<p><b>III. Investment and Risk Management Framework</b></p>	
<p><b>GAPP 18. Principle</b></p> <p>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.</p> <p><b>GAPP 18.1. Sub Principle</b> <i>The investment policy should guide the SWF's financial risk exposures and the possible use of leverage</i></p> <p><b>GAPP 18.2. Sub Principle</b> <i>The investment policy should address the extent to which internal</i></p>	<p>AoA sets the minimum rate of return of NDFI investments (not less than the return on Central Bank deposits). IPS states a minimum 4% rate of return with low risk, consistent with other conservative SWFs. Portfolio management strategies, risk tolerance and investment strategies are defined and set in IPS.</p> <p>IPS determines investment policy which includes definition and limits of risk exposure. Use of derivatives is prohibited. At present, all cross-border investments are made by external asset managers.</p> <p>Use of internal and external investment managers and the range of their activities and authority has been stated in the IPS. Investment managers' Selection process, oversight mechanism and assessing their performance has been stated in the IPS.</p>

<p><i>and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.</i></p> <p><b>GAPP 18.3. Sub Principle</b>  <i>A description of the investment policy of the SWF should be publicly disclosed.</i></p>	<p>IPS describes NDFI investment policy and will be publicly disclosed once approved by the Board of Trustees.</p>
<p><b>GAPP 19. Principle</b></p> <p>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.</p> <p><b>GAPP 19.1. Sub Principle</b>  <i>If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed</i></p> <p><b>GAPP 19.2. Sub Principle</b>  <i>The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.</i></p>	<p>Investment decisions are made by NDFI Board of Trustees based on economic and financial grounds with the aim of maximizing risk-adjusted return.</p> <p>IPS deals with NDFI investments abroad. The goal is to maximize risk-adjusted return. The IPS and Ethics clearly stipulate the policies and investment considerations.</p> <p>The domestic investments follow developmental objectives set by the parliament and/or Board of Trustees.</p> <p>IPS and Ethics require application of standards and principles for investments. For domestic and cross-border investments a conservative approach is adopted.</p>
<p><b>GAPP 20. Principle</b></p> <p>The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.</p>	<p>One of the main goals of NDFI is to support and enhance private sector. NDFI does not compete with private sector but limits Government's access to oil and gas revenues in order to direct a portion of resources towards private sector.</p> <p>NDFI extends financial facilities to the private sector through agent banks and does not make direct investments within Iran. All investments are made by private sector. NDFI does not have the power nor tools by any means to influence such investments inappropriately.</p>
<p><b>GAPP 21. Principle</b></p>	<p>NDFI is not authorized to make direct investments within</p>

<p>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.</p>	<p>the country but provides financial facilities for private sector, so it does not acquire ownership to exercise ownership rights.</p> <p>Regarding cross- border investments, investments are made by external managers to maximize return.</p>
<p><b>GAPP 22. Principle</b></p> <p>The SWF should have a framework that identifies, assesses and manages the risks of its operations.</p> <p><b><i>GAPP 22.1. Sub Principle</i></b>  <i>The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.</i></p> <p><b><i>GAPP 22.2. Sub Principle</i></b>  <i>The general approach to the SWF's risk management framework should be publicly disclosed.</i></p>	<p>For domestic financial facilities, fund allocation is based on the risk of the Banks, i.e. the agent banks stand accountable for the risks and guarantee full repayment of NDFI financial facilities. NDFI does not take any direct risk in extending loans to the domestic recipients. Regarding cross-border investments, the IPS has set the framework for identification, assessment and management of risks.</p> <p>Risk management is consistent with risk profile of asset classes. NDFI, in line with asset managers, monitors and reviews risk exposure on a timely manner to ensure compliance with the IPS.</p> <p>For domestic facilities, the risk exposure has been defined in AoA. That is, the agent banks take the risk not NDFI.</p> <p>For investments abroad, the IPS defines in detail the acceptable risk exposure. The IPS will be disclosed once approved by the Board of Trustees.</p>
<p><b>GAPP 23. Principle</b></p> <p>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.</p>	<p>NDFI performance, financial statements and semi-annual reports are prepared and submitted to the Parliament and Board of Trustees. The Supervisory Board prepares its semi-annual reports to be submitted to the Parliament. The standards, rules and regulations are observed when preparing the reports.</p>



<p><b>GAPP 24. Principle</b></p> <p>A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.</p>	<p>Currently NDFI does not have any process of regular review in place. It is in the agenda of the relevant department to draw up a manual and regulations. It will be in place as soon as it is approved by the Board of Executive Directors.</p>
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## VII. Korea - Korea Investment Corporation

<b>I. Legal Framework, Objectives, and Coordination with Macroeconomic Policies</b>	
<b>Principle</b>	<b>Adherence</b>
<p><b>GAPP 1. Principle</b></p> <p>The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).</p> <p><b>GAPP 1.1. Sub Principle</b> <i>The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.</i></p> <p><b>GAPP 1.2. Sub Principle</b> <i>The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.</i></p>	<p>The legal framework for the Korea Investment Corporation is publicly disclosed through the Korea Investment Corporation Act. The framework provides legal soundness for KIC and its relationship with other state bodies and transactions. The KIC Act states that the corporation shall be a juridical person. KIC's relationship with other laws and state bodies such as the Ministry of Strategy and Finance is publicly disclosed on KIC Act.</p>
<p><b>GAPP 2. Principle</b></p> <p>The policy purpose of the SWF should be clearly defined and publicly disclosed.</p>	<p>The purpose of the fund is to conduct effective management of assets which are entrusted by the government, the Bank of Korea, and other public funds defined under the National Finance Act, and thereby contribute to the development of financial industry. This is publicly disclosed through the KIC Act.</p>
<p><b>GAPP 3. Principle</b></p> <p>Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.</p>	<p>This is not applicable for KIC since KIC invests only in the international markets.</p>
<p><b>GAPP 4. Principle</b></p> <p>There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the</p>	<p>Policies, rules, procedures or arrangements in relation to the SWF's actions are publicly disclosed through the Korea Investment Corporation Act 2005. KIC's funding, withdrawal, and spending operations are specified in Article 30 of the KIC Act. KIC manages assets entrusted</p>

<p>SWF's general approach to funding, withdrawal, and spending operations.</p> <p><b>GAPP 4.1. Sub Principle</b> <i>The source of SWF funding should be publicly disclosed.</i></p> <p><b>GAPP 4.2. Sub Principle</b> <i>The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.</i></p>	<p>by the Government, the Bank of Korea, and other public funds defined under the National Finance Act.</p>
<p><b>GAPP 5. Principle</b></p> <p>The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.</p>	<p>According to the annual report, monthly reports are provided to the Ministry of Finance and Strategy and the Bank of Korea.</p> <p>Audited annual financial statements are found on the following link to our website, provided for the public – <a href="https://www.kic.kr/en/co/co030000.jsp">https://www.kic.kr/en/co/co030000.jsp</a></p>
<p><b>II. Institutional Framework and Governance Structure</b></p>	
<p><b>GAPP 6. Principle</b></p> <p>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.</p>	<p>The KIC Act establishes a clear and sound governance framework for KIC with an effective governing body – CEO, Steering Committee, Statutory Auditor and etc. The standard accountability information and process for appointment to each position can be found in the Annual report.</p> <p>The governance of KIC and its structure have adopted high ethical standards and transparency as basic principles of its operation. Following examples and principles are provided on our website – <a href="https://www.kic.kr/en/in/in060100.jsp">https://www.kic.kr/en/in/in060100.jsp</a></p>
<p><b>GAPP 7. Principle</b></p> <p>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.</p>	<p>KIC's objectives are set out by the Government and are detailed in GAPP 2 above. The appointment process for the members of the Steering Committee and the President is shown on the following website address – <a href="http://www.kic.kr/en/in/in030100.jsp">http://www.kic.kr/en/in/in030100.jsp</a></p> <p>The governing bodies' (President and the Steering Committee) clear procedures for exercising oversight of KIC's operations are explained in KIC Act.</p>

<p><b>GAPP 8. Principle</b></p> <p>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.</p>	<p>Per Article 9 of the Korea Investment Corporation Act, the steering committee of KIC is established as the highest governing body. This act also explains the steering committee’s mandates, adequate authority and competency.</p>
<p><b>GAPP 9. Principle</b></p> <p>The operational management of the SWF should implement the SWF’s strategies in an independent manner and in accordance with clearly defined responsibilities.</p>	<p>The asset trust contract to be entered into between KIC and the trust institution shall not have any provision that may restrict the investment management entrusted by the trust institution to KIC.</p>
<p><b>GAPP 10. Principle</b></p> <p>The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.</p>	<p>The Accountability framework for KIC’s operations is clearly set out in the KIC Act.</p>
<p><b>GAPP 11. Principle</b></p> <p>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.</p>	<p>Annual reports and accompanying financial statements prepared by our independent statutory auditor are provided annually, in accordance with K-GAAP, our national accounting standard.</p>
<p><b>GAPP 12. Principle</b></p> <p>The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.</p>	<p>KIC’s internal audit services are performed by the external independent firm in accordance with recognized national auditing standards. Such information about KIC’s transparency management and audit system is disclosed publicly on the website – <a href="http://www.kic.kr/en/in/in060400.jsp">http://www.kic.kr/en/in/in060400.jsp</a>.</p>
<p><b>GAPP 13. Principle</b></p> <p>Professional and ethical standards should be clearly defined and made known to the members of the SWF's</p>	<p>KIC has adopted high ethical standards and transparency as basic principles of its operation. Details on various efforts to promote higher ethical standards are publicly disclosed on our website – <a href="https://www.kic.kr/en/in/in060100.jsp">https://www.kic.kr/en/in/in060100.jsp</a>.</p>

governing body(ies), management and staff.	
<p><b>GAPP 14. Principle</b></p> <p>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.</p>	<p>All dealings with third parties under KIC's operational management follow clear rules and procedures under internal control standards. Internal control standards and the Compliance Officer's responsibilities are publicly disclosed on KIC website – <a href="https://www.kic.kr/en/in/in060200.jsp">https://www.kic.kr/en/in/in060200.jsp</a></p>
<p><b>GAPP 15. Principle</b></p> <p>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.</p>	<p>KIC has adopted ethics and transparency as basic principles of its operation. KIC complies with international conventions and regulations related to investment and trade by respecting the laws and cultures of the host country – <a href="http://www.kic.kr/en/in/in060100.jsp">http://www.kic.kr/en/in/in060100.jsp</a></p>
<p><b>GAPP 16. Principle</b></p> <p>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.</p>	<p>KIC's highest decision making body is the Steering Committee. The Steering Committee consists of members from the Civil Society, selected from the private sector rather than government sector which ensures autonomy and independent operation from the Government. This description regarding Steering Committee is shown through our website – <a href="https://www.kic.kr/en/in/in030100.jsp">https://www.kic.kr/en/in/in030100.jsp</a></p>
<p><b>GAPP 17. Principle</b></p> <p>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.</p>	<p>Annual reports including the audited annual financial statements are published regularly, and publicly disclosed on our website – <a href="http://www.kic.kr/en/co/co020000.jsp">http://www.kic.kr/en/co/co020000.jsp</a> The KIC Act states that the corporation shall make public disclosures on financial statements and accounting standards, the audit report of financial statements, and the mid- and long-term investment policies as resolved by the Steering Committee.</p>
<b>III. Investment and Risk Management Framework</b>	
<p><b>GAPP 18. Principle</b></p> <p>The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance,</p>	<p>KIC's Investment Policy statement, including objectives, risk tolerance, and investment strategy, is published on our website – <a href="http://www.kic.kr/en/ki/ki010000.jsp">http://www.kic.kr/en/ki/ki010000.jsp</a></p> <p>Investment Policy and Investment Process provides</p>

<p>and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.</p> <p><b>GAPP 18.1. Sub Principle</b> <i>The investment policy should guide the SWF's financial risk exposures and the possible use of leverage</i></p> <p><b>GAPP 18.2. Sub Principle</b> <i>The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.</i></p> <p><b>GAPP 18.3. Sub Principle</b> <i>A description of the investment policy of the SWF should be publicly disclosed.</i></p>	<p>guidelines to the public on how the investment decision-making process (including financial risk exposures) is performed. Annual reports include portfolio management objectives – <a href="http://www.kic.kr/en/ki/ki010000.jsp">http://www.kic.kr/en/ki/ki010000.jsp</a></p> <p>Information about the asset portfolio and its range between external to internal management is publicly provided through our annual report.</p> <p>A separate External Fund Manager (“EFM”) Guideline addresses the process by which they are selected and their performance monitored. This information is provided in our annual report.</p>
<p><b>GAPP 19. Principle</b></p> <p>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.</p> <p><b>GAPP 19.1. Sub Principle</b> <i>If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed</i></p> <p><b>GAPP 19.2. Sub Principle</b> <i>The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.</i></p>	<p>The KIC's investment objective is to generate consistent and sustainable returns in excess of the benchmark within an appropriate level of risk. Below are the KIC's investment objectives that are accepted as sound asset management principles.</p> <p>(1) Minimizing the risks from individual markets and assets through portfolio diversification (2) Exercising flexibility to seize investment opportunities</p> <p>The above are the reasons for investment decisions that are consistent with investment policy based on economic and financial grounds– <a href="http://www.kic.kr/en/ki/ki010000.jsp">http://www.kic.kr/en/ki/ki010000.jsp</a></p>
<p><b>GAPP 20. Principle</b></p>	<p>The KIC Act prohibits the KIC members from taking</p>

<p>The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.</p>	<p>advantage of privileged information. Specifics of our compliance policy are available on our website – <a href="https://www.kic.kr/en/in/in060200.jsp">https://www.kic.kr/en/in/in060200.jsp</a></p>
<p><b>GAPP 21. Principle</b></p> <p>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.</p>	<p>KIC adheres to the basic principles of acting in good faith and enhancing shareholder value in the long-term when exercising voting rights. It is our basic policy to maintain a neutral stance when exercising voting rights for holdings of less than 1%, or in the case of externally managed investments. This information is publicly disclosed via the following website address – <a href="https://www.kic.kr/en/ki/ki050000.jsp">https://www.kic.kr/en/ki/ki050000.jsp</a></p>
<p><b>GAPP 22. Principle</b></p> <p>The SWF should have a framework that identifies, assesses and manages the risks of its operations.</p> <p><b><i>GAPP 22.1. Sub Principle</i></b>  <i>The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.</i></p> <p><b><i>GAPP 22.2. Sub Principle</i></b>  <i>The general approach to the SWF's risk management framework should be publicly disclosed.</i></p>	<p>The risk management subcommittee under the Steering Committee and the Risk Management Working Committee under the Board of Directors are responsible for formulating detailed measures. KIC classifies risks into five categories – market, credit, derivatives, operational and legal. Each risk holds quantitative indicators and is monitored during the actual investment process. When risk exceeds limits, the Risk Management Working Committee examines the risk issues and considers countermeasures. Further information on how each risk category is assessed by the committee is publicly disclosed on our website. <a href="http://www.kic.kr/en/ki/ki060100.jsp">http://www.kic.kr/en/ki/ki060100.jsp</a></p>

<p><b>GAPP 23. Principle</b></p> <p>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.</p>	<p>Investment performance of KIC is reported to the owner according to defined principles and standards (the asset trust contract with the trust institutions).</p> <p>Our assets and investment performance (absolute, and relative to benchmark) are measured and reported publicly to ensure transparency and accountability. The information on our measured assets and investment performance is shown on our website – <a href="http://www.kic.kr/en/ki/ki030100.jsp">http://www.kic.kr/en/ki/ki030100.jsp</a></p>
<p><b>GAPP 24. Principle</b></p> <p>A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.</p>	<p>We plan to review GAPP implementation annually.</p>



## VIII. Kuwait - Kuwait Investment Authority



Kuwait Investment Authority

# KUWAIT INVESTMENT AUTHORITY

## KIA's Implementation of the Santiago Principles [Generally Accepted Principles and Practices]

IFSWF CASE STUDY

### Three Pillar Format

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Kuwait Investment Authority

## Contents

- **Introduction: Kuwait Investment Authority**
- **Pillar I – Legal Framework, Objectives and Coordination with Macroeconomic Policies**
  - Pillar I – Legal Framework
  - Pillar I – Objectives
  - Pillar I – Coordination with Macroeconomic Policies
- **Pillar II – Institutional Arrangements and Governance Structure**
  - Pillar II – Institutional Arrangements
  - Pillar II – Governance Structure
- **Pillar III – Investment and Risk Management Framework**
  - Pillar III – Investment Policy Framework
  - Pillar III – Risk Management Framework

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## Introduction: Kuwait Investment Authority

- **Origin:**
  - **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, KIA was created as an autonomous governmental body responsible for the management of the assets of the country.
- **Mission Statement:**
  - "To achieve a long term investment return on the financial reserves entrusted by the State of Kuwait to the Kuwait Investment Authority, providing an alternative to oil reserves which would enable Kuwait's future generations to face the uncertainties ahead with greater confidence."

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## Pillar I – Legal Framework, Objectives and Coordination with Macroeconomic Policies

- In this section, KIA's application of the principles falls under the "*Pillar I – Legal Framework, Objectives and Coordination with Macroeconomic Policies*" is examined. Three separate aspects of the Pillar I is studied:
  - Legal Framework
  - Objectives
  - Coordination with Macroeconomic Policies

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## Pillar I – Legal Framework

### ▪ Legal Establishment:

- KIA traces its roots to the Kuwait Investment Board that was established in 1953, eight years before Kuwait's independence.
- In 1982, KIA was created by Law No. 47 as an **autonomous governmental body responsible for the management of the assets of the country**. Law 47, Article 1 states:
  - *"An independent public authority shall be established with juridical status to be named the "Kuwait Investment Authority" and be attached to the Minister of Finance. The seat of the authority shall be in the State of Kuwait and it may set up offices outside the State of Kuwait."*

### ▪ Source of Funds:

- 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 with 50% of the GRF Balance. It receives a minimum of 10% of all State revenues as well as 10% of the net income of GRF on an annual basis.



## Pillar I – Legal Framework

### • Public Disclosure:

- 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.
- Kuwait's parliament, the National Assembly, is freely elected by all Kuwaiti citizens 21 or older. The elected representatives of the National Assembly are regularly informed, at least annually, of KIA's investments and investment performance.
- KIA also provides regular and frequent reports to the following concerned parties:
  - The Minister of Finance
  - The Council of Ministers
  - KIA's Board of Directors
  - The Chairman and the Executive Committee of KIA's Board of Directors
  - The Independent State Audit Bureau (whose on-site personnel also provides an ongoing monitoring).
- Senior representatives of KIA report periodically to the National Assembly's various committees (including the Finance and Economic Committee; Budgetary and Closing Accounts Committee; and Public Funds Protection Committee) to discuss any issues raised by the State Audit Bureau.



## Pillar I – Objectives

- **KIA's Objectives:**
  - **Law 47, Article 2 outlines the objective of KIA as:**
    - *"The objective of the Authority is to undertake, in the name and for the account of the Government of Kuwait, the management of the State's Reserve Fund, the monies allocated for the Future Generations Fund, as well as such other monies that the Minister of Finance may entrust the Authority with its management."*
  - **KIA's objectives are transparent to its stakeholders and disclosed on its website ([click here](#)).**
  - **KIA aims to achieve a rate of return on its investment that, on a three-year rolling average, exceeds its composite benchmarks by:**
    - Designing and maintaining an asset allocation consistent with its mandated return and risk objectives.
    - Selecting investments and investment managers with the ability to outperform the respective index for each asset class.
    - Making tactical changes to the asset allocation without adversely altering the aggregate so as to benefit from emerging economic and market trends.

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## Pillar I – Objectives

- **Objectives (Continued):**
  - **KIA endeavors to be a world-class investment management organization committed to continuous improvement in the way it conducts business by:**
    - Holding itself to performance standards comparable with those of its peer group of large investment bodies, endowments or pension funds worldwide.
    - Staying properly informed of best practices in the investment community through continuous training and development of its staff.
    - Developing and maintaining an organizational culture that is dynamic and motivates personnel to constantly seek improvement in the investment process.
  - **KIA is committed to the excellence of the private sector in Kuwait while ensuring that it does not compete with or substitute for it in any field. Towards this goal, KIA will:**
    - Contribute to the formation of human capital in Kuwait by attracting talented and ambitious young Kuwaitis, training and preparing them to become the best investment professionals in the market.
    - Participate in the growth of the investment sector in Kuwait by doing business with the best performing companies and investing in their creative ideas.
    - Reinforce sound corporate governance, transparency in all operations, and fair business dealings in Kuwait by holding our business associates and portfolio companies to the highest ethical standards.

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## Pillar I – Coordination with Macroeconomic Policies

### ▪ KIA's Role in the Local Economy

- KIA plays a pivotal role in the local economy. It directs and manages the State's contributions and shares in various major economic entities.
- KIA maintains an active involvement with economic and financial developments in Kuwait. It promotes and supports institutionalization of the market through setting up funds and companies to promote and finance local business, and participates in the launching of local investments that have feasible economic returns.
- KIA helps develop the role of local financial companies by giving them the opportunity to manage some of its investments locally and abroad. The private sector's regeneration will be maintained through privatization programs that KIA is committed to undertake.
- KIA provides liquidity to the State's Treasury when needed.
- KIA has set up several companies in the last few years as a requirement by a statues enacted by the Kuwait's National Assembly (Parliament), primarily to promote investment in Kuwait.
- KIA's role in the local economy is disclosed on its website ([Click here](#)).



## Pillar II – Institutional Arrangements and Governance Structure

- In this section, KIA's application of the principles falls under the "*Pillar II – Institutional Arrangements and Governance Structure*" is examined. Two separate aspects of the Pillar II is studied:
  - Institutional Arrangements
  - Governance Structure



## Pillar II – Institutional Arrangements

- **Overview of Funds:** 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.
  - **General Reserve Fund (GRF):** 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 GRF also holds all government assets, including Kuwait's participation in public enterprises as well as Kuwait's participation in multilateral and international organizations.
  - **Future Generation Fund (FGF):** The FGF was created in 1976 by transferring 50% from the GRF at that time. In addition, a minimum of 10% of all state revenues are transferred to the FGF on an annual basis and all investment income is reinvested. The FGF consists of investments outside Kuwait based on an approved Strategic Asset Allocation in various asset classes. KIA's asset allocation process is based on World GDP contributions and Market Capitalizations. Exceptions to this rule are those countries where the weighting was skewed due to core holdings such as BP and Daimler.

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## Pillar II – Institutional Arrangements

- **Withdrawals:**
  - As mentioned previously, the GRF is the repository of all income of the State of Kuwait. Accordingly all State budget expenditures are paid out of the GRF. The transfers from the GRF to pay the State budgetary expenditures are sanctioned by law.
  - No assets can be withdrawn from the FGF unless sanctioned by law. All investment income are reinvested as required by Law No. 106 of 1976.
  - The only exception for the FGF was withdrawal of funds during the Iraqi invasion and occupation in 1990/1991 where funds are withdrawn from the FGF to pay for the cost of liberation and subsequent reconstruction. Nearly \$85 billion were withdrawn from the FGF during 1990 until 1994. In any event, all amounts of funds which were withdrawn were fully repaid to the FGF.
- **Borrowing:**
  - Kuwait's Constitution prohibits KIA from borrowing unless it is enacted by a specific law. However, KIA's holdings in companies is not subject to such prohibition.
- **Ownership Responsibilities:**
  - KIA does not seek to purchase majority or controlling interests in the companies in which it invests, other than shares in real estate investment entities and in investment holding companies that it establishes for particular transactions.

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## Pillar II – Institutional Arrangements

- **Voting Rights:**
  - KIA exercises its voting rights, if at all, in the manner that it believes will protect the financial interests of KIA, and to the extent KIA votes for the election of any Board members of a portfolio company, such Board member will be subject to all the obligations of Board members under applicable laws.
- **Relationship with the Private Sector:**
  - KIA operates as a responsible and generally passive investor and when KIA competes with other investors in the global market place, it is subject to the laws and regulations applicable to all such investors in the jurisdictions in which KIA invests in.
  - KIA is committed to the excellence of the private sector in Kuwait while ensuring that it does not compete with or substitute for it in any field.



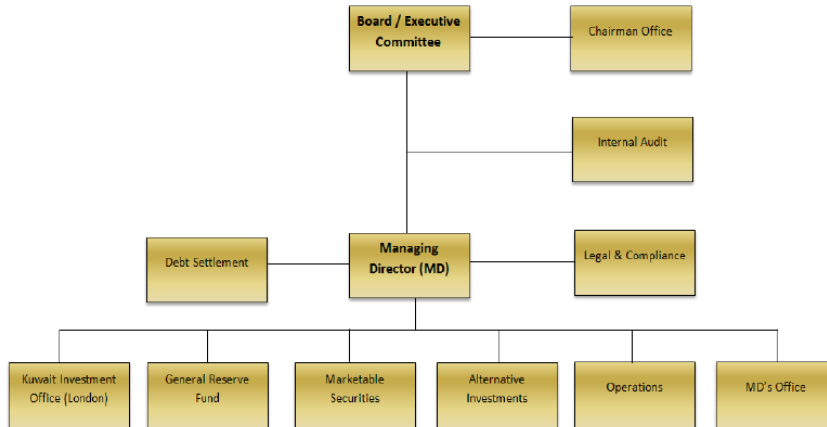
## Pillar II – Governance Structure

- **Board of Directors:**
  - KIA is an independent public authority managed by its Board of Directors.
  - The Board has complete independence in its decision making process.
  - By law, the Board members consists of:
    - 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 Ministry 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.
- **Managing Director and Executive Committee:**
  - The Board selects a Managing Director and his deputies, who may not (during their respective terms of office) undertake any work, with or without pay, for any employer other than KIA.
  - The Board also appoints an Executive Committee that is composed of five Board members, of whom at least three are taken from private sector appointees to the Board and that is chaired by the Managing Director.
  - The primary role of the executive committee is to assist the Board of Directors in setting the strategic goals and objectives of KIA.



## Pillar II – Governance Structure

### KIA's Organizational Structure



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## Pillar II – Governance Structure

- **External Audit:**
  - KIA's managed accounts are jointly audited annually by two of the "Big Four" independent audit firms. The External Auditor reports directly to the Board of Director of KIA.
- **Board Audit Committee**
  - There is a Board Audit Committee comprising of two private sector Board members. The Board Audit Committee is chaired by the Under Secretary of the Ministry of Finance. The Managing Director is invited to attend the Board Audit Committee meetings as an observer.
- **The State Audit Bureau:**
  - KIA is required by law to submit semi annual statements of its assets under management to the independent State Audit Bureau, which also assigns on-site personnel to review KIA's activities on an ongoing basis.
- **Internal Audit:**
  - In addition to the external auditors, KIA has an Internal Audit Office that reports directly to the Chairman of the Board of Directors. Internal Audit Department conducts regular audits for all KIA departments.
- **Civil Service Commission**
  - The Civil Service Commission assigns on-site personnel to ensure KIA's compliance with all administrative and human resources requirements as a public sector entity.
- **Ministry of Finance**
  - The Ministry of Finance assigns on-site Controllers to ensure that all administrative expenditures are in compliance with internal rules and regulations and is within approved guidelines.

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## Pillar III – Investment and Risk Management Framework

- In this section, KIA's application of the principles falls under the "*Pillar III – Investment and Risk Management Framework*" is examined. Two separate aspects of the Pillar III is studied:
  - Investment Policy Framework
  - Risk Management Framework

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## Pillar III – Investment Policy Framework

- **Investment Considerations:**
  - KIA is a commercial driven entity.
  - KIA invests only in the projects which have clearly defined profitability targets.
  - KIA does not invest in sectors where gaming and alcohol-related activities constitute the main source of business.
- **Investment Horizon:**
  - KIA has a long term investment horizon and has the ability to bear risk and accommodate short term volatility, hence it is a force for stability in financial markets.
- **Leverage:**
  - KIA does not borrow for investment purposes as this is prohibited by the Kuwait's Constitution.
  - KIA does not use any derivative products as investment vehicles.
- **Investment Platform:**
  - KIA invests funds through External Fund Managers out of Kuwait.
  - Kuwait investment Office in London trades directly.
- **Specialized Companies:**
  - The KIA has created a series of specialized standalone entities to invest in certain asset classes on its behalf. Some of these entities are as follows:
    - St. Martins for real estate investments in UK and global. Based in London, UK.
    - Fosterlane/Breadstreet for real estate investments in the USA. Based in Atlanta, USA.
    - Wren House Infrastructure for brownfield infrastructure investments in UK and global. Based in London, UK.

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## Pillar III – Investment Policy Framework

- **Investment Objectives and Strategies:**
  - KIA has clear guidelines and a strategy in terms of asset allocation (both regional and asset class), that are regularly reviewed and updated.
  - KIA aims to achieve a rate of return on its investment that, on a three-year rolling average, exceeds its composite benchmarks by:
    - Designing and maintaining an asset allocation consistent with its mandated return and risk objectives.
    - Selecting investments and investment managers with the ability to outperform the respective index for each asset class.
    - Making tactical changes to the asset allocation without adversely altering the aggregate so as to benefit from emerging economic and market trends.
- **Capital Flows:**
  - **FGF:** By law, a minimum of 10% of the all State revenues as well as 10% of the net GRF Income are transferred to the FGF annually. All proceeds from the FGF's investments are reinvested again by law and any transfer from the FGF requires a specific legislation authorizing any withdrawal. The FGF is the **intergenerational saving platform** managed by the KIA.
  - **GRF:** Being the general reserve of the State of Kuwait, GRF assets and the income are available for use by the State of Kuwait as determined by the Government through passage of an annual budget by Parliament. The GRF is the **treasurer as well as the stabilization fund** managed by the KIA.

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## Pillar III – Investment Policy Framework FGF Investment Strategy

- **Overview:**
  - The FGF has a KIA Board approved investment strategy that outlines the guidelines in parallel with the risk and return objectives of the fund.
- **Periodic Review:**
  - The investment strategy is regularly reviewed and updated based on the changing economic and financial factors and expectations.
- **Fund Profile:**
  - The FGF is a long term investor in various asset classes ranging from more traditional assets such as equities and bonds to alternatives such as private equity, real estate and infrastructure.
  - The FGF assets are managed by KIA's Kuwait and London offices based on the Board approved split.

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## Pillar III – Investment Policy Framework

### FGF Investment Strategy

- **External/Internal Fund Management**
  - **External Fund Managers (EFMs):** KIA's Kuwait office appoints global leading EFMs to manage various mandates (especially for equities, fixed income and cash asset classes).
  - **Kuwait Investment Office (KIO):** KIA manages a portion of its assets directly through KIO in London.
  - **Alternatives:** KIA also invests directly in private equity funds and hedge funds with the assistance of third party advisors.
  - **Core Holdings:** In select cases, KIA directly invests in equities classified as Core Holdings, such as its holdings in BP and Daimler.
- **Strategic Asset Allocation (SAA):**
  - **Regional Allocation:** The FGF invests outside of Kuwait and the MENA countries. The SAA established by the Board of Directors sets out allocations to the regions of the world.
  - **Asset Allocation:** The SAA includes allocations to the various assets classes such as equities, fixed income, real estate, alternatives and cash.
  - **Mandate Allocation:** The SAA also goes further to specify allocations to various styles in all asset classes.
  - **Both internally and externally managed assets are managed based on the guidelines set out in the SAA and are measured accordingly.**



## Pillar III – Investment Policy Framework

### GRF Investment Strategy

- **Overview:**
  - The GRF is the main repository of all of the State of Kuwait's oil revenues and income earned from GRF investments.
  - Its assets and the income therefrom are available for use by the State of Kuwait as determined from time to time by the government of Kuwait, based on annual budgets approved by Kuwait's National Assembly (Parliament).
  - On annual basis a minimum of 10% of all State Revenues and 10% of the net income of the GRF are transferred to the FGF.
  - The State must authorize all withdrawals from the GRF through passage of annual Budget.
- **Regional Asset Allocation:**
  - The GRF consists of investments in Kuwait and other MENA countries as well as hard currency assets held by KIA on behalf of the State of Kuwait.
  - The GRF also holds other government assets, including Kuwait's participation in public enterprises such as the Kuwait Fund or Arab Economic Development and Kuwait Petroleum Company in addition to Kuwait's participation in multilateral and international organizations, including the World Bank, the International Monetary Fund and the Arab Fund for Economic and Social Development, amongst others.



## Pillar III – Risk Management Framework

### Overview:

- The Board, Executive Committee of the Board and Senior Management are provided with a comprehensive Risk and Performance Management tools and reports to make informed decisions and assess KIA's investment performance and risk exposures against preset targets in the strategy.
- Since 2008, KIA centralized investment performance and risk management function within **Risk Management and Performance Measurement Unit**, which reports directly to the Managing Director.
- KIA's performance and risk management systems and processes are subject to the review by the two independent accounting firms that audit KIA.



## Pillar III – Risk Management Framework

### Risk Management and Performance Measurement Unit (RPU):

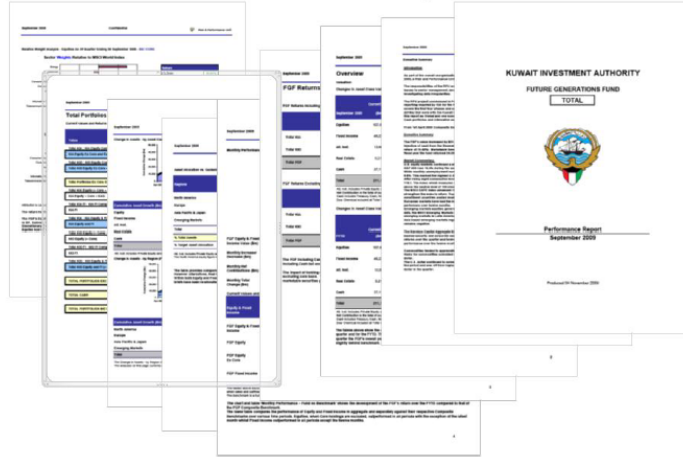
- KIA's investment performance and risk management is the responsibility of the RPU. The RPU has following responsibilities:
  - Conducting performance and risk analysis.
  - Identifying and communicating performance and risk issues to senior management.
  - Developing an understanding of performance and risk within the KIA's investment sectors.
  - Investigating data irregularities.
  - Educating KIA staff on performance and risk by explaining the Unit's own work and answering questions as required.
  - Ensure the Unit's output is clear and has explanatory detail as required to aid understanding.

### RPU Output

- Following section includes samples of the regular output that the RPU produces for the Board, the Executive Committee of the Board and for the Senior Management of KIA.

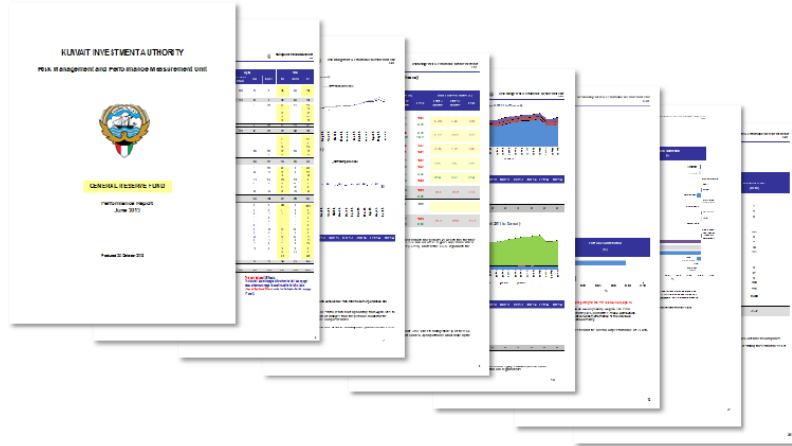
### Pillar III – Risk Management Framework

On a quarterly basis, the RPU calculates and reports performance of the total FGF and GRF as well as various composites and mandates based on Global Investment Performance Standards (GIPS). Some sample pages from a FGF performance report are shown below:



### Pillar III – Risk Management Framework

On a quarterly basis, the RPU calculates and reports performance of the total FGF and GRF as well as various composites and mandates based on the GIPS. Some sample pages from a GRF performance report are shown below:

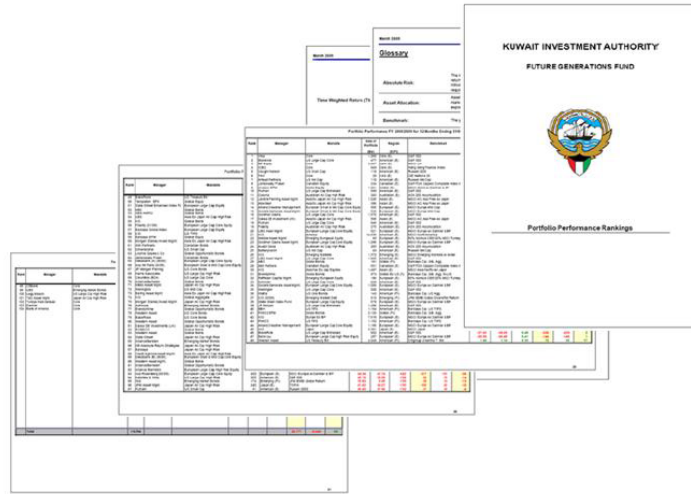




Kuwait Investment Authority

### Pillar III – Risk Management Framework

On a monthly basis, the RPU collates and ranks all of the external fund managers (including the KIO) based on the relative performance for both the FGF and the GRF.



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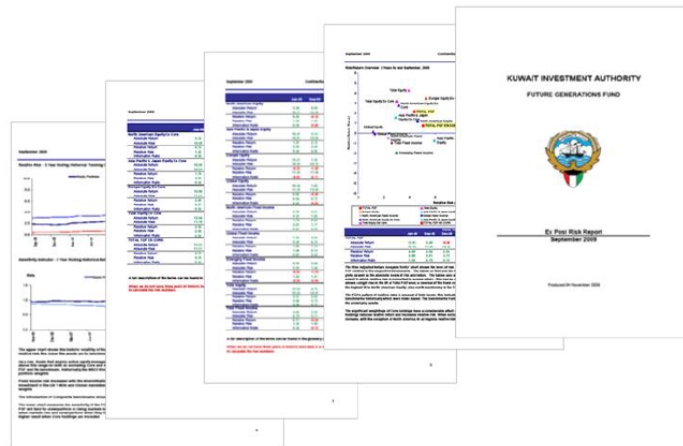
IFSWF CASE STUDY



Kuwait Investment Authority

### Pillar III – Risk Management Framework

On a quarterly basis, the RPU produces ex-post risk reports with various risk and risk adjusted return statics including Tracking Error, Information Ratio, Standard Deviation, Sharpe Ratio and Beta. Some sample pages from a FGF ex-post risk report are shown below:



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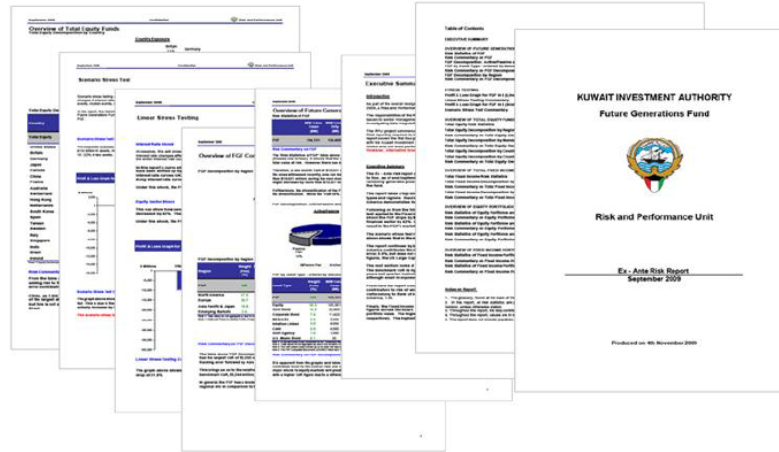
IFSWF CASE STUDY



Kuwait Investment Authority

## Pillar III – Risk Management Framework

On a quarterly basis, the RPU produces ex-ante risk reports with various ex-ante risk statistics such as VAR, Diversification Impact, Ex-ante Tracking Error as well as risk analysis such as Risk Exposure Reporting, Stress Tests, Extreme Tail Risk Analysis and Two Way Risk Decomposition. Some sample pages from a FGF ex-ante risk report are shown below:



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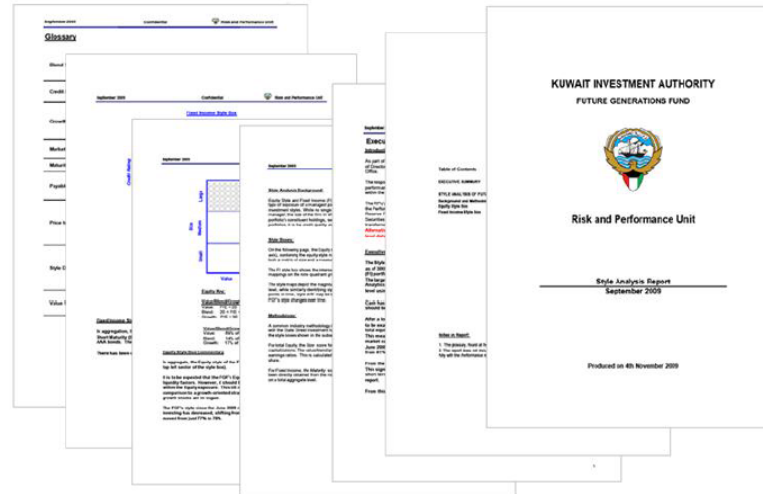
IFSWF CASE STUDY



Kuwait Investment Authority

## Pillar III – Risk Management Framework

On a quarterly basis, the RPU produces a style analysis report for total FGF, which assesses the investment characteristics of the FGF by using a nine quadrant style box.

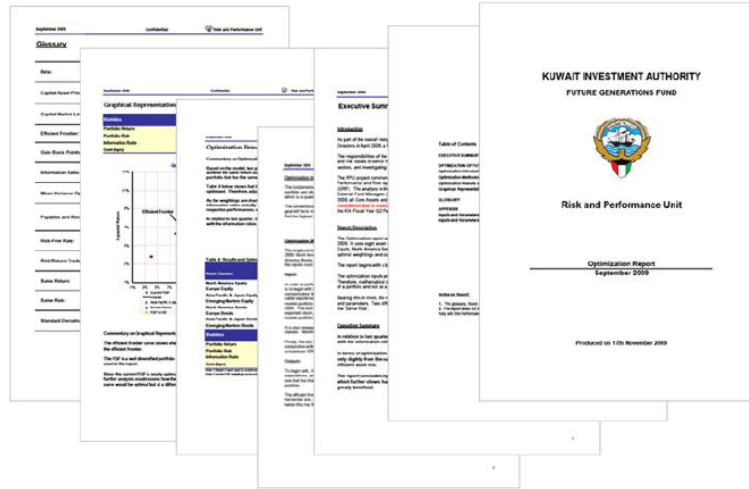


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IFSWF CASE STUDY

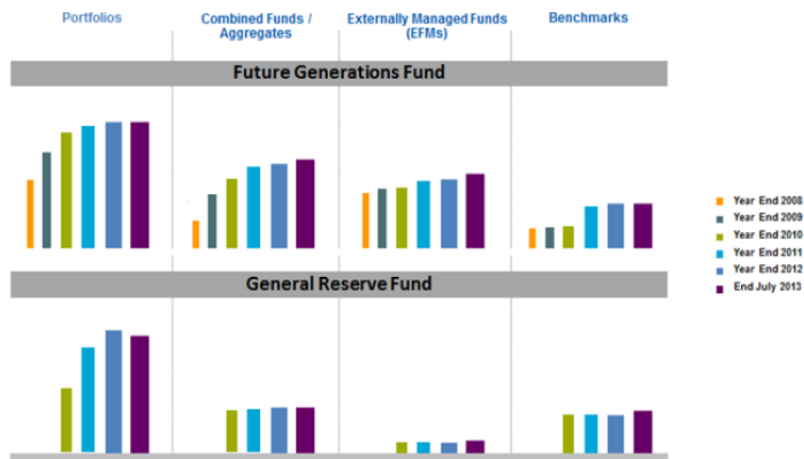
## Pillar III – Risk Management Framework

On a quarterly basis, the RPU produces an optimization report for total FGF, which assesses the risk/reward characteristics of the FGF.



## Pillar III – Risk Management Framework

Since its establishment in 2008, RPU's output increased gradually in line with the significant growth of KIA's assets under management. The number of portfolios and composite/combined fund structure have grown significantly as demonstrated below\*:



\*The numbers were removed from the chart above due to the confidentiality issues.

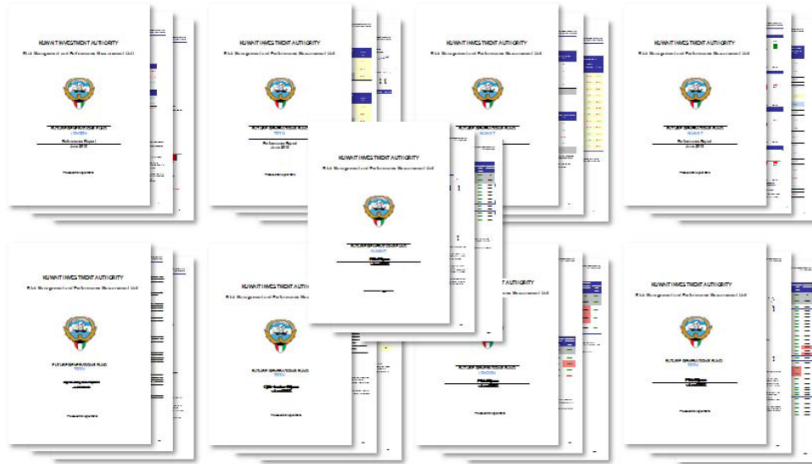




Kuwait Investment Authority

## Pillar III – Risk Management Framework

The number of RPU reports increased significantly since 2008. Over time, the performance and risk output has evolved to include more comprehensive and detailed analysis.



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IFSWF CASE STUDY



Kuwait Investment Authority

## More Information on KIA

For further information on KIA please refer to the KIA's website ([Click here](#)).

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IFSWF CASE STUDY

## IX. New Zealand - Superannuation Fund

<b>I. Legal Framework, Objectives, and Coordination with Macroeconomic Policies</b>	
<b>Principle</b>	<b>Adherence</b>
<p><b>GAPP 1. Principle</b></p> <p>The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).</p> <p><b><i>GAPP 1.1. Sub Principle</i></b>  <i>The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.</i></p> <p><b><i>GAPP 1.2. Sub Principle</i></b>  <i>The key features of the SWF’s legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.</i></p>	<p>The legal framework and structure for the Guardians of New Zealand Superannuation (‘Guardians’, ‘we’, ‘our’) and the New Zealand Superannuation Fund (‘Fund’) are clearly and publicly disclosed in the New Zealand Superannuation and Retirement Income Act 2001 (‘Act’).</p>
<p><b>GAPP 2. Principle</b></p> <p>The policy purpose of the SWF should be clearly defined and publicly disclosed.</p>	<p>The purpose of the Fund is to reduce the tax burden on future taxpayers of the cost of New Zealand Superannuation. The purpose of the Guardians is to manage and administer the fund. Both are expanded on in more detail in our Statements of Intent and Annual reports.</p>
<p><b>GAPP 3. Principle</b></p> <p>Where the SWF’s activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.</p>	<p>The New Zealand Treasury publishes a formula, updated regularly, on its website <a href="http://www.treasury.govt.nz">http://www.treasury.govt.nz</a>.</p> <p>The formula takes the domestic fiscal situation into account in forecasting, among other things, contributions to the Fund; the size of the Fund; the size of withdrawals from the Fund (when this commences about 2030) and the tax revenue from the Fund.</p>
<p><b>GAPP 4. Principle</b></p> <p>There should be clear and publicly disclosed policies, rules, procedures,</p>	<p>The funding formula for the Fund is publicly disclosed on the Fund’s website and on the website of the New Zealand Treasury:</p>

<p>or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations.</p> <p><b>GAPP 4.1. Sub Principle</b> <i>The source of SWF funding should be publicly disclosed.</i></p> <p><b>GAPP 4.2. Sub Principle</b> <i>The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.</i></p>	<p><a href="http://www.treasury.govt.nz">http://www.treasury.govt.nz</a></p> <p>Under current Government projections, contributions made subject to the formula will resume in 2017 and withdrawals will begin in or about 2030.</p>
<p><b>GAPP 5. Principle</b></p> <p>The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.</p>	<p>Performance data is reported monthly, publicly via the Fund's website, and directly to the New Zealand Treasury for incorporation within the Crown Accounts (which are published on the Treasury website).</p>
<p><b>II. Institutional Framework and Governance Structure</b></p>	
<p><b>GAPP 6. Principle</b></p> <p>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.</p>	<p>The New Zealand Superannuation and Retirement Income Act 2001 establishes clear operational independence for the Guardians and establishes standards of public accountability. Additionally the Guardians have a Delegations Policy that provides for clear separation, within the constraints of our enabling legislation, of governance (the Board) and management (the Executive) responsibilities.</p>
<p><b>GAPP 7. Principle</b></p> <p>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.</p>	<p>The objectives are set by statute as: managing in a prudent commercial basis in a manner consistent with:</p> <ul style="list-style-type: none"> <li>Best practice portfolio management;</li> <li>Maximizing return without undue risk;</li> <li>Avoiding prejudice to New Zealand's reputation as a responsible member of the world community.</li> </ul> <p>Procedures for appointing Board members are set out in the Act and are published on the Fund's website.</p>

	Provisions for public accountability, including independent reviews at least five-yearly, are set out in the Act. Copies of all such reviews are published on our website.
<p><b>GAPP 8. Principle</b></p> <p>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.</p>	The Guardians sole purpose is to manage and administer the Fund and we have all the legal powers necessary to do so. The mandate is clear as set out above in response to Principle 7.
<p><b>GAPP 9. Principle</b></p> <p>The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.</p>	The Guardians have a Delegations Policy that provides for clear separation, within the constraints of our enabling legislation, of governance (the Board) and management (the Executive) responsibilities.
<p><b>GAPP 10. Principle</b></p> <p>The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.</p>	<p>Accountability is established in our Act, which is available publicly (see links in previous GAPP responses). The Guardians are required to produce an Annual Statement of Intent and an Annual Report, both of which are public (and are tabled in Parliament – see links in previous GAPP responses). The Guardians also report quarterly to the Minister of Finance.</p> <p>Our Delegations Policy clearly sets out accountabilities between Board and Management.</p>
<p><b>GAPP 11. Principle</b></p> <p>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.</p>	Our International Financial Reporting Standards-compliant and audited Annual Report is prepared annually, according to a deadline set by statute, and is available publicly on the Fund's website (see links in previous GAPP responses).
<p><b>GAPP 12. Principle</b></p>	Financial statements in our Annual Report and Statement of Intent are annually audited in

<p>The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.</p>	<p>compliance with IFRS and with requirements specific to our organisation. Both are tabled in Parliament and published on the Fund's website (see links in previous GAPP responses).</p>
<p><b>GAPP 13. Principle</b></p> <p>Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management and staff.</p>	<p>The Guardians have adopted a Board Charter and Employee Code of Conduct both of which are published on the Fund's website.</p>
<p><b>GAPP 14. Principle</b></p> <p>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.</p>	<p>All third-party dealings are based on economic and financial grounds. The Guardians have a variety of internal policies dealing with how they interact with third parties. These include policies relating to communication, procurement and outsourcing, and travel and sensitive expenditure (copies of which are available on our website).</p>
<p><b>GAPP 15. Principle</b></p> <p>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.</p>	<p>The Guardians have no direct operations or activities in foreign countries. Through third-party sources, the Guardians actively monitor legislative developments in jurisdictions in which the Fund holds significant investments.</p>
<p><b>GAPP 16. Principle</b></p> <p>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.</p>	<p>The framework, objectives and our operational independence from the New Zealand Government are set out in our enabling legislation and published on the Fund's website and within our Annual Report and Statement of Intent. Links to the legislation, the controls on and independence of the Board, and to our Annual Reports and Statements of Intent are provided in responses to preceding GAPPs.</p>
<p><b>GAPP 17. Principle</b></p> <p>Relevant financial information</p>	<p>Audited financial accounts are published in our Annual Report and Statement of Intent. Both are public and links to them have been provided under</p>

<p>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.</p>	<p>preceding GAPPs.</p> <p>Fund size and absolute and relative returns are published on the Fund's website and updated monthly.</p>
<p><b>III. Investment and Risk Management Framework</b></p>	
<p><b>GAPP 18. Principle</b></p> <p>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.</p> <p><b><i>GAPP 18.1. Sub Principle</i></b>  <i>The investment policy should guide the SWF's financial risk exposures and the possible use of leverage</i></p> <p><b><i>GAPP 18.2. Sub Principle</i></b>  <i>The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.</i></p> <p><b><i>GAPP 18.3. Sub Principle</i></b>  <i>A description of the investment policy of the SWF should be publicly disclosed.</i></p>	<p>Our Statement of Investment Policies, Standards and Practices (SIPSP) is available on the Fund's website. That link also provides access to the various policies that sit beneath the SIPSP and are referred to within it.</p>
<p><b>GAPP 19. Principle</b></p> <p>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.</p> <p><b><i>GAPP 19.1. Sub Principle</i></b>  <i>If investment decisions are subject</i></p>	<p>Our mandate requires us to invest the New Zealand Superannuation Fund (Fund) on a prudent, commercial basis and, in doing so, to manage and administer the Fund in a manner consistent with: Best-practice <b>portfolio</b> management; Maximising <b>return</b> without undue <b>risk</b> to the Fund as a whole; and Avoiding prejudice to New Zealand's reputation as a responsible member of the world community. Within that mandate we have a commitment to Responsible Investment. This is based on our belief that sound governance and management of Environmental, Social and</p>

<p><i>to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed</i></p> <p><b>GAPP 19.2. Sub Principle</b>  <i>The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.</i></p>	<p>Governance risks leads to better long-term investment performance.</p> <p>We have published a number of documents which set out how we invest, including how we incorporate Responsible Investment within our overall approach.</p>
<p><b>GAPP 20. Principle</b></p> <p>The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.</p>	<p>By virtue of our independence from the Government we have no access to privileged Government information.</p>
<p><b>GAPP 21. Principle</b></p> <p>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.</p>	<p>Exercise of ownership rights is covered in our Statement of Responsible Investment, Standards and Procedures, which is published on the Fund's website and links to which have been provided under previous GAPPs. We also discuss our approach in our Responsible Investment Framework, links to which have been provided under GAPP 19.</p> <p>Details of our proxy voting activity are published regularly on our website.</p>
<p><b>GAPP 22. Principle</b></p> <p>The SWF should have a framework that identifies, assesses and manages the risks of its operations.</p> <p><b>GAPP 22.1. Sub Principle</b></p> <p><i>The risk management framework should include reliable information and timely reporting systems, which</i></p>	<p>We have published our Risk Management Policy (which deals with non-investment risk) to our website. Our Investment Risk Allocation Policy is also published to our website.</p>

*should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.*

**GAPP 22.2. Sub Principle**

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

**GAPP 23. Principle**

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.

On an annual basis, we report:

absolute performance of the Fund relative to both our low-cost reference portfolio and to our performance reference point of New Zealand Treasury Bills plus 2.5% p.a. over time  
the value added to the Fund by classes of active management including the use of investment managers, unlisted assets, strategic tilting and portfolio completion activities  
all of our holdings in listed equities  
the external managers we have engaged (and terminated) and the strategies and asset classes relevant to each  
our expectations of risk and return for each financial year, and each five-year period on a forward-looking basis

The first four pieces of information are contained within our Annual Reports. The final piece is within our Statements of Intent. Links to both documents are provided in our responses to previous GAPPs

On a quarterly basis we report to the New Zealand Minister of Finance, and to the New Zealand Treasury:

absolute performance of the Fund relative to the reference portfolio and to New Zealand Treasury Bills  
the value added to the Fund by active management  
the economic exposures in the Fund  
New Zealand economic exposures and New



	<p>Zealand investment activity generally  Other investment or operational activity of note  On a monthly basis we report: our economic exposures, by asset class, but prior to any Strategic Tilting; the returns of the Fund relative to New Zealand Treasury Bills; our 10 largest domestic and international equity holdings; and the five largest movements in our equity holdings.</p>
<p><b>GAPP 24. Principle</b></p> <p>A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.</p>	<p>We self-assess our implementation of the Santiago Principles at least biennially. This is the third such self-assessment since September 2009. Copies of each such self-assessment are available on our website. We note external reviews of our implementation of the Santiago Principles have generally been positive. Copies of these reviews are available through the same link.</p>

## X. Norway - Government Pension Fund Global

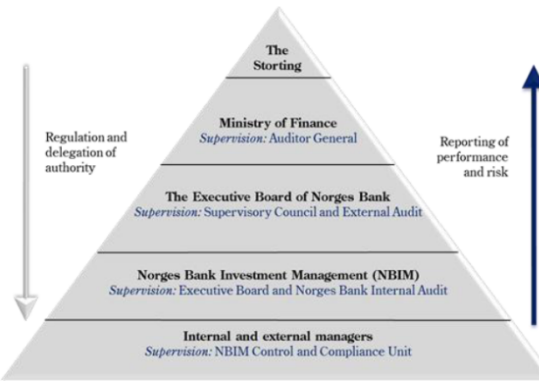
<b>I. Legal Framework, Objectives, and Coordination with Macroeconomic Policies</b>	
<b>Principle</b>	<b>Adherence</b>
<p><b>GAPP 1. Principle</b></p> <p>The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).</p> <p><b>GAPP 1.1. Sub Principle</b> <i>The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.</i></p> <p><b>GAPP 1.2. Sub Principle</b> <i>The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.</i></p>	<p>The Government Pension Fund Global (GPFG) is not a separate legal entity. The legal framework of the GPFG is established by the Government Pension Fund Act (GPFA). This describes the Fund's legal basis and structure. Parliament has given the Ministry of Finance responsibility for managing the Fund. The objective of the management is to maximise the Fund's international purchasing power, given a moderate level of risk.</p> <p>In practice the Ministry has been allocated a role similar to that of an asset owner. The act requires the operational management to be carried out by Norges Bank (Norway's Central Bank). The legal framework of Norges Bank is established in the Norges Bank Act (NBA).</p> <p>The GPFA requires the Ministry to stipulate further regulations for how management is to be implemented. The Ministry has reported to the Norwegian Storting (Parliament) on the more detailed division of responsibility between the Ministry, as owner, and Norges Bank, as manager, which has been established. The Ministry has established a mandate for Norges Bank's management of the Fund.</p> <p>Much information about the Fund and many of the sources referred to in this self-assessment are available at <a href="http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund.html?id=1441">http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund.html?id=1441</a>.</p>
<p><b>GAPP 2. Principle</b></p> <p>The policy purpose of the SWF should be clearly defined and publicly disclosed.</p>	<p>The purpose of the Government Pension Fund is to support government savings to finance the pension expenditure of the National Insurance Scheme and long-term considerations in the spending of government petroleum revenues. The purpose is decreed in the GPFA.</p>
<p><b>GAPP 3. Principle</b></p> <p>Where the SWF's activities have</p>	<p>The income of the GPFG, and the process for transfers to and from the Fund, are laid out in the Pension Fund Act. The income of the GPFG consists of the total cash</p>

<p>significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.</p>	<p>flow from petroleum activities, which is transferred from the central government budget, the return on the Fund's capital, and the net results of financial transactions associated with petroleum activities. The capital in the Government Pension Fund may only be used for transfers to the central government budget pursuant to a resolution by the Storting. Such transfers cover the oil-adjusted budget deficit. Hence the capital transfers form part of a coherent and transparent budget process, such that accumulation of capital reflects actual surpluses on the central government budget. The accumulation of capital in the fund is an integral part of the country's fiscal policy. The Fund cannot be earmarked for specific purposes and cannot be invested in Norway (and thus is not a secondary budget).</p>
<p><b>GAPP 4. Principle</b></p> <p>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.</p> <p><b>GAPP 4.1. Sub Principle</b> <i>The source of SWF funding should be publicly disclosed.</i></p> <p><b>GAPP 4.2. Sub Principle</b> <i>The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.</i></p>	<p>Norway is EITI compliant, see report on <a href="http://www.regjeringen.no/en/sub/eiti---extractive-industries-tranparency/eiti-rapporter/norways-fifth-eiti-report-published.html?id=748528">http://www.regjeringen.no/en/sub/eiti---extractive-industries-tranparency/eiti-rapporter/norways-fifth-eiti-report-published.html?id=748528</a>.</p> <p>Funding, withdrawal and spending linked to the GPFG are publicly disclosed in the publications related to the central government budgets and accounts and determined by the Government Pension Fund Act. The rules are consistent with the Fund's macroeconomic purpose to support government savings to finance the pension expenditure of the Norwegian National Insurance Scheme and long-term considerations in the spending of Norwegian petroleum revenues. The capital in the Government Pension Fund may only be used for transfers to the central government budget pursuant to a resolution by the Storting (Norwegian parliament). The capital transfers form part of a coherent budget process, such that accumulation of capital reflects actual surpluses on the central government budget (see response to principle 3). The monthly transfers and much other annual data about the funding and withdrawals are presented in the National Accounts, chapter three. This document is only available in Norwegian.</p> <p>In addition to the legally defined process, as explained above, the Government follows a Fiscal Policy Guideline whereby the long-term transfers from the Fund should equal the long-term expected real return of the Fund, currently estimated at 4 percent.</p>
<p><b>GAPP 5. Principle</b></p>	<p>Norges Bank reports on the results of the Fund quarterly. The report includes performance, risk and costs and is</p>

<p>The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.</p>	<p>published on the asset manager’s website, <a href="http://www.nbim.no">www.nbim.no</a>. In addition, the asset manager publishes live estimated total assets under management on the website. The asset manager also publishes annual listings of all investments, both equities and fixed income. The information on equities also includes voting share. Voting records are published continuously. The market value of the Fund is part of the central government accounts. All relevant data on the Fund’s return and assets are included in the central government accounts.</p>
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**II. Institutional Framework and Governance Structure**

<p><b>GAPP 6. Principle</b></p> <p>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.</p>	<p>Norway’s parliament established the Fund’s regulatory framework with the GPFA. The Ministry of Finance has formal responsibility for the Fund’s management and acts as the Fund’s owner. The operational management is handled by the Norwegian Central Bank (Norges Bank) through the asset management unit, Norges Bank Investment Management (NBIM). The Ministry has also issued a mandate for the Fund’s management, which sets the terms for the Fund’s investments through regulations and supplementary provisions. It also lays down ethical guidelines for the Fund’s management. The mandate specifies that Norges Bank shall make investment decisions independently of the Ministry (section 1-1 (3)).</p> <p>The Central Bank has published its own documents relating to the internal governance of the fund management. See <a href="http://www.nbim.no">www.nbim.no</a>.</p>
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<p><b>GAPP 7. Principle</b></p> <p>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.</p>	 <p>See response to principle 1 for the overall objective of the Fund. See response to principle 6 for more information about the division of labour between the Ministry and Norges Bank with regards to the management of the GPFG. The hierarchy of regulation, supervision and reporting connected to the GPFG is illustrated in the</p>
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	<p>figure above. Duties and authorizations are delegated downward in the system, while reporting on performance and risk are made upwards. This structure has been reported to Parliament and received parliamentary endorsement. Objectives have been set and appropriate supervisory functions established at all levels of the hierarchy. The procedures for appointing members of the Executive Board of the Central Bank are set out in the NBA. Provisions relating to the Ministry of Finance's supervision are set out in the NBA and GPFA, and specified further in the Ministry's mandate.</p>
<p><b>GAPP 8. Principle</b></p> <p>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.</p>	<p>See also response and figure above. The authority of the governing bodies is decreed in various government legislation and regulations discussed elsewhere in this document. The Ministry's mandate to the Executive Board of Norges Bank seeks to ensure that the manager acts in the best interests of the Fund, and covers, inter alia, the management objective, strategic benchmark, responsible investments, reporting standards, risk management, costs, reporting and relationship between owner and manager. The Executive Board of Norges Bank has established a separate operations area – Norges Bank Investment Management (NBIM) – to be responsible for the operational implementation of the management. The Executive Board has supplemented the Ministry's comprehensive regulations through the establishment of principles for risk management in investment management and through mandate and position instructions for the Executive Director of NBIM. The Executive Director of NBIM in turn lays down more detailed internal and external regulations and mandates for operational execution. Norges Bank's Executive Board is subject to supervision from the Parliament-appointed Supervisory Council, which also appoints the Bank's auditor.</p> <p>See <a href="http://www.nbim.no">www.nbim.no</a> for more details.</p>
<p><b>GAPP 9. Principle</b></p> <p>The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.</p>	<p>The operational manager, NBIM, is independent of the Ministry of Finance, and free to implement the Fund's strategies within the mandate set by the Ministry. See responses to earlier principles for more details.</p>
<p><b>GAPP 10. Principle</b></p>	<p>The accountability framework is laid out in various</p>

<p>The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.</p>	<p>legal documents. The Auditor General is responsible for the supervision of the Ministry of Finance's work. The Norges Bank's Supervisory Board and its selected external auditor are responsible for the supervision of the Executive Board at Norges Bank. The Bank's Internal Audit department shall on behalf of the Executive Board ensure that there is adequate and effective risk management in the Bank and appropriate and satisfactory internal control. The Internal Audit shall make independent and objective statements and provide advice concerning improvements in the management and control systems. The internal supervisory function at NBIM is carried out by the Compliance and Control Unit, which has authority to report independently to the Executive Board when required. Furthermore, Norges Bank is required by the mandate to report quarterly on the fund management. The mandate states minimum requirements for such reporting. The Ministry of Finance reports to the Norwegian Parliament on the management of the Fund annually.</p>
<p><b>GAPP 11. Principle</b></p> <p>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.</p>	<p>The mandate states what other information the quarterly and annual reports should include. The reports shall be based on a high degree of openness within the limits defined by a sound conduct of the management assignment. The reports shall consist of a descriptive part and extracts from the Bank's accounts concerning the management of the Fund, and they shall be adopted in accordance with the current accounting regulations for Norges Bank. The descriptive part shall include a true and fair summary of the performance of the Fund, management costs, management strategies, creation of value by the operative management and relevant risk within the investment management, including utilisation of the limits defined in the mandate. In addition, an account shall be given of the organisation of the investment management in the Bank.</p>
<p><b>GAPP 12. Principle</b></p> <p>The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.</p>	<p>In 2009, the Central Bank Audit was substituted by an elected external auditor (currently Deloitte). The financial statements are regulated by the Regulation relating to annual accounts for Norges Bank. For 2010 and earlier, this was Norwegian GAAP (with some minor adjustments for central bank activities). For 2011 and later, IFRS applies.</p>

<p><b>GAPP 13. Principle</b></p> <p>Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management and staff.</p>	<p>The Ministry has established and published clear ethical standards for all employees. These include principles of transparency, objectivity and independence, as well as restrictions on transactions in financial instruments. Professional standards are as a rule defined at the point of employment. Norges Bank has set clear ethical and professional standards, has laid down ethical rules for its employees as well as a conduct of business principles.</p>
<p><b>GAPP 14. Principle</b></p> <p>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.</p>	<p>The relationship with external managers is defined in the mandate. The regulation on risk management and internal control at Norges Bank states that Norges Bank bears the responsibility for risk management and internal control in relation to outsourced operations. This responsibility shall be established in a written agreement. The agreement shall ensure that the Bank's bodies are entitled to inspect and monitor outsourced operations. Norges Bank shall ensure that there are adequate competencies within the Bank's organisation to manage the outsourcing agreement.</p> <p>Furthermore, the mandate makes clear that all dealings with third parties shall be in accordance with the fund's economic interests. The asset manager shall develop its own policies in accordance with the mandate and other legal requirements, including regulations on risk management and internal control (see above). The asset manager's governing bodies monitor compliance accordingly.</p>
<p><b>GAPP 15. Principle</b></p> <p>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.</p>	<p>NBIM has a Compliance and Control (CC) unit which is charged with ensuring compliance with all applicable regulatory and disclosure requirements. NBIM seeks to build a comprehensive picture of all applicable rules through active dialogue with national regulators and other relevant authorities as well as from a wide range of other information sources. The compliance risks associated with these rules are managed and mitigated through a wide range of activities including extensive training, which is carried out across NBIM, as well as reporting. NBIM provides a range of reporting, including market disclosures in all countries where we invest. Where NBIM has offices in host countries, a formal relationship has been established with the appropriate authorities. The CC unit may report material risks and conflict of interest issues directly to the Executive Board when required.</p>
<p><b>GAPP 16. Principle</b></p>	<p>The governance framework is transparent and publicly</p>

<p>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.</p>	<p>disclosed. Both the overall framework and objective are set by Parliament and laid out in legislation. More specific elements of the division of labour between owner and manager are set out in the mandate. The mandate specifies that Norges Bank shall make investment decisions independently of the Ministry (section 1-1 (3)). The owner presents an annual report to Parliament on the management of the fund. In addition to presenting the financial results of the fund, this report includes a thorough discussion of investment strategy and beliefs. The report also reports to Parliament on the Ministry's governance and supervision of the fund. The report is publicly available on <a href="http://www.government.no/gpf">www.government.no/gpf</a>.</p>
<p><b>GAPP 17. Principle</b></p> <p>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.</p>	<p>The manager reports to the owner quarterly. These reports are public. Financial information is included in the notes to Norges Bank's annual report. Relevant financial information is also included in the government budget and the government accounts.</p>
<p><b>III. Investment and Risk Management Framework</b></p>	
<p><b>GAPP 18. Principle</b></p> <p>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.</p> <p><b><i>GAPP 18.1. Sub Principle</i></b>  <i>The investment policy should guide the SWF's financial risk exposures and the possible use of leverage</i></p> <p><b><i>GAPP 18.2. Sub Principle</i></b>  <i>The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.</i></p>	<p>The basis for the investment policy is decreed in the GPFA. The annual report to Parliament reports on the development of the fund strategy. The investment strategy is based on fundamental beliefs of how the financial markets work and the special characteristics of the fund. The strategy is operationalised in the mandate set by the Ministry. The mandate addresses objectives, risk tolerance and investment strategy. Norges Bank's objective is to maximise long-term return subject to the given risk limits. The Ministry reports yearly on the Management of the Fund to the Storting. The mandate also covers provisions on risk exposures, leverage, benchmark and outsourcing. NBIM has published further information about its investment strategy, approach to risk management and the NBIM CEO's mandate.</p>



<p><b>GAPP 18.3. Sub Principle</b>  <i>A description of the investment policy of the SWF should be publicly disclosed.</i></p>	
<p><b>GAPP 19. Principle</b></p> <p>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.</p> <p><b>GAPP 19.1. Sub Principle</b>  <i>If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed</i></p> <p><b>GAPP 19.2. Sub Principle</b>  <i>The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.</i></p>	<p>See response to principle 18. The Ministry has put in place guidelines for observation and exclusion from the Fund's investment universe. <i>The guidelines are publicly available.</i></p> <p><a href="http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/responsible-investments/guidelines-for-observation-and-exclusion.html?id=594254">http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/responsible-investments/guidelines-for-observation-and-exclusion.html?id=594254</a></p> <p>Exclusion based on ethical criteria is used by many asset owners and managers. Active ownership shall be based on the UN Global Compact, the OECD Guidelines on Corporate Governance and the OECD Guidelines for Multinational Enterprises. The mandate defines how the NBIM should exercise ownership rights on behalf of the fund to safeguard the fund's long-term financial interests. The NBIM has published a set of general voting guidelines to ensure transparency and predictability in how it manages the ownership rights of the fund. The NBIM has also published expectation documents within some areas. A full record of voting is publicly available.</p>
<p><b>GAPP 20. Principle</b></p> <p>The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.</p>	<p>The GPFG is not invested in Norway. The division of labour between the Ministry of Finance and the NBIM means that NBIM is not privy to any privileged information from the broader government. Within Norges Bank, there are information barriers between the different departments and these are established to ensure that NBIM activities are clearly segregated from those within the rest of the bank. Furthermore, Norges Bank's internal guidelines specify that the Executive Director of NBIM is not to take part in discussions with the management of Norges Bank concerning other countries' monetary and credit policy or international organisations' assessments of such issues. This restriction is documented within the job description for the Executive Director of NBIM which formally delegates all activities for the management of the assets under management.</p>
<p><b>GAPP 21. Principle</b></p> <p>SWFs view shareholder ownership</p>	<p>See also response to principle 19. The rationale for the exercise of ownership is described in the mandate. NBIM has developed publicly available principles for voting. It</p>

<p>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.</p>	<p>is NBIM's aim to vote at all annual general meetings. Each year, NBIM votes at about 10,000 general meetings. The number of resolutions voted on every year now exceeds 85,000. NBIM votes on all issues, including those that fall outside the focus areas. The voting instruction data is made public one business day after the general meeting has concluded. NBIM has also published specific expectation documents within areas considered very financially relevant. For more details see: <a href="http://www.nbim.no">www.nbim.no</a></p>
<p><b>GAPP 22. Principle</b></p> <p>The SWF should have a framework that identifies, assesses and manages the risks of its operations.</p> <p><b><i>GAPP 22.1. Sub Principle</i></b>  <i>The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.</i></p> <p><b><i>GAPP 22.2. Sub Principle</i></b>  <i>The general approach to the SWF's risk management framework should be publicly disclosed.</i></p>	<p>See also response to principle 18. The Bank's governing body is responsible for monitoring the effectiveness of the risk management framework. The Bank's Internal Audit department shall on behalf of the Executive Board ensure that there is adequate and effective risk management in the Bank and appropriate and satisfactory internal control. Internal Audit shall make independent and objective statements and provide advice concerning improvements in the management and control systems. The Bank's Executive Board is supervised by Norges Bank's Supervisory Council and Norges Bank's external auditor, Deloitte. In addition to this, the owner reports yearly to Parliament on the management of the fund. The owner is supervised by the Office of the Auditor General. Please refer to the linked documents for further detail:</p> <p>Please see <a href="http://www.nbim.no">www.nbim.no</a> for more details.</p>
<p><b>GAPP 23. Principle</b></p> <p>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.</p>	<p>Performance is measured according to GIPS and reported to the owner quarterly. The benchmarks are described in detail in the mandate. The benchmarks and reporting requirements ensure that the management follows the overall asset allocation (including available instruments) and risk limits as determined by the owner. Please see <a href="http://www.nbim.no">www.nbim.no</a> for more information.</p> <p>The Ministry of Finance has commissioned the Spaulding Group to verify the reported performance (equity and fixed income), and IPD to verify the return on the Fund's real</p>

	estate investments.
<p><b>GAPP 24. Principle</b></p> <p>A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.</p>	<p>The Ministry is satisfied that the Fund operates in adherence with the GAPP. The Ministry will continue to work with the IFSWF in its further development of the principles. The Ministry will update this self-assessment if and when required by any changes to the GAPP or the Fund management.</p>

## **XI. Qatar - Qatar Investment Authority**

### ***Implementing Santiago Principles - Introductory Remarks***

Qatar Investment Authority (QIA) started its operations in early 2006, after an Emiri Decision, clearly stating the Authority's legal framework and governance structure, in June 2005.

From the beginning, legal and governance frameworks were clearly defined in order to support QIA's initial investment strategy focused on domestic equity and regional investments and a significant allocation to external managers globally.

QIA's commitment to transparency and governance is translated in its early, complete support to the establishment of IFSWF and the definition of Santiago Principles.

Moreover, QIA is a founding member of the International Working Group and was among the group of Sovereign Wealth Funds drafting the IFSWF constitution and establishing the forum. The same early support was provided in the case of Santiago Principles: QIA was one of few members drafting the initial and final versions of the Santiago principles and a proactive supporter of its implementation. In 2008, the QIA Board adopted 8 main policies governing the QIA work. In addition to that a number of Procedures were issued. QIA employees were instructed to comply with these policies. From the outset QIA has regularly provided the Owner (the Supreme Council for Economic Affairs and Investment) with annual reports.

In 2009, as a result of the Financial Crisis, the Board of QIA conducted a 6-month review and decided to actively pursue a Direct Investment Strategy, focused on public and private assets.

During this phase additional elements of the Santiago Principles were rolled out:

- Compliance mechanisms related to direct investments in third parties
- Stronger audit processes
- Additional reporting

Since then, QIA continued its investment strategy by formalizing its Investment Execution and Control Functions. In 2011, a separate Capital Markets department was set up to execute all public markets transactions and Internal Audit Departments were created to expand the role of control functions whereas the Risk Department was created at the inception of QIA.

Specific Board committees (Investment, Risk and Audit) were set up to further enhance the owner's oversight on QIA activities.

This case study is an illustration of the current implementation of the three pillars constituting the Santiago Principles.

## ***Pillar I: Legal Framework, Objectives and Coordination with Macroeconomic Policies***

### **Legal Framework**

The QIA was established by Emiri Decision No. (22) of 2005 of the State of Qatar (the “**QIA Constitution**”). As such, QIA is a specially-created statutory entity, wholly-owned by the State of Qatar, with a Board of Directors, a chairman, vice chairman, a chief executive officer, and an executive management team.

QIA reports to the Supreme Council for Economic Affairs and Investments (SCEAI) by law, the highest decision making body concerning Energy, Investment and Economy in Qatar. The SCEAI, which is Chaired by His Highness the Emir, approves investment strategy, assigns funds and approves the budget as well as certain QIA Regulations such as Tender Regulations and HR Regulations. SCEAI members are appointed by His Highness the Emir, and currently the members are:

- His Highness the Emir (Chairman)
- Prime Minister (Vice Chairman)
- Minister of Energy and Industry
- Minister of Finance
- Minister of Economy and Trade
- Governor of the Central Bank
- Economic Adviser to the Emiri Diwan
- Representative of QIA (CEO)
- Representative of Development Bank (CEO)

### **Objectives**

QIA’s mission was defined in Article 5 of the “QIA Constitution”, aimed at:

“... developing, investing and managing the State reserve funds and other property assigned to it by the Supreme Council [of Economic Affairs and Investment of the State of Qatar] in accordance with the policies, plans and programs approved by the Supreme Council.”

Since commencement of operations in 2006, QIA mandate was to invest internationally in order to strengthen the country’s economy by diversifying into new asset classes outside Qatar.

### **Role and objectives in Qatar**

QIA also plays an important role in the domestic economy, through its listed and unlisted subsidiaries and holdings in Qatar. Significant domestic, non-natural resource related assets were assigned to QIA with the objective of improving the oversight and coordination.

QIA actively contributes to the development of national human capital in Qatar. Several internal and external programs have been launched, including CFA, LLM and MBA sponsorship, and secondments to leading international institutions and other investment training programs.

### **QIA role in local macro economy**

QIA's investments are transparent to its owner, QIA financial statements and policies are regularly reviewed by the concerned authorities. For this reason quarterly reports are submitted to QIA Board of Directors and annual reports are submitted by QIA Board to the Supreme Council for Economic Affairs and Investment ('SCEAI'). These reports include:

- full disclosure of total assets
- aggregated information by asset classes
- currency exposures

QIA is playing a big role in local macro economy through its ownership of the biggest local companies.

### ***Pillar II: Institutional Framework and Governance Structure***

#### **Institutional Framework**

QIA is the Saving Fund of the State of Qatar, and therefore benefits from significant positive cash flow and has no immediate liabilities. The nature of the Fund has been confirmed again in 2013, after the appointment of the new SCEAI and QIA Boards.

Since commencement of operations in 2006, QIA was assigned fiscal surpluses from the State of Qatar for this purpose.

As a saving fund of the State of Qatar, there have been no withdrawals of assets by the government of the State of Qatar and we do not anticipate any withdrawal during the coming 20 years.

QIA is an attentive shareholder and will usually exercise its voting rights. It is represented at meetings of shareholders of companies in which it has a significant investment. In this regard QIA is motivated only by the responsibilities flowing from the discharge of its Mission strictly within economic and financial objectives and criteria.

#### **Accountability framework**

Accountability framework and the separation between Owner, the Government and operational management were defined in key decisions and policies (QIA constitution, "Mission, Values and Governance" policy).

The following is an extract from the QIA policy, "Mission, Values and Governance," adopted by the QIA Board of Directors on 15/09/2008

#### **Governance**

- Implementation of QIA's mission is the responsibility of the QIA Board, which is appointed by His Highness the Emir.

- The QIA Board has established the framework for QIA’s operations through appropriate policies, including (but not limited to) investment policies, risk management policies and a Code of Conduct.
- The QIA Board provides strategic guidance for QIA and monitors QIA executive management.
- The QIA Chief Executive Officer, together with the management team, is responsible for the day-to-day management of QIA.
- Business decisions are the sole responsibility of the QIA Board and QIA’s executive management. Qatar’s government does not interfere in QIA’s investment, divestment or other business decisions.
- The State Audit Bureau monitors and audits QIA’s accounts and reports directly to His Highness the Emir of the State of Qatar.

### Board of Directors

The governing body of QIA is its Board of Directors, which is responsible for implementing investment strategies, delegating responsibilities, appointing and removing the SWF management.

Pursuant to Article (7) of the QIA Constitution, QIA *“shall be managed by a Board of Directors which shall consist of a Chairman and Deputy Chairman and a number of members to be appointed by the Decision of the Emir ...”*

Currently QIA Board of directors is chaired by His Highness the Emir and comprises the following members:

- Sh. Abdullah Bin Hamad Bin Khalifa Al Thani (Vice Chairman), Chairman of Emiri Diwan
- Ali Sharef Al Emadi, Minister of Finance
- Sh. Ahmed Bin Jassim Bin Mohammed Al Thani, Minister of Business and Trade
- Sh. Abdullah Bin Saoud Al Thani, Governor of Central Bank
- Dr. Hussain Al Abdulla, Independent

QIA, through its Board of Directors, has all powers and competencies necessary to achieve its mission by:

- proposing the investment policies for the State reserve and implementing them;
- designing and monitoring investment programs;
- buying and selling securities, assets and currencies;
- establishing investment companies;
- concluding contracts and taking all necessary legal actions;
- proposing draft laws and regulations concerning the State reserve; and
- representing the State of Qatar in all local, regional and international bodies concerning the investment of the State reserve

As regards compliance, in fact QIA had been complying with main GAPP Santiago Principles even before these principles were issued, for QIA Board adopted a number of policies which reflect the essence of these principles in 2008.

Further significant improvements towards compliance with GAPP have been implemented since 2013. QIA Board role was further clarified and focused on investment philosophy, policy, and management oversight. It sets limits and guidelines.

The QIA Board has charged its executive management team with the responsibility and the authorities to execute and oversee investment strategies.

#### Executive management

The executive management team of QIA, chaired by the CEO, acts with operational independence within the context of its overall strategy, without external interference or further direction.

In 2013 the Board appointed a new CEO, who has full independence from the Government and the Political leadership of the State of Qatar, further ensuring full separation between investment decisions made by QIA and political will and policies issued by the Government. The CEO has a number of responsibilities which are outlined in the Emiri Decision No 22 of 2005, namely, to 'implement and manage the Authority's technical, administrative, financial and legal affairs' and in particular the following:

- Buying and selling stocks, bonds, bill notes and other securities issuing in or outside the State in accordance with the standards and limits determined by the Board.
- Buying and selling real estates in full or by sharing with others and investing in real estates.
- Linking up cash deposits of all types in the banks and financial institutions in the State or abroad.
- Establishing investment portfolios in various investment markets and managing them or delegating the management responsibility to banks or financial institutions.
- Buying and selling foreign currencies.
- Buying and selling gold and precious metals.
- Preparing the studies and recommendations concerning the Authority's activity.
- Preparing a report on the Authority's activity during the fiscal year and its financial status.
- Proposing the draft regulations for the Authority.
- Preparing the annual budget proposal and the closing account of the Authority.
- Following up the investment developments in the world, and issuing directions to the concerned departments to respond quickly to such developments.
- Assuming general supervision over the departments belonging to it and revising the annual plan for financial and direct investments and ensuring that it complies with the strategy and the general policy of the Authority.
- Carrying out any other works assigned to it by the Board.



### Internal policies

Some of the most relevant policies in relation to governance and compliance were approved and rolled out already in 2008:

- Policy on Policies and Procedures
- QIA Group Governance Standards
- Code of Conduct
- Compliance Policy
- Anti-Money Laundering Policy
- Legal Policy
- Accounting Policy

### Investment Compliance

Article 16 of QIA's Constitution prohibits QIA's Chairman, any member of QIA's Board, QIA's Chief Executive Officer, or any of QIA's officers, from having any personal interest, direct or indirect, in the contracts concluded with or for the account of QIA or the enterprises carried out by it.

QIA complies with all public disclosures for regulatory compliance purposes. Furthermore, full disclosure and transparency is ensured towards the Supreme Council of Economic Affairs and Investment and relevant Government entities.

QIA respects host country rules and regulations and fully adheres to specific disclosure and other regulatory requirements. Legal and Compliance Departments oversee this function.

It is the policy of QIA to comply with all laws and regulations applicable in the State of Qatar as well as in all jurisdictions in which it conducts business. QIA is committed to establishing and maintaining a reputation as an investment organization pursuing excellence in corporate governance and operating at all times to the highest standards of professional conduct.

QIA is subject to a large number of rules and regulations, both domestically and in the international jurisdictions in which it operates. Such laws and regulations include, but are not limited to, rules against money laundering, investment restrictions, exchange rules, tax regulations, foreign exchange regulations, anti-trust regulations, regulations relating to political contributions, company law and international sanctions and embargoes. Some laws and regulations will be more relevant for direct investments, others for investing in traded securities or in funds.

### Auditing

QIA consistently issues to the SCEAI, a consolidated annual report and consolidated financial statements in accordance with international and national accounting standards.

QIA's annual consolidated financial statements are prepared in accordance to the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

Business operations and consolidated financial statements of QIA are audited by the State Audit Bureau of Qatar. Independent auditors, both external and internal, annually and consistently audit in accordance with recognized international and national auditing standards. Moreover, QIA has an internal Audit Department as well as a Board Audit Committee.

### Ethical standards

Current practice entails that all QIA's governing bodies, corporate officers and employees are required to behave and operate following 5 guiding values:

- Integrity: To apply the highest ethical, moral and professional standards of conduct in each of their undertakings.
- Mission focus: QIA has a noble mission on behalf of the Qatari people. In executing day-to-day responsibilities, QIA management and employees are firmly focused on this mission.
- Entrepreneurialism: QIA believes in the power of entrepreneurialism, and it continues to encourage initiative and a flexible approach even as the organization grows and institutionalizes.
- Excellence: QIA strives for excellence in all aspects of its undertakings.
- Respect for people: QIA recognizes that people are its most valuable asset, and the organization seeks to create a respectful workplace free of harassment or intimidation.

### Third parties dealings

QIA's investment strategy is based on its responsibility to generate a strong and sustainable return for the State of Qatar, within the boundaries of an investment mandate based on purely economic and financial grounds and a long-term investment time horizon.

As a consequence, QIA deals with third parties solely on economic and financial grounds. QIA has a strong set of anti-money laundering, anti-corruption, anti-bribery policies in place. The same policies also have to be enforced by QIA counterparties in the context of direct transactions.

Specific tender process and a Tender Committee, in-line with the Qatari Tender Law, were defined and set up to ensure full transparency and remove any potential conflict of interest in dealing with external service providers and suppliers.

## ***Pillar III: Investment and Risk Management Framework***

### **Investment strategy**

QIA seeks to achieve long-term investment returns without exposing itself to undue levels of risk.

The Authority is committed to pursuing its strategic investment mandate based purely on economic and financial objectives. No part of QIA's strategic investment mandate, or its execution, is motivated by considerations of political nature.

QIA does not include other factors in its investment execution and management processes. Where it is possible, within QIA's overall economic and financial strategy, QIA will include considerations of an environmental and/or humanitarian nature.

Investments are managed with a blend of internal and external investment management resources.

QIA utilizes its internal investment management resources in areas where it has recognized expertise; otherwise it will use external investment management resources. In cases where external managers are employed, they are selected based on their financial performance and creditworthiness.

QIA manages its assets and delegated investment managers with diligence and care. Each investment decision is considered in the context of the overall portfolio, as part of the overall investment strategy to incorporate a reasonable risk and return in line with the fund's mission and investment objectives, and not in isolation.

QIA has detailed procedures on selection, engagement and operational monitoring of external investment managers. Due diligence process for evaluating a potential manager involves qualitative, quantitative and operational considerations.

Formal periodic performance updates are routinely required from all external fund managers. Positions are closely monitored.

### **Risk Management**

The Risk Department was created at the same time the QIA was established.

Risk management practices at QIA have been expanded to cover all aspects of financial and operational risks and to adhere to high standards of risk management.

The Risk Management, Legal and Compliance departments review progress and compliance with the Santiago principles on an annual basis. QIA also participated in the 2011 and 2013 surveys organized by IFSWF.

### **Reporting**

The CEO provides regular reports to the QIA Board, covering various activities of the Authority. On an annual basis, QIA provides the SCEAI detailed performance reports, along with the consolidated annual report and consolidated audited financial statements.

Performance reports show performance returns, analysed and benchmarked using various methodologies, including by asset class, by peer group, by sector, by portfolio, etc.

### ***Conclusions and way forward***

QIA remains fully committed to further implementing and improving the application of Santiago Principles.

Several initiatives were launched during the life span of QIA in order to further strengthen QIA Governance.

In the last few years, significant changes were introduced, which have positively impacted the Governance and the Strategy of QIA:

- QIA mandate was reviewed to reflect the increasing size of the Fund. In particular, characteristics of QIA as “The Saving Fund of the State of Qatar,” were more closely defined in terms of funding, investment and withdrawal strategy.
- A new 20-30 year plan for QIA was defined, in-line with the Qatar National Vision 2030
- Definition of Long term funding plan and corresponding performance targets and limits.
- Improvements to QIA Governance and Organization in adherence to Santiago Principles followed.

In additions to the General Policies issued by the Board of Director, several policies, processes and procedures were issued across the Authority by the CEO to ensure the soundness and integrity of QIA’s operations, including: Code of Conduct Procedure, Know Your Counterparty Procedure, Contract Execution Procedure, Legal Department Record Retention Procedure, SPEs Establishment Procedure, Information Barriers Procedure, Dealing Prohibition Procedure.

QIA Investment policies and strategies are guided by the fund target size and returns that were agreed upon by the governing bodies. Adequate risk budget and risk appetite are, defined on the basis of the investment strategy and the target fund size. Specific risks, like liquidity risk, are stress tested by internal and external parties in order to ensure full understanding of the impact of different scenarios on QIA investment policy and strategies.

## XII. Singapore – GIC Private Limited

<b>I. Legal Framework, Objectives, and Coordination with Macroeconomic Policies</b>	
<b>Principle</b>	<b>Adherence</b>
<p><b>GAPP 1. Principle</b></p> <p>The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).</p> <p><b>GAPP 1.1. Sub Principle</b> <i>The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.</i></p> <p><b>GAPP 1.2. Sub Principle</b> <i>The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.</i></p>	<p>GIC's legal framework is detailed in the Singapore Companies Act, under which GIC was incorporated in 1981. GIC is wholly owned by the Government of Singapore. An Investment Mandate from the Government to GIC sets out the terms of appointment, investment objectives, investment horizon, risk parameters and investment guidelines for managing the portfolio.</p> <p>The Singapore Companies Act is available at: <a href="http://statutes.agc.gov.sg/">http://statutes.agc.gov.sg/</a></p> <p>GIC's legal relationship with the Government of Singapore is disclosed on our website and in our Annual Reports: <a href="http://www.gic.com.sg/newsroom/reports">http://www.gic.com.sg/newsroom/reports</a></p>
<p><b>GAPP 2. Principle</b></p> <p>The policy purpose of the SWF should be clearly defined and publicly disclosed.</p>	<p>GIC's purpose is clearly defined; we aim to achieve good long-term returns for the Government - a reasonable risk-adjusted rate above global inflation over a 20-year investment horizon. By achieving these returns, we meet our responsibility to preserve and enhance the international purchasing power of Singapore's foreign reserves. The reserves provide a stream of income that can be spent or invested for the benefit of present and future generations.</p> <p>GIC's policy purpose is publicly available at</p> <p><a href="http://www.gic.com.sg/about/overview">http://www.gic.com.sg/about/overview</a> <a href="http://app.mof.gov.sg/reserves.aspx">http://app.mof.gov.sg/reserves.aspx</a></p>
<p><b>GAPP 3. Principle</b></p> <p>Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall</p>	<p>As a rule, GIC invests outside Singapore, in line with our mission to preserve and enhance the international purchasing power of these reserves. Hence, this principle does not apply to GIC.</p> <p><a href="http://www.gic.com.sg/newsroom/reports">http://www.gic.com.sg/newsroom/reports</a></p>

macroeconomic policies.	
<p><b>GAPP 4. Principle</b></p> <p>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.</p> <p><b><i>GAPP 4.1. Sub Principle</i></b> <i>The source of SWF funding should be publicly disclosed.</i></p> <p><b><i>GAPP 4.2. Sub Principle</i></b> <i>The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.</i></p>	<p>GIC's source of funds is disclosed on our website and in our Annual Report.</p> <p>The sources of the Government's assets, as stated by the MOF, include proceeds from issuance of Government debt, Government surpluses and proceeds from the Government's land sales.</p> <p>The Constitution of Singapore stipulates a spending rule that determines how much of the investment returns on its reserves the Government can spend. The spending rule allows up to 50% of the long-term expected real return on the reserves managed by GIC and those owned by the Monetary Authority of Singapore, to be taken into the Government's annual budget.</p> <p><a href="http://statutes.agc.gov.sg/">http://statutes.agc.gov.sg/</a>  <a href="http://www.gic.com.sg/newsroom/reports">http://www.gic.com.sg/newsroom/reports</a>  <a href="http://app.mof.gov.sg/reserves.aspx">http://app.mof.gov.sg/reserves.aspx</a></p>
<p><b>GAPP 5. Principle</b></p> <p>The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.</p>	<p>GIC provides monthly and quarterly reports to the Accountant-General Department within the Ministry of Finance. These reports list the financial transactions, as well as the holdings, and bank account balances. The reports provide detailed performance and risk analytics as well as the distribution of the portfolio by asset class, country and currency.</p>
<b>II. Institutional Framework and Governance Structure</b>	
<p><b>GAPP 6. Principle</b></p> <p>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.</p>	<p>The Investment Mandate from the Government to GIC sets out the terms of appointment, investment objectives, investment horizon, risk parameters and investment guidelines for managing the portfolio. The Government, which is represented by the Ministry of Finance in its dealings with GIC, neither directs nor interferes in GIC's investment decisions. It holds the GIC Board accountable for the overall portfolio performance.</p> <p>GIC is accountable in various key areas to the President of Singapore as a Fifth Schedule company. The Constitution empowers him to obtain information to enable him to safeguard the country's reserves.</p>

	<p>The Board is ultimately responsible for asset allocation and for the performance of the portfolio under management. It is accountable to the Government for the effective management of the reserves in accordance with the Investment Mandate.</p> <p>Board committees oversee critical areas: on investment policy, risk, audit and human resources. External advisers with global experience in the investment industry serve on the investment and risk committees to provide external perspectives and ideas from their areas of expertise.</p> <p>The Auditor-General, who is appointed by the President of Singapore, submits an annual report to the President and Parliament on his audit of the Government and other bodies managing public funds.</p> <p><a href="http://www.gic.com.sg/about/corporate-governance/overview">http://www.gic.com.sg/about/corporate-governance/overview</a></p>
<p><b>GAPP 7. Principle</b></p> <p>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.</p>	<p>GIC's objectives are set out by the Government and are detailed in Principle 2 above. Representing the Government (who is also the fund owner), the Ministry of Finance appoints the members to the Board of Directors for a fixed term which is renewable. In addition, no one may be appointed to or removed from the GIC Board without the concurrence of the President of Singapore, who is independent of the Government and must not be a member of any political party. This provides an additional layer of oversight.</p> <p><a href="http://www.gic.com.sg/newsroom/reports">http://www.gic.com.sg/newsroom/reports</a></p>
<p><b>GAPP 8. Principle</b></p> <p>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.</p>	<p>The Board is accountable to the Government for the effective management of the reserves in accordance with the Investment Mandate. As mentioned in Principle 6, the President's concurrence is required for the appointment, renewal or removal of board members from the GIC Board. This ensures that GIC appoints only people of integrity who are competent and can be trusted to safeguard these assets. In addition, external advisers with global experience in the investment industry also serve on the Board's investment strategies committee and risk committee to provide external perspectives and ideas from their areas of expertise.</p> <p><a href="http://www.gic.com.sg/newsroom/reports">http://www.gic.com.sg/newsroom/reports</a></p>

<p><b>GAPP 9. Principle</b></p> <p>The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.</p>	<p>The Government, which is represented by the Ministry of Finance in its dealings with GIC, neither directs nor interferes in GIC's investment decisions. It holds the GIC Board accountable for the overall portfolio performance. The management executes investment strategies, is responsible for all investment transactions and reports regularly to the Board and the Government.</p> <p><a href="http://www.gic.com.sg/about/corporate-governance/overview">http://www.gic.com.sg/about/corporate-governance/overview</a></p>
<p><b>GAPP 10. Principle</b></p> <p>The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.</p>	<p>GIC's accountability framework is defined in our Investment Mandate, the Constitution of Singapore, and the Singapore Companies Act.</p> <p>The Investment Mandate from the Government to GIC sets out the terms of appointment, investment objectives, investment horizon, risk parameters and investment guidelines for managing the portfolio.</p> <p>GIC is accountable in various key areas to the President of Singapore as a Fifth Schedule company. The Constitution empowers him to obtain information to enable him to safeguard the country's reserves.</p> <p>GIC was incorporated in 1981 under the Singapore Companies Act. The Companies Act and GIC's Memorandum and Articles of Association state how the board of GIC is to be set up, and other matters pertaining to the governance of GIC and the board members. The Memorandum and Articles of Association are legal documents which all companies incorporated under the Companies Act must have.</p> <p><a href="http://www.gic.com.sg/about/corporate-governance/overview">http://www.gic.com.sg/about/corporate-governance/overview</a>  <a href="http://statutes.agc.gov.sg/">http://statutes.agc.gov.sg/</a></p>
<p><b>GAPP 11. Principle</b></p> <p>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</p>	<p>GIC provides monthly and quarterly reports to the Accountant-General within the Ministry of Finance. These reports list the financial transactions, as well as the holdings, and bank account balances. The reports provide detailed performance and risk analytics as well as the distribution of the portfolio by asset class, country and currency. Once a year, the management meets the Minister for Finance and his officials formally to report</p>



standards in a consistent manner.	<p>on the risk and performance of the portfolio in the preceding financial year.</p> <p>GIC's first annual report on the management of the Government's portfolio was published in September 2008. From 2011, the report for the prior financial year, is available in July.</p> <p><a href="http://www.gic.com.sg/newsroom/reports">http://www.gic.com.sg/newsroom/reports</a></p>
<p><b>GAPP 12. Principle</b></p> <p>The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.</p>	<p>The main companies in the GIC group and the Government's portfolio managed by GIC are independently audited by the Auditor-General, in addition to being audited by GIC's internal audit department. Other companies in the group and the investment holding companies are audited by public accounting firms.</p> <p>The Auditor-General submits an annual report to the President and Parliament on his audit of the Government and other bodies managing public funds.</p> <p>To safeguard the independence of the Auditor-General, he is appointed by the President and not by the Government whose accounts are subject to his audit. There are also provisions in the Constitution of the Republic of Singapore to ensure that his remuneration cannot be reduced and to protect him from being removed except based on adjudication by an independent panel. This is to ensure that he is able to audit without fear or favour.</p> <p><a href="http://www.gic.com.sg/newsroom/reports">http://www.gic.com.sg/newsroom/reports</a>  <a href="http://statutes.agc.gov.sg/">http://statutes.agc.gov.sg/</a></p>
<p><b>GAPP 13. Principle</b></p> <p>Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management and staff.</p>	<p>We require our staff to observe GIC's code of ethics, maintain exemplary conduct, and comply with laws and regulations, including prohibitions against insider trading and other unlawful market conduct. These are among the guidelines set out in our compliance manual maintained by the legal and compliance department. Staff must protect confidential information and handle material non-public information with due care. The manual also states policies relating to the management of conflicts of interest, gifts and entertainment, copyright rules, personal investments and whistle-blowing. We provide regular training to all staff to keep them current with compliance requirements.</p>

	<p><a href="http://www.gic.com.sg/newsroom/reports">http://www.gic.com.sg/newsroom/reports</a></p>
<p><b>GAPP 14. Principle</b></p> <p>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.</p>	<p>External managers are chosen for their ability to exploit investment opportunities beyond GIC's current skill sets and to complement our internal management capability.</p> <p>Requests for proposals and assessment of the proposals are done in a fair manner and follow internal operating policies and procedures.</p> <p><a href="http://www.gic.com.sg/newsroom/reports">http://www.gic.com.sg/newsroom/reports</a></p>
<p><b>GAPP 15. Principle</b></p> <p>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.</p>	<p>GIC complies with the appropriate regulatory and disclosure requirements in the countries in which we invest. Investment and operations teams also work closely with the legal and compliance department to manage legal and regulatory compliance risks arising from the group's investment activities.</p> <p><a href="http://www.gic.com.sg/newsroom/reports">http://www.gic.com.sg/newsroom/reports</a></p>
<p><b>GAPP 16. Principle</b></p> <p>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.</p>	<p>The GIC annual report and GIC's website disclose the governance framework of GIC, and the investment objectives of the fund and how GIC is operationally independent from the owner.</p> <p><a href="http://www.gic.com.sg/about/corporate-governance/overview">http://www.gic.com.sg/about/corporate-governance/overview</a></p>
<p><b>GAPP 17. Principle</b></p> <p>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.</p>	<p>The GIC annual report is published via the website, to give the international community a better appreciation of the context and circumstances in which GIC operates, and to assure that GIC invests only to achieve financial returns sustainably.</p> <p>GIC discloses relevant information to demonstrate its economic and financial orientation. The GIC annual report describes GIC's investment objectives, legal and corporate governance framework, investment approach, as well as risk management framework.</p> <p>GIC has taken further steps in the direction of increased transparency over the years. Beginning in 2011, GIC publishes the nominal returns and annualized volatility of</p>

	<p>these returns over 5-year, 10-year and 20- year horizons, in addition to the 20-year real return disclosed since 2008.</p> <p><a href="http://www.gic.com.sg/newsroom/reports">http://www.gic.com.sg/newsroom/reports</a></p>
<b>III. Investment and Risk Management Framework</b>	
<p><b>GAPP 18. Principle</b></p> <p>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.</p> <p><b>GAPP 18.1. Sub Principle</b> <i>The investment policy should guide the SWF's financial risk exposures and the possible use of leverage</i></p> <p><b>GAPP 18.2. Sub Principle</b> <i>The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.</i></p> <p><b>GAPP 18.3. Sub Principle</b> <i>A description of the investment policy of the SWF should be publicly disclosed.</i></p>	<p>GIC's investment policy and activities are anchored by the policy portfolio. It defines the asset classes that GIC invests in, and how it allocates funds to these asset classes. The purpose is to meet the investment return objective within the risk tolerance determined by the Government as owner of the funds.</p> <p>Investment decisions comply with prescribed guidelines and limits to ensure that they keep within the Investment Mandate from the Government. At all levels of investment decision-making, the risks taken by our portfolio managers and their investment results are constantly monitored. Clear mandates are provided to internal and external managers, stating the range of their activities and authority. In addition, the independent risk and performance management department regularly monitors the portfolio's performance, risk and asset exposures against the approved thresholds and limits.</p> <p>Allocation between internal and external managers is based on the principle of best sourcing. These managers are selected for their ability to exploit investment opportunities beyond GIC's current skill set and to complement GIC's internal management capability.</p> <p><a href="http://www.gic.com.sg/newsroom/reports">http://www.gic.com.sg/newsroom/reports</a></p>
<p><b>GAPP 19. Principle</b></p> <p>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.</p> <p><b>GAPP 19.1. Sub Principle</b> <i>If investment decisions are subject to other than economic and</i></p>	<p>We do not invest other than for economic and financial considerations.</p>

<p><i>financial considerations, these should be clearly set out in the investment policy and be publicly disclosed</i></p> <p><b>GAPP 19.2. Sub Principle</b>  <i>The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.</i></p>	
<p><b>GAPP 20. Principle</b></p> <p>The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.</p>	<p>GIC does not have, nor does it seek, access to privileged information or inappropriate influence through the Government. The Government neither directs nor interferes in GIC's investment decisions. GIC's compliance manual for staff further provides a framework to prevent access to and use of privileged information.</p>
<p><b>GAPP 21. Principle</b></p> <p>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.</p>	<p>Consistent with our portfolio management approach, GIC will exercise ownership rights in our investments, where appropriate, to protect the financial interests of the assets under our management. Our general approach to the exercise of our ownership rights is guided by financial considerations.</p>
<p><b>GAPP 22. Principle</b></p> <p>The SWF should have a framework that identifies, assesses and manages the risks of its operations.</p> <p><b>GAPP 22.1. Sub Principle</b>  <i>The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of</i></p>	<p>Identifying and managing risk is a clear and integral part of management responsibility at all levels in GIC. The risk management framework sets the accountability and responsibility parameters for risk-taking. In addition to the Board and its risk committee, different bodies and groups are specifically charged with the task of identifying, analysing, monitoring, reporting and on-the-ground managing of risks.</p> <p>Our approach to risk management is three-pronged: managing portfolio risk to ensure appropriate and efficient risk-taking; managing process risk so that investment</p>

<p><i>relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.</i></p> <p><b>GAPP 22.2. Sub Principle</b>  <i>The general approach to the SWF's risk management framework should be publicly disclosed.</i></p>	<p>decisions are implemented well; and managing people risk.</p> <p><a href="http://www.gic.com.sg/newsroom/reports">http://www.gic.com.sg/newsroom/reports</a></p>
<p><b>GAPP 23. Principle</b></p> <p>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.</p>	<p>Our assets and investment performance (absolute, and relative to benchmarks if any) are measured and reported to the owner according to clearly defined principles or standards.</p> <p><a href="http://www.gic.com.sg/newsroom/reports">http://www.gic.com.sg/newsroom/reports</a></p>
<p><b>GAPP 24. Principle</b></p> <p>A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.</p>	<p>GIC regularly reviews our implementation of the GAPP, and we have published our assessment in this report.</p>

### XIII. Timor-Leste - Petroleum Fund of Timor-Leste

<b>I. Legal Framework, Objectives, and Coordination with Macroeconomic Policies</b>	
<b>Principle</b>	<b>Adherence</b>
<p><b>GAPP 1. Principle</b></p> <p>The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).</p> <p><b>GAPP 1.1. Sub Principle</b> <i>The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.</i></p> <p><b>GAPP 1.2. Sub Principle</b> <i>The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.</i></p>	<p>Timor-Leste Petroleum Fund was established to fulfil the requirement of the Constitution that mandates the establishment of mandatory financial reserves from the exploitation of the natural resources.</p> <p>The legal framework for the Petroleum Fund is detailed in the Petroleum Fund Law No. 9/2005, of 3rd of August as amended by the Law No. 12/2011, of 28th of September. The Fund is formed as an account of the Ministry of Finance held in the Central Bank of Timor-Leste (BCTL), rather than as a separate legal entity.</p> <p>The Petroleum Fund Law specifically provides mechanisms that assist Timor-Leste to sustainably manage its petroleum revenue, details the parameters for operating and managing the Petroleum Fund, defines the asset allocation guidelines and risk limits, governs the collection and management of the receipts, regulates transfers to the State Budget, defines clear roles and responsibilities of entities involved in the management of the Fund and, provides for government accountability and oversight of these activities.</p> <p>The Operational Management Agreement signed between the Ministry of Finance and the Operational Manager (BCTL) on 12 October 2005 with later amendments goes further to account the key functions and competencies of the Ministry of Finance, with the responsibility of the overall management of the Fund, and the BCTL, which has the responsibility for the operational management of the Fund. The legal framework and other supporting documentations on the Petroleum Fund are publicly available at the Ministry of Finance and BCTL websites.</p> <p><a href="https://www.mof.gov.tl/budget-spending/petroleum-fund/?lang=en">https://www.mof.gov.tl/budget-spending/petroleum-fund/?lang=en</a> <a href="http://www.bancocentral.tl/PF/laws.asp">http://www.bancocentral.tl/PF/laws.asp</a></p>
<p><b>GAPP 2. Principle</b></p> <p>The policy purpose of the SWF should be clearly defined and publicly disclosed.</p>	<p>The preamble of the Petroleum Fund Law states that the purpose of establishing the Petroleum Fund, which accumulates revenues from the exploitation of natural resources, is to contribute to a prudent management of the petroleum resources for the benefit of both current and</p>

	<p>future generations.</p> <p>The Fund is also a tool that contributes to sound fiscal policy, where appropriate consideration and weight is given the long-term interest of Timor-Leste’s citizens. The Ministry of Finance, through the publication of the Petroleum Fund Annual Report and regular public consultation, continues to emphasize and remind the stakeholders of the objectives of establishing the Petroleum Fund.</p> <p>The Petroleum Fund Law further describes the manner in which the Petroleum Fund contributes to the achievement of these objectives.</p>
<p><b>GAPP 3. Principle</b></p> <p>Where the SWF’s activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.</p>	<p>The Petroleum Fund Law does not allow the Fund to invest domestically. The Petroleum Fund only has significant direct domestic macroeconomic implications arising from the transfers made to the State Budget to finance the government’s budget deficit.</p> <p>The Petroleum Fund, as a tool of fiscal management, is integrated into the State Budget. The amount transferred to the State Budget from the Fund is guided by the Estimated Sustainable Income (ESI). This is designed to be the amount that can be transferred from the Fund without depleting the long-term real value of petroleum wealth, ensuring the sustainability of the Fund.</p> <p>The Ministry of Finance coordinates the activities of line ministries, other entities and relevant departments within the Ministry during the preparation, discussion and execution of the government’s budget.</p> <p><a href="https://www.mof.gov.tl/budget-spending/budget-treasury-documents/?lang=en">https://www.mof.gov.tl/budget-spending/budget-treasury-documents/?lang=en</a></p>
<p><b>GAPP 4. Principle</b></p> <p>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.</p> <p><b><i>GAPP 4.1. Sub Principle</i></b> <i>The source of SWF funding should be publicly disclosed.</i></p>	<p>The Petroleum Fund Law clearly defines what constitutes petroleum fund receipts and sets out the mechanisms for handling these receipts and requirements for withdrawals. Detailed information about receipts and transfers to the government is publicly disclosed in the Petroleum Fund Annual Reports, and the General State Budget from the Ministry of Finance, as well as in the Petroleum Fund’s quarterly and monthly reports from the BCTL.</p> <p>A complete list of all entities making payments to the Petroleum Fund is published annually. Timor-Leste was</p>

<p><b>GAPP 4.2. Sub Principle</b>  <i>The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.</i></p>	<p>accepted as an EITI (Extractive Industries Transparency Initiative) compliant country on 1 July 2010.</p> <p><a href="https://www.mof.gov.tl/budget-spending/budget-treasury-documents/?lang=en">https://www.mof.gov.tl/budget-spending/budget-treasury-documents/?lang=en</a>  <a href="http://www.bancocentral.tl/PF/Reports.asp">http://www.bancocentral.tl/PF/Reports.asp</a>  <a href="http://www.eiti.tl/">http://www.eiti.tl/</a></p>
<p><b>GAPP 5. Principle</b></p> <p>The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.</p>	<p>Transparency is a fundamental principle of the Petroleum Fund Law. The Law sets out the requirements for all entities involved in the management of the Fund to provide and publish the reports pertaining to the activities of the Fund.</p> <p>The Ministry of Finance prepares the Petroleum Fund Annual Report, Petroleum Fund financial statements and general state budget statement for the National Parliament.</p> <p>The BCTL, on a quarterly basis, provides reports to the Minister on the Fund's performance over the quarter. BCTL also, on its own initiative, issues to the public a monthly performance report for the Fund.</p> <p>The Law requires an international accredited auditor to issue and publish an annual audit report on the Fund's financial statements.</p> <p>All this information is publicly available on both the MoF and BCTL websites.</p> <p><a href="https://www.mof.gov.tl/budget-spending/petroleum-fund/?lang=en">https://www.mof.gov.tl/budget-spending/petroleum-fund/?lang=en</a>  <a href="http://www.bancocentral.tl/PF/Reports.asp">http://www.bancocentral.tl/PF/Reports.asp</a></p>
<p><b>II. Institutional Framework and Governance Structure</b></p>	
<p><b>GAPP 6. Principle</b></p> <p>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.</p>	<p>The Petroleum Fund Law clearly defines the roles and responsibilities of all entities involved in the management of the Fund. No single institution or individual is responsible for making and implementing the investment decisions, because each one of them is accountable to one another for their role in the decision making process.</p> <p>Parliament has established the Petroleum Fund Law. The Law limits the broad asset allocation and risk tolerance.</p> <p>The Ministry of Finance sets the investment policy and monitors the Fund's performance. The Investment Advisory Board (IAB) provides advice for Minister on</p>



	<p>investment policy and sets the investment benchmarks for the Fund. BCTL, the Operational Manager, is responsible for the Fund's operations including implementing the investment mandates set by the Minister of Finance.</p>
<p><b>GAPP 7. Principle</b></p> <p>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.</p>	<p>Parliament, representing the people, sets the objectives of the Fund in the Petroleum Fund Law. The Petroleum Fund Consultative Council (PFCC) is a statutory body appointed to provide advice to Parliament on matters relating the Petroleum Fund.</p> <p>The Ministry of Finance, responsible for the overall management of the Fund, sets the investment policy, investment guidelines, including detailed risk limits and exercise of oversight. The Prime Minister appoints members of the IAB on the advice of the MoF.</p> <p>The operational management is delegated to the Central Bank. The Operational Manager appoints the external managers, in accordance with international tendering procedures, to manage part of the Fund provided that the Minister is satisfied that the managers fulfil certain requirements in the Law.</p>
<p><b>GAPP 8. Principle</b></p> <p>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.</p>	<p>Further to discussion in Principle 7, the Minister of Finance is accountable to the Parliament and is required to provide relevant reporting. In carrying out her functions, Minister of Finance is required to seek advice from the IAB. The Law determines at least three of the IAB members must have significant knowledge and experience in financial investment.</p> <p>The composition, role and authority of the PFCC aim to safeguard the proper management of the Petroleum Fund.</p>
<p><b>GAPP 9. Principle</b></p> <p>The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.</p>	<p>The Petroleum Fund Law clearly defines the roles and responsibilities of the Operational Manager. As an independent institution appointed by the Parliament, the BCTL has statutory legal, operational, administrative, and financial autonomy from any other person or entity, including the government, to be able to fulfil its operational management responsibilities in an independent manner.</p>
<p><b>GAPP 10. Principle</b></p> <p>The accountability framework for the</p>	<p>Accountability arrangements are detailed in the Petroleum Fund Law and the Management Agreement. The Petroleum Fund Law delegates the operational</p>

<p>SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.</p>	<p>responsibility to the Operational Manager. The Operational Manager may delegate further certain operational mandates to external managers subject to the Minister's consent.</p> <p>The Minister of Finance reports to the Parliament on the performance of the Fund on annual basis and is required to publish all advice received from the IAB unedited in the Annual Report.</p> <p>The Operational Manager reports to the Minister on the Fund's performance on quarterly basis. These reports are published and available on the Central Bank's website.</p>
<p><b>GAPP 11. Principle</b></p> <p>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.</p>	<p>The Petroleum Fund Law requires the government to prepare and submit to the Parliament an annual report of the Fund's operation and performance for the fiscal year, including financial statements prepared to International Financial Reporting Standards and audited by an internationally recognized auditor, at the same time as the annual financial statements of that year.</p> <p>The Director of Treasury of the Ministry of Finance is responsible for maintaining the Petroleum Fund accounts and records, and preparing financial statements, in accordance with the International Financial Reporting Standards.</p>
<p><b>GAPP 12. Principle</b></p> <p>The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.</p>	<p>The Petroleum Fund Law requires the accounts, records and other documents relating to the Petroleum Fund to be audited every six months by the bodies responsible for internal audits of each entities involved.</p> <p>The Law further requires the annual financial statements to be audited by an internationally recognized accounting firm. The audited financial statements are submitted to the Parliament together with the Petroleum Fund Annual Report.</p>
<p><b>GAPP 13. Principle</b></p> <p>Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management and staff.</p>	<p>The professional and ethical standards for the Ministry of Finance's staff are defined by the Public Service Law no.8/2004, as amended by Law no.5/2009. All the staff of the Operational Manager are bound by the BCTL's Code of Ethics.</p> <p>The Petroleum Fund Law also requires members of the IAB, on the occasion of their appointment, and as appropriate, when providing advice to the Minister to</p>

	<p>signify in writing an affirmation that their appointment or advice does not represent a conflict of interest with any of their other interest. The Minister of Finance may request members of the IAB, as necessary, to submit a declaration concerning their assets to avoid any conflict of interest. The IAB has established its own Standard of Conduct.</p> <p><a href="http://www.cfp.gov.tl/index.php/pt/">http://www.cfp.gov.tl/index.php/pt/</a>  <a href="http://www.bancocentral.tl/en/cconduct.asp">http://www.bancocentral.tl/en/cconduct.asp</a>  <a href="http://www.bancocentral.tl/Download/IAB/PF%20Operational%20regulation.pdf">http://www.bancocentral.tl/Download/IAB/PF%20Operational%20regulation.pdf</a></p>
<p><b>GAPP 14. Principle</b></p> <p>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.</p>	<p>The Operational Manager is responsible for the selection and subject to Minister of Finance's consent, the appointment of the external manager. The law requires the Minister to be satisfied that each external manager has sufficient equity, guarantees and insurances, a sound record of operational and financial performance, and has business references and a reputation of the highest standard.</p> <p>The requirements are based on professional and commercial standards, while the responsibility of the external manager is to maximize return of the Petroleum Fund, taking into account the appropriate risk as set out in the Law and the investment mandate.</p> <p>The external managers and other service providers are required to be selected and contracted subject to rigorous, fair and transparent tendering procedures and in compliance with the substantive provisions of Timor-Leste's laws.</p>
<p><b>GAPP 15. Principle</b></p> <p>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.</p>	<p>The Petroleum Fund Law requires the management of the Petroleum Fund to be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which investments are made.</p>
<p><b>GAPP 16. Principle</b></p> <p>The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the</p>	<p>The governance framework and objectives of the Ministry of Finance and Operational Manager, as well as the IAB and the PFCC, are set out in the Petroleum Fund Law and in the Petroleum Fund Annual Report. The framework clearly establishes the roles, independence and accountability arrangement between the entities.</p>

owner, should be publicly disclosed.	<p><a href="http://www.mof.gov.tl/category/documents-and-forms/petroleum-fund-documents/petroleum-fund-legal-framework/?lang=en">http://www.mof.gov.tl/category/documents-and-forms/petroleum-fund-documents/petroleum-fund-legal-framework/?lang=en</a>  <a href="https://www.mof.gov.tl/budget-spending/petroleum-fund/?lang=en">https://www.mof.gov.tl/budget-spending/petroleum-fund/?lang=en</a></p>
<p><b>GAPP 17. Principle</b></p> <p>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.</p>	<p>Petroleum Fund Annual Report and audited financial statements are prepared by the Ministry of Finance and submitted to the Parliament. The reports are also distributed to key stakeholders and publicly available in the Ministry of Finance website.</p> <p>In addition, the Operational Manager also issues quarterly and monthly updates on the investment performance for the Minister of Finance and this is made available to the general public in the BCTL's website.</p> <p>The Ministry of Finance, on its own initiative and/or as requested, conducts public information sessions with the general public including public servants, NGOs and students to update on the Fund's activities, operation and performance.</p> <p><a href="http://www.mof.gov.tl/category/documents-and-forms/petroleum-fund-documents/petroleum-fund-annual-reports/?lang=en">http://www.mof.gov.tl/category/documents-and-forms/petroleum-fund-documents/petroleum-fund-annual-reports/?lang=en</a>  <a href="http://www.bancocentral.tl/PF/Reports.asp">http://www.bancocentral.tl/PF/Reports.asp</a>  <a href="http://www.mof.gov.tl/category/documents-and-forms/petroleum-fund-documents/petroleum-fund-seminars-presentations/?lang=en">http://www.mof.gov.tl/category/documents-and-forms/petroleum-fund-documents/petroleum-fund-seminars-presentations/?lang=en</a></p>
<b>III. Investment and Risk Management Framework</b>	
<p><b>GAPP 18. Principle</b></p> <p>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.</p> <p><b>GAPP 18.1. Sub Principle</b>  <i>The investment policy should guide the SWF's financial risk exposures and the possible use of leverage</i></p>	<p>The Ministry of Finance, on behalf of the government, sets out the investment policy, pursuant to the IAB's advice, reflecting the risk preference of the Timor-Leste people. The investment policy is publicly disclosed. The Petroleum Fund Law defines the broad asset allocation guidelines as the risk profile, the investment universe, investment principles, and other issues related with the overall investment policy.</p> <p>The advice of the IAB is based on its publicly disclosed Investment Beliefs and Principles. The selection of external investment managers is based on professional and commercial criteria. The external managers are given and are measured by clearly defined mandates, where the goal is to achieve highest possible risk-adjusted return.</p>

<p><b>GAPP 18.2. Sub Principle</b>  <i>The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.</i></p> <p><b>GAPP 18.3. Sub Principle</b>  <i>A description of the investment policy of the SWF should be publicly disclosed.</i></p>	<p>The investment policy is summarized into the investment mandate, which is annexed to the Management Agreement and discussed at length in the Petroleum Fund Annual Report. These documents are publicly available.</p>
<p><b>GAPP 19. Principle</b></p> <p>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.</p> <p><b>GAPP 19.1. Sub Principle</b>  <i>If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed</i></p> <p><b>GAPP 19.2. Sub Principle</b>  <i>The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.</i></p>	<p>The government's obligation to seek to maximize risk-adjusted financial returns is established in the Petroleum Fund Law and subject to an over-riding requirement that the Fund be managed prudently.</p> <p>The road map toward this goal is further detailed in the operational management agreement and external investment mandate under the legislation. To date, all investment mandates have been developed on economic and financial grounds.</p>
<p><b>GAPP 20. Principle</b></p> <p>The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.</p>	<p>The Petroleum Fund Law does not permit the Fund to be invested domestically and the implementation of the investment mandate by the Operational Manager (BCTL) is independent from the setting of investment policy by the Minister of Finance. The Fund is not privy to any privileged information or inappropriate influence by broader government.</p>

<p><b>GAPP 21. Principle</b></p> <p>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.</p>	<p>A separate policy on shareholder ownership rights has not been established yet.</p> <p>The current practice is that the Fund exercises its shareholder ownership rights based on the ISS voting guidelines when appropriate to protect the financial interest of the Fund's assets, this is done through external managers upon the instructions from the Operational Manager.</p>
<p><b>GAPP 22. Principle</b></p> <p>The SWF should have a framework that identifies, assesses and manages the risks of its operations.</p> <p><b><i>GAPP 22.1. Sub Principle</i></b>  <i>The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.</i></p> <p><b><i>GAPP 22.2. Sub Principle</i></b>  <i>The general approach to the SWF's risk management framework should be publicly disclosed.</i></p>	<p>The Petroleum Fund Law requires the Minister and the Operational Manager to develop and maintain policies, systems and procedures to ensure that the risks associated with the implementation of the investment strategy are identified, monitored and managed.</p> <p>The Petroleum Fund Law sets the Fund's broad asset allocation guidelines which imply the risk preference, investment universe, and investment principles.</p> <p>In the Operational Management Agreement, the Minister of Finance, sets, under the Global Mandate, the overall investment strategy for the Fund in terms of benchmark and eligible instruments, including applicable constraints and limitations. In the Sub-Mandate, Minister of Finance specifies the manner of which investment would be implemented, structure of investment portfolio including management style, risk tolerance, and benchmark.</p> <p>The Ministry of Finance monitors the Fund's performance including its risk exposure through a quarterly performance and risk review and audits done by an internationally recognized accounting firm.</p> <p>The Operational Manager reports to the Minister of Finance on a quarterly basis, while Minister of Finance reports to the Parliament on annual basis to ensure that the Fund operates within the given tolerable risk limits.</p>
<p><b>GAPP 23. Principle</b></p> <p>The assets and investment</p>	<p>The Petroleum Fund Law requires the Operational Manager (BCTL) to report to the Minister of Finance, on a quarterly basis, the performance and activities of the</p>

<p>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.</p>	<p>Petroleum Fund relative to the benchmark. Performance reporting is prepared by a third party which asserts that the reports are GIPS compliant.</p> <p>This report is published within 40 days after the end of every quarter to the public.</p> <p><a href="http://www.bancocentral.tl/PF/Reports.asp">http://www.bancocentral.tl/PF/Reports.asp</a></p>
<p><b>GAPP 24. Principle</b></p> <p>A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.</p>	<p>The Fund conducted its third review in 2012. The fourth review, based on the current document, will be published in the 2013 Petroleum Fund Annual Report. The Fund intends to review its implementation of the GAPP annually.</p>

#### **XIV. Trinidad and Tobago - Heritage and Stabilization Fund**

The International Forum of Sovereign Wealth Funds and its members have committed themselves to operate Wealth Funds that adhere to principles of transparency, good governance, and accountability. In so doing, members have accepted and signed on to “Generally Accepted Principles and Practices” for SWFs (GAPP). Accordingly, the GAPP advances four guiding principles which members have agreed to follow. These are:

- To help maintain a stable global financial system and free flow of capital and investment;
- To comply with all applicable regulatory and disclosure requirements in the countries in which they invest;
- To invest on the basis of economic and financial risk and return-related considerations; and
- To have in place a transparent and sound governance structure that provides for adequate operational controls, risk management, and accountability.

Moreover, the GAPP are structured around three key pillars: -

- The legal framework, objectives, and coordination with macroeconomic policies;
- The institutional framework and governance structure; and
- The investment and risk management framework.

In keeping with pillar 1, the GAPP 1 to 5 articulates that SWF’s should establish a legal framework that is sound and supports the effective operation of the Fund so that the stated objectives could be achieved. More importantly, the sub principles advocate that SWF’s must ensure that there is a sound legal basis for the establishment and operation of the entity, while demarking its relationship and interaction with other statutory bodies. The GAPP also suggests that SWF’s should clearly and publicly disclose its policy purpose which must also be clearly defined. Finally, GAPP advances the view that the activities should be well coordinated with other macroeconomic policies of the fiscal and monetary authorities.

The establishment of a governance framework that identifies clear and effective demarcation and division of roles and responsibilities, such that there can be accountability and operational independence in the operation and management of the Fund (pillar 2) is detailed in the GAPP 6 to 17. Moreover, the owner of the Fund is bestowed with the responsibility of setting the objectives of the Fund and the appointment of members to the Board or governing body based on clearly articulated and defined procedures and oversight authority.

A sound risk management framework that identifies, assesses and manages the risks of the Fund as expressed by pillar 3 and GAPP 18 to 23, requires that the risk management framework must include reliable information and timely reporting systems, which should allow for adequate monitoring and management of relevant risks of the Fund. The framework must also detail the acceptable parameters and levels of risk, the control and incentive mechanisms and the code of conduct expected by all personnel including external managers. Finally, the GAPP 18 to 23 advocates the establishment of defined procedures for an independent audit function.

#### **The Heritage and Stabilization Fund**

The Heritage and Stabilization Fund (HSF) was established prior to the adoption of the Santiago Principles. In 2007, through an Act of Parliament namely the Heritage and Stabilization Fund Act, the former Interim Revenue Stabilization Fund (IRSF), which was established in 2000, was



superseded by the Heritage and Stabilization Fund. This enabling legislation of the HSF Act (2007) employed some of the established best practices at the time, which to a large extent is in accordance with the key themes of the GAPP. A disaggregation of the HSF along the lines of the three main pillars of the Santiago Principles reveal that there is a high degree of congruence between the rules of the GAPP and the operation of the HSF.

#### Pillar 1 - The Legal Framework, Objectives, and Coordination with Macroeconomic Policies

In that, the first pillar of the GAPP advocates the need for a strong and sound legal framework for the establishment of SWFs. In addition, the GAPP advocates that all SWFs must establish clearly defined objectives for the Fund, which must also be coordinated with domestic macroeconomic policies.

In the case of the Heritage and Stabilization Fund, the Parliament of Trinidad and Tobago on 15, March of 2007, enacted legislation to formally establish the Fund with the passage of the Heritage and Stabilization Fund Act of 2007. (GAPP 1). The HSF Act of 2007, not only establishes the legal status of the Fund, but also sets out the objectives and operation of the Fund such that “The purpose of the Fund was to provide a source of savings and investment of the surplus revenues derived from the petroleum production business to inter alia:

*“Cushion the impact on or sustain public expenditure capacity during periods of revenue downturn whether caused by a fall in prices of crude oil or natural gas;*

*Generate an alternative stream of income so as to support public expenditure capacity as a result of revenue downturn caused by the depletion of non – renewable petroleum resources;*

*Provide a heritage for future generations of citizens of Trinidad and Tobago from savings and investment income derived from the excess petroleum revenues” (Republic of Trinidad and Tobago Act No 6, 2007).” (GAPP 2 & 3).*

Moreover, the HSF Act outlines the rules by which monies must be deposited (savings rule) and withdrawn (withdrawal rule) from the Fund. (GAPP 4). Accordingly, deposits to the Fund are made no later than one month after any quarter of the financial year. In so doing, the legislation provides for 60 per cent of excess energy revenues (actual minus budgeted revenues) to be credited to the Fund. In terms of withdrawals, the legislation allows for draw-downs if actual tax revenues in a given fiscal year are at least 10 percent below budgeted revenues. Withdrawals could be up to 60 per cent of the shortfall, but not exceeding 25 per cent of the Fund. Moreover, there is a capital floor of US\$1 billion for the Fund, beyond which draw-downs are not permitted. Thus given the above, it is clear that there is congruence between the Heritage and Stabilization Fund of Trinidad and Tobago and the Santiago Principles. Accordingly, GAPP 1 to 5 are fully incorporated and institutionalized in the Heritage and Stabilization Fund.

#### Pillar 2 - The Institutional Framework and Governance Structure

The congruence between the HSF and the Santiago Principles also transcends the institutional and governance structure of the former. In that, the GAPP 6 to 17 advocates that SWF’s should establish a governance framework that identifies clear and effective demarcation and division of roles and responsibilities, such that there can be accountability and operational independence in the operation and management of the Fund. Thus, in the case of the HSF, there is a clearly defined governance structure. The HSF Act provides for the appointment of a five-member Board of Governors to govern

the management of the HSF, while management of the assets of the HSF is delegated to the Central Bank of Trinidad and Tobago (the Bank) according to a specific agreement between the two parties. The Board of Directors is appointed by the Cabinet and is responsible for the investment objectives and the Strategic Asset Allocation (SAA). The Board of Directors is also answerable for the overall performance of the Fund. There is quarterly reporting by the Board to the Minister of Finance, who in turn provides an annual report to the Parliament. The Minister of Finance is also responsible for approving deposits and withdrawals from the Fund. The Central Bank acts as fund manager, but outsources the function to external managers. (GAPP 6). Finally, there is an annual audit of the Fund done by the Auditor General's Office. (GAPP 12). Moreover, the enabling legislation for the HSF prescribes the responsibilities of each actor, such that the ACT states:

“The President<sup>6</sup> on the advice of the Minister<sup>7</sup> shall appoint a Board of Governors for the Fund. The Board shall comprise of five members, to be selected from among persons of proven competence in matters of finance, investment, economics, business management or law, including an officer of— the Central Bank; and the Ministry. The President shall appoint a member to be the Chairman of the Board. Members of the Board shall be appointed for a term of three years and shall be eligible for reappointment. In addition, to the competencies already mentioned, each member shall be required to satisfy the criteria for a fit and proper person contemplated in paragraphs (2) and (3) of the Second Schedule of the Financial Institutions Act, 1993”. (GAPP 7 & 8). The Act also requires the Board to delegate its responsibility for the management of the Fund to the Central Bank. (GAPP 9).

The HSF Act also mandates the Board to submit to the Minister— a quarterly investment report; an annual investment report; and a report, within one month of a request made by him, on the operation and performance of the Fund. (GAPP 11). In addition, the Act mandates the Minister of Finance to lay before the Parliament of Trinidad and Tobago the audited financial statements of the Fund, within four months of the end of the financial year. Finally, the legislation positions the HSF as a public account for the purposes of section 116 of the Constitution and as such must be audited annually by the Auditor General or by an auditor authorized by the Auditor General.

The responsibilities of the Central Bank of Trinidad and Tobago as Manager of the HSF include but are not limited to:

1. the management of the assets and other resources of the HSF in accordance with the Act;
2. the investment of the assets and other resources of the HSF in accordance with the Act and the operational and investment guidelines developed by the Board;
3. the selection and retention on behalf of the HSF appropriate third-party service providers in order to carry out competently the mandate specified in the instrument of delegation;
4. the maintenance of records relating to the management of the Fund in accordance with prevailing best practice;
5. the submission of quarterly reports to the Board on the holdings, performance and risk of the HSF;
6. the submission of an Annual Report of the HSF to the Board;

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<sup>6</sup> Refers to the President of the Republic of Trinidad and Tobago.

<sup>7</sup> Refers to the Minister of Finance

### Pillar 3 - The Investment and Risk Management Framework

Finally, in terms of the HSF and its congruence to the third pillar of the Santiago Principles, whereby rules 18 to 23 advocate a sound risk management framework that identifies, assesses, and manages the risks of the Fund. Accordingly, via the enabling legislation and the instrument of delegation, the Central Bank of Trinidad and Tobago acts as investment manager on behalf of the HSF. In so doing, the Bank manages the HSF based on strict adherence to the approved investment policy, as approved by the Board of Governors which is subject to periodic review.

The investment policy aims to ensure that the management of risk is within the approved risk tolerance level of Board and that the level of risk employed is consistent with the investment objectives of the HSF. The Board therefore sets the framework for the risk management of the HSF through the investment policy and guidelines, the SAA, and the benchmarks used for performance objectives. The Board's tolerance for risk is also expressed in the form of various metrics for risk and acceptable budgets and ranges for those metrics. Where appropriate, the Board has defined these metrics and budgets for risk and established acceptable ranges for them.

## XV. United States - Alaska Permanent Fund

<b>I. Legal Framework, Objectives, and Coordination with Macroeconomic Policies</b>	
<b>Principle</b>	<b>Adherence</b>
<p><b>GAPP 1. Principle</b></p> <p>The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).</p> <p><b><i>GAPP 1.1. Sub Principle</i></b>  <i>The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.</i></p> <p><b><i>GAPP 1.2. Sub Principle</i></b>  <i>The key features of the SWF’s legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.</i></p>	<p>The Alaska Permanent Fund (“Permanent Fund” or “Fund”) is established under <a href="#">Article IX Section 15 of the Constitution of the State of Alaska</a>. The Permanent Fund is a pool of assets owned directly by the State of Alaska. The Permanent Fund has no legal identity or organizational structure separate from the State of Alaska.</p> <p>The Permanent Fund is established under Article IX Section 15 of the Constitution of the State of Alaska. The Permanent Fund is managed by the Alaska Permanent Fund Corporation (“APFC” or “Corporation”), which is a “public corporation and governmental instrumentality in the [Alaska] Department of Revenue.” <a href="#">Alaska Statutes 37.13.040</a>.</p> <p>The applicable sections of the Constitution of the State of Alaska, Alaska Statutes and Alaska Administrative Code that govern the APFC are all public documents. All of these documents are published on multiple web sites, including <a href="http://www.apfc.org">www.apfc.org</a></p>
<p><b>GAPP 2. Principle</b></p> <p>The policy purpose of the SWF should be clearly defined and publicly disclosed.</p>	<p><a href="#">Alaska Statutes 37.13.020</a> includes the following Legislative findings regarding the Permanent Fund:          “The legislature finds with respect to the fund that:</p> <p>i) the fund should provide a means of conserving a portion of the state’s revenue from mineral resources to benefit all generations of Alaskans;          ii) the fund’s goal should be to maintain safety of principal while maximizing total return;</p> <p>The fund should be used as a savings device managed to allow the maximum use of disposable income from the fund for purposes designated by law.”</p>
<p><b>GAPP 3. Principle</b></p> <p>Where the SWF’s activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall</p>	<p>The Permanent Fund does not engage in any activities that have significant direct domestic macroeconomic implications.</p>

macroeconomic policies.	
<p><b>GAPP 4. Principle</b></p> <p>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.</p> <p><b>GAPP 4.1. Sub Principle</b> <i>The source of SWF funding should be publicly disclosed.</i></p> <p><b>GAPP 4.2. Sub Principle</b> <i>The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.</i></p>	<p><a href="#">Alaska's Constitution and Statutes</a> clearly define the funds which must be deposited into the principal of the Permanent Fund, as well as the manner in which funds may be withdrawn.</p> <p><a href="#">Alaska's Constitution</a> states that 25 percent of the mineral royalties received by the state will be deposited in the Permanent Fund. State law raises this deposit to 50 percent for certain oil fields. The Legislature, through its power of appropriation, may make additional appropriations to the principal of the fund. When it does so, the source of these funds is specified in the appropriation language in the corresponding legislation.</p> <p><a href="#">Alaska's Constitution</a> defines which portion of the Permanent Fund is available for appropriation. <a href="#">Alaska Statutes</a> outline the calculation to determine the annual disbursement under the Permanent Fund Dividend program. Spending for APFC's operating expenses is approved by the governor and the Legislature through the annual State budget.</p>
<p><b>GAPP 5. Principle</b></p> <p>The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.</p>	<p><a href="#">State law</a> requires the Permanent Fund's annual reports be completed by September 30, and the APFC meets this deadline. State law also requires that the Fund's financial statements be posted in four newspapers around the state and in the biennial state-wide general election pamphlet. The APFC promptly complies with requests from the Legislature or other State agencies for financial information. The information requested is not confidential under law.</p>
<b>II. Institutional Framework and Governance Structure</b>	
<p><b>GAPP 6. Principle</b></p> <p>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.</p>	<p><a href="#">Alaska Statutes</a> establish the APFC as a separate statutory agency to manage and invest the assets of the Permanent Fund. The Board of Trustees is created in state law to manage the APFC and oversee the Fund's investments.</p>
<p><b>GAPP 7. Principle</b></p>	<p>The objectives of the Permanent Fund are clearly defined in State law, specifically in <a href="#">Alaska Statutes 37.13</a>. <a href="#">State</a></p>

<p>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.</p>	<p>law gives authority to the governor to appoint the members of the APFC Board of Trustees, and provides requirements for membership. The Legislative Budget and Audit Committee is charged with oversight of the Permanent Fund, including performing an annual audit of the Fund. Oversight is also achieved through the requirement that two members of the Board be cabinet officials, and the other four members may not hold any other state or federal office, position or employment, either elective or appointive. In addition, the Corporation's budget must be submitted to the Legislature through the governor for approval.</p>
<p><b>GAPP 8. Principle</b></p> <p>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.</p>	<p>The purpose of the APFC, according to <a href="#">State law</a>, is to manage and invest the assets of the Permanent Fund. State law grants the APFC Board of Trustees the authority, among other things, to hire an executive director and any other necessary staff. Requirements for appointment to the Board are set out in State law, and Board members receive an honorarium for time spent on Board activities. The terms of office and conditions under which a Board member may be removed are clearly defined in State law.</p>
<p><b>GAPP 9. Principle</b></p> <p>The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.</p>	<p>The APFC Board has the full authority to make investment decisions, and the investment goals for the Fund are made clear in <a href="#">State Law</a>. The Board also has the authority, with some limitations, to make operational decisions regarding the APFC and hire staff as needed. The Corporation's budget must be approved by the Governor and Legislature, and most hiring decisions must be approved by the Governor. Although the Permanent Fund was separated from the Treasury Division of the Alaska Department of Revenue to limit political influence, there have been requests from Governors and members of the Legislature to engage in social investing. In most cases the Board has declined to support these causes. <a href="#">Alaska Statutes</a> currently require the APFC Board to make investment decisions to maximize return while minimizing risk.</p>
<p><b>GAPP 10. Principle</b></p> <p>The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.</p>	<p>Alaska law requires that the APFC produce an annual report no later than September 30 of each year for the fiscal year ended on June 30 of the same year. In addition, <a href="#">State law</a> requires that the Permanent Fund's financial statements be posted in four newspapers around the state. The APFC is also subject to the provisions of the Alaska Public Records Act which, with certain exceptions, makes the Corporation's records available upon request. While State law does not set specific performance guidelines, the</p>

	APFC Board sets benchmarks for the Permanent Fund and this performance is posted at <a href="http://www.apfc.org">www.apfc.org</a> on a monthly and annual basis.
<p><b>GAPP 11. Principle</b></p> <p>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.</p>	Alaska law requires that the APFC produce an annual report no later than September 30 of each year for the fiscal year ended on June 30 of the same year. These financial statements are prepared under U.S. Generally Accepted Accounting Principles, and voluntarily published on the APFC website.
<p><b>GAPP 12. Principle</b></p> <p>The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.</p>	Alaska law requires that on an annual basis the Permanent Fund's financial statements be audited by an external auditor. These audits are conducted in accordance with U.S. Generally Accepted Auditing Standards, and the auditor's opinion is included in the annual report.
<p><b>GAPP 13. Principle</b></p> <p>Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management and staff.</p>	The APFC Board and staff fall under the State of Alaska Executive Branch Ethics Act (Ethics Act). The Ethics Act, codified in Alaska law, provides guidelines and regulations that promote ethical behaviour by state employees and board members. Each new Board member and employee is briefed on the Ethics Act requirements as part of their orientation, and updates are provided as needed.
<p><b>GAPP 14. Principle</b></p> <p>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.</p>	Alaska law outlines procedures for procuring and managing contracts with non-fiduciary contractors, and the APFC complies with these laws. The APFC's procurement of fiduciary contractors follows a written procedure that is posted on <a href="http://www.apfc.org">www.apfc.org</a> in the Corporation's Investments Policy and Practice Manual.
<p><b>GAPP 15. Principle</b></p> <p>SWF operations and activities in host countries should be conducted in compliance with all applicable</p>	The APFC invests in markets outside of the U.S. through external investment managers. Contracts require the managers and the local custodians to be knowledgeable of, and in full compliance with, all applicable laws and regulations.

regulatory and disclosure requirements of the countries in which they operate.	
<p><b>GAPP 16. Principle</b></p> <p>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.</p>	<p>Alaska law clearly places the day-to-day management of the Permanent Fund, which is owned by the State, under the authority of the APFC Board of Trustees. Two of the Trustees are members of the Governor's cabinet, and the Legislature retains the ability to influence Fund investments through statutory restrictions and approval of the APFC's budgets.</p>
<p><b>GAPP 17. Principle</b></p> <p>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.</p>	<p>The Permanent Fund's target asset allocation is posted on <a href="http://www.apfc.org">www.apfc.org</a>. In addition, the Fund's benchmarks, actual allocation and performance are posted on a monthly basis.</p>

### III. Investment and Risk Management Framework

<p><b>GAPP 18. Principle</b></p> <p>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.</p> <p><b>GAPP 18.1. Sub Principle</b> <i>The investment policy should guide the SWF's financial risk exposures and the possible use of leverage</i></p> <p><b>GAPP 18.2. Sub Principle</b> <i>The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.</i></p> <p><b>GAPP 18.3. Sub Principle</b></p>	<p>The APFC Board has posted its Investment Policy and Practice Manual at <a href="http://www.apfc.org">www.apfc.org</a>. This document states that the goal for the Fund is a 5 percent real rate of return, with risk levels that are broadly consistent with the Fund's peers. The Manual states that the Board will review the Fund's asset allocation on an annual basis and make necessary adjustments to meet the risk and return goals.</p> <p>The APFC Investment Policy and Practice Manual states that total portfolio risk for the Permanent Fund should be comparable to its peers. Alaska law prohibits the use of leverage unless it is structured to allow no recourse to the Fund.</p> <p>The APFC Investment Policy and Practice Manual specifically allows for internal management of the Permanent Fund's fixed income portfolio. All other asset classes, by default, are managed by external managers. The Manual provides the process for conducting manager searches, monitoring manager performance and, when necessary, terminating managers.</p> <p>The APFC Investment Policy and Practice Manual and related Board resolutions are posted at <a href="http://www.apfc.org">www.apfc.org</a>.</p>
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<p><i>A description of the investment policy of the SWF should be publicly disclosed.</i></p>	
<p><b>GAPP 19. Principle</b></p> <p>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.</p> <p><b><i>GAPP 19.1. Sub Principle</i></b>  <i>If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed</i></p> <p><b><i>GAPP 19.2. Sub Principle</i></b>  <i>The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.</i></p>	<p>The APFC Board of Trustees makes investment decisions for the purpose of maximizing the risk-adjusted return. The Board considers input regarding the current and projected market conditions provided by outside advisors and consultants, and makes decisions regarding asset classes and managers using objective, long-term financial data.</p> <p><a href="#">Alaska Statutes</a> currently require the APFC Board to make investment decisions to maximize return while minimizing risk. State law does require that if two similar investments have the same risk and return profiles, but only one investment is in Alaska, the Board must select the Alaskan investment. The Board supports amending State law to allow for one specific exception, to divest from companies doing business in Sudan, and this policy is posted on <a href="http://www.apfc.org">www.apfc.org</a>.</p> <p><a href="#">Alaska Statutes</a> require that the APFC Board apply the standards of the prudent investor rule in making investment decisions, specifically stating that the care applied should be that of “an institutional investor of ordinary prudence.”</p>
<p><b>GAPP 20. Principle</b></p> <p>The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.</p>	<p>The APF is not owned by a sovereign government at the federal level, and as a result does not have access to privileged information that would give it an inappropriate advantage when competing with private entities. This principle is not applicable to the APFC.</p>
<p><b>GAPP 21. Principle</b></p> <p>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.</p>	<p>The APFC Board's stated policy for equity investments includes a policy for voting proxy ballots, and is posted at <a href="http://www.apfc.org">www.apfc.org</a>. The policy requires external managers to vote these shares on behalf of the Fund, “in a manner so as to maximize the Fund's rate of return over the period the manager would likely hold the investment and promote the best financial interest of the Fund.”</p>

<p>The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.</p>	
<p><b>GAPP 22. Principle</b></p> <p>The SWF should have a framework that identifies, assesses and manages the risks of its operations.</p> <p><b><i>GAPP 22.1. Sub Principle</i></b>  <i>The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.</i></p> <p><b><i>GAPP 22.2. Sub Principle</i></b>  <i>The general approach to the SWF's risk management framework should be publicly disclosed.</i></p>	<p>The APFC Board is concerned with operational and investment risk to the Permanent Fund. There is no single document that codifies a risk management framework, but there are various means by which the Board addresses risk.</p> <p>The Fund's asset allocation is based on the risk profile of each asset type.</p> <p>Reviews that are conducted at least quarterly, and in some cases monthly or daily, ensure the Fund's investments are in compliance with the Board's stated policies.</p> <p>To limit the risk of fraudulent actions, the custodian and the APFC have written policies and procedures that must be followed for all asset movements. The APFC's employees have controlled access rights to the cash transfer system and all transfers must be created by one employee and authorized by at least one other employee. All cash flows are reconciled daily and monthly by various staff members.</p> <p>The Fund's information technology network has security procedures and firewalls in place, and is regularly backed up.</p> <p>There is a business continuity plan and contingency plans are in place for transferring the management of the Fund to other locations or outside managers on a temporary basis.</p> <p>Investment reports are produced internally on a daily basis, and monthly both internally and by the APFC Board's consultant.</p> <p>The APFC's investments are regularly reviewed at the portfolio level for historical risk scenarios, stress tests, tracking error and value at risk among other measures. Individual asset class managers use specific measures for their asset classes to monitor duration, credit risk, etc. The duties of the AFPC investments and accounting sections are kept separate, and each employee's duties are listed in their job description. The APFC has system access controls with written policies and procedures, as well as monthly reconciliations. State law requires that an audit be performed annually by an external auditor. The ethical conduct of the APFC staff falls under the Alaska Executive Branch Ethics Act, and APFC-specific</p>

	<p>statutes require APFC Board members and staff to report personal investments which are also held by the Permanent Fund.</p> <p>The APFC Board regularly discusses its approach to risk management at public meetings, the minutes of which are posted at <a href="http://www.apfc.org">www.apfc.org</a>.</p>
<p><b>GAPP 23. Principle</b></p> <p>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.</p>	<p>The APFC reports the performance of the Permanent Fund's investments in relationship to clearly defined benchmarks on a monthly basis and on an annual basis. These reports are posted at <a href="http://www.apfc.org">www.apfc.org</a>.</p>
<p><b>GAPP 24. Principle</b></p> <p>A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.</p>	<p>The APFC does not have a procedure in place for regular review of the implementation of the GAPP.</p>

## APPENDIX I: THE SANTIAGO PRINCIPLES

In furtherance of the "Objective and Purpose", the IFSWF members either have implemented - or intend to implement - the following principles and practices, on a voluntary basis, *each of which is subject to* home country laws, regulations, requirements and obligations. This paragraph is an integral part of the GAPP.

### **GAPP 1. Principle**

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

*GAPP 1.1 Sub principle* The legal framework for the SWF should ensure the legal soundness of the SWF and its transactions.

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

### **GAPP 2. Principle**

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

### **GAPP 3. Principle**

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

**GAPP 4. Principle** 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 4.1 Sub-principle* The source of SWF funding should be publicly disclosed.

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

### **GAPP 5. Principle**

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

### **GAPP 6. Principle**

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. Principle**

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. Principle**

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. Principle**

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. Principle**

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. Principle**

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. Principle**

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. Principle**

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. Principle**

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. Principle**

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. Principle**

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. Principle**

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. Principle**

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

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

*GAPP 18.3 Sub-principle* A description of the investment policy of the SWF should be publicly disclosed.

**GAPP 19. Principle**

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 19.1 Sub-principle* If investment decisions are subject to other than

economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed.

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

**GAPP 20. Principle**

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. Principle**

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. Principle**

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

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

*GAPP 22.2 Sub-principle* The general approach to the SWF's risk management framework should be publicly disclosed.

**GAPP 23. Principle**

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. Principle**

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

## APPENDIX II: GLOSSARY

**Asset liability management.** The management of business and financial risks by matching the financial characteristics (on- and off- balance sheet) of an entity's assets to those of its liabilities.

**Back office.** The area of reserve management operations responsible for confirmation, settlement, and, in many cases, reconciliation of reserve management transactions.

**Benchmark.** The mix of currencies, investment instruments, and duration that reflect the reserve manager's tolerance for exposure to liquidity, credit, and market risks.

**Credit risk.** The risk of non-performance or default by borrowers on loans or other financial assets, or by a counterparty on financial contracts.

**Currency risk.** The risk of adverse movements in foreign currency cross-exchange rates that reduce the domestic currency value of international reserves. Currency risk also arises with an appreciation of the domestic currency.

**Custodial risk.** The risk of loss on assets held in custody in the event of a custodian's (or sub-custodian's) insolvency, negligence, fraud, poor administration, or inadequate record keeping.

**Dealing risk.** The risk that dealers may exceed their authority in dealing with counterparties or instruments, or incorrectly process a transaction.

**Duration.** A measure of the sensitivity of a portfolio to movements in market yields by determining the time-weighted average of the present values of all future cash flows of a security or a portfolio, discounted at current interest rates.

**Expected Shortfall (ES).** A measure of the risk of a portfolio related to Value at Risk (VaR), and sometimes referred to as Conditional Value at Risk (CVaR). ES estimates the expected loss that can happen over a certain horizon conditional on the fact that the VaR, defined at a certain probability level, is exceeded.

**Financial error or misstatement risk.** The risk that the accounting system and related controls may fail to properly record all transactions and accounting adjustments.

**Front office.** The area responsible for initiating investment transactions in accordance with approved delegations, limits, and benchmarks and the prompt and accurate entry of transactions into the investment management system.

**Information technology risk.** The risk that critical electronic data processing and communication and information systems may fail, thereby causing severe disruption to reserve management functions.

**Interest rate risk.** Sometimes also referred to as an element of market risk, interest rate risk involves the adverse effects of increases in market yields that reduce the present value of fixed interest rate investments or income in the reserve portfolio. Interest rate risk increases, ceteris paribus, with the duration of a portfolio.

**Internal audit.** An independent source of assurance about the management of risks and the operation of the control system that assists management of an organization in the effective discharge of its responsibilities.

**Legal risk.** The possibility of losses from contracts that are not legally enforceable or not properly documented.

**Liquidity risk.** Liquidity risk refers to the possible difficulties in selling (liquidating) large amounts of assets quickly, possibly in a situation where market conditions are also unfavourable, resulting in adverse price movements.

**Market risk.** Risks associated with changes in market prices, such as interest rates and exchange rates. Changes in interest rates affect market prices of fixed interest rate securities. Hence, shorter duration securities are less at risk than long-term, fixed rate securities.

**Middle office.** Located between the front and back offices, the middle office's role is to monitor that all transactions have been performed properly, that risks are being monitored and limits observed, and that relevant information is available for management.

**Official foreign exchange reserves.** Those external assets that are readily available to and controlled by monetary authorities for direct financing of payments imbalances, for indirectly regulating the magnitudes of such imbalances through intervention in exchange markets to affect the currency exchange rate, and/or for other purposes. To meet this definition, reserve assets need to be liquid or marketable foreign currency assets that are under the effective control

of, or "useable" by, the reserve manager and held in the form of convertible foreign currency claims of the authorities on non-residents. To be recognized as part of official foreign exchange reserves, gold must be held by the monetary authorities, as monetary gold.

**Operational risk.** A range of different types of risks, arising from inadequacies, failures, or non-observance of internal controls and procedures, which threaten the integrity and operation of business systems.

**Public debt management.** The process of establishing a strategy for managing the government's debt in order to raise the required amount of funding, achieve its risk and cost objectives, and to meet any other sovereign debt management goals the government may have set.

**Reputation risk.** The risk that a reserve manager's reputation and credibility may be called into question as a result of inappropriate reserve management actions, or unauthorized release of information.

**Reserve assets.** See official foreign exchange reserves.

**Reserve management.** The process by which public sector assets are managed in a manner that provides for the ready availability of funds, the prudent management of risks, and the generation of a reasonable return on the funds invested.

**Value at Risk (VaR).** A measure of the risk of a portfolio. VaR estimates the maximum potential loss that can happen over a certain horizon such that there is a low, prespecified probability that the actual loss



will be larger. It provides no information on the severity of losses if the VaR is exceeded.

**Risk.** The possibility of financial or other losses arising from an entity's financial exposures and/or the failure of its internal control systems.

**Safeguards Assessment.** A two-stage evaluation of a member country's central bank control, accounting, reporting and auditing systems to ensure that resources, including those provided by the Fund, are adequately monitored and controlled. The first stage will determine whether there are clear vulnerabilities in these systems, based on information provided by central banks. If weaknesses in internal

procedures are suspected, a second stage will comprise onsite evaluations and recommendations for improvements. Safeguards assessments for all new users of Fund resources began in mid-2000 and will run on an experimental basis to no later than end-2001.

**Settlement risk.** The general term used to designate the risk that settlement in a funds- or securities-transfer system may not take place as expected. This risk may comprise both credit and liquidity risk.

**Transfer risk.** The risk that a foreign sovereign government will restrict the ability of a holder to gain access to their assets or the proceeds from the sale of such assets.

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### Case Study – Contributing Funds (in alphabetical order)

- 1) Australia - Future Fund (<http://www.futurefund.gov.au/>)
- 2) Azerbaijan - State Oil Fund of Azerbaijan ([http://www.oilfund.az/en\\_US/](http://www.oilfund.az/en_US/))
- 3) Botswana - Pula Fund (<http://www.bankofbotswana.bw/>)
- 4) Canada - Alberta Heritage Savings Trust Fund (<http://www.finance.alberta.ca>)
- 5) Chile - Economic and Social Stabilization Fund/Pension Reserve Fund (<http://www.hacienda.cl/english/sovereign-wealth-funds.html>)
- 6) Iran - National Development Fund of the Islamic Republic of Iran (<http://en.ndfi.ir/>)
- 7) Korea - Korea Investment Corporation (<http://www.kic.go.kr/en/>)
- 8) Kuwait - Kuwait Investment Authority (<http://www.kia.gov.kw/En/Pages/default.aspx>)
- 9) New Zealand – New Zealand Superannuation Fund (<https://www.nzsuperfund.co.nz/>)
- 10) Norway - Government Pension Fund Global (<http://www.regjeringen.no>)
- 11) Qatar - Qatar Investment Authority (<http://www.qia.qa/index.html>)
- 12) Singapore - GIC Private Limited (<http://www.gic.com.sg/>)
- 13) Timor-Leste - Petroleum Fund of Timor-Leste (<http://www.bancocentral.tl/PF/main.asp>)
- 14) Trinidad & Tobago - Heritage and Stabilization Fund (<http://finance.gov.tt>)
- 15) United States - Alaska Permanent Fund (<http://www.apfc.org>)

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