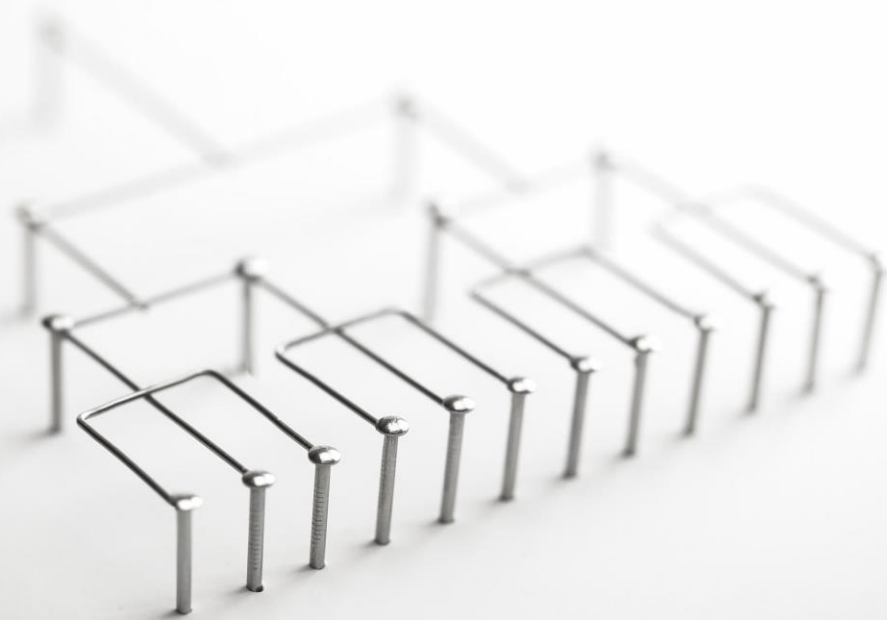


Implementing the Santiago Principles

Lessons from member self-assessments

Professor Patrick J Schena
Richard Collins



Foreword

Since the promulgation of the Generally Accepted Principles and Practices for sovereign wealth funds (the Santiago Principles), the International Forum of Sovereign Wealth Funds (IFSWF) has sought to promote best practices in governance, investment and risk management amongst its members.

By writing and signing the Santiago Principles, the IFSWF's 26 founding members demonstrated their commitment to independence from government, good governance and clear, financially motivated objectives. When the Forum decided to admit new members in 2013, following a spike in the number of new sovereign wealth funds being formed from 2010, it decided to develop a process by which prospective members could demonstrate their commitment to and implementation of the Santiago Principles.

The Board requested that sovereign wealth funds that wanted to join the IFSWF would have to undertake a self-assessment of their implementation of the Santiago Principles by describing how they applied each of the Principles in their own unique context. This document was to be accompanied by due diligence undertaken by the IFSWF Secretariat. The Board would decide whether the applicant would be admitted based on whether they believed the institution applied the Santiago Principles and was a sovereign wealth fund, not a central bank or pension fund.

To ensure all IFSWF members were subject to the same level of scrutiny, as early as 2013, the Board urged all members to undertake an annual self-assessment to encourage good governance and exhibit members' ongoing commitment to the Santiago Principles as set out in Principle 24. In 2016, we took a more proactive approach and requested that full members submit their self-assessments for the record. Subsequently, members agreed they would be willing to publish these on the IFSWF website. In January 2017, the IFSWF published the first self-assessments. Recognising that self-assessment can be a demanding task, the Secretariat moved to a triennial review process for members rather than the annual one suggested by the Board in 2013. Readers should note that some members undertake this process more frequently than the Secretariat requests.

For IFSWF, this public demonstration that its members apply the Santiago Principles is crucial to its founding tenets. It is essential for demonstrating to external stakeholders that its members are independent, professional and financially motivated investors.

This publication accompanies the third triennial self-assessment process from 2022. We are once again partnering with Patrick J Schena, PhD, the BLR Professor of Practice, Department of Economics at Tufts University and Adjunct Professor of International Business at the Fletcher School, Tufts University, Massachusetts, USA, who has undertaken an independent review of the self-assessments and has examined how the self-assessments have evolved since the inauguration of the triennial process. We have also included the analyses from the previous two cycles for the reader's reference.

To complement this analysis, we have also included an essay on the practical application of best governance practices for sovereign wealth funds by Richard Collins, Former Managing Director and Head of Compliance at the Public Investment Fund of Saudi Arabia. In this piece, Richard describes the practical aspects of ensuring that the Santiago Principles are implemented within a sovereign wealth fund and is a valuable insight for both IFSWF members and external stakeholders.

We hope that by publishing our members' self-assessments against the Santiago Principles, subjecting them to an independent analysis by a respected academic, and complementing them with a practitioner's view, we demonstrate IFSWF members' continued commitment to voluntarily implementing the Santiago Principles and upholding best practices in governance, investment and risk management.

You can read all the published self-assessments [here](#).

Table of Contents

2022 IFSWF Member Self-Assessment Review <i>Patrick J Schena</i>	5
2019 IFSWF Member Self-Assessment Review <i>Patrick J Schena</i>	12
Trends in Transparency: Santiago Principle Self-Assessments 2016 <i>Patrick J Schena</i>	18
Sovereign Wealth Funds: Oversight And Accountability <i>Richard Collins</i>	32
Acknowledgements	44

2022 IFSWF Member Self-Assessment Review

When the Santiago Principles were originally agreed upon and voluntarily adopted by IFSWF's founding members in October 2008, global investment flows were threatened by heightened protectionist sentiments, particularly among developed market economies. The Principles were intended to allay the concerns of recipient countries that sovereign investors were motivated by other than financial interests. IFSWF members expected that their adoption of professional governance standards, as set out in the Principles, would reduce tensions with "recipient countries" and keep markets open to foreign investment. The apparently mundane Principle 24, which commits signatories to undertake a regular review of their implementation, takes on added consequence today for sovereign funds investing overseas as geopolitical tensions once again threaten market access. For a new generation of sovereign wealth funds that invest at home to spur economic growth and diversification, regular review of Santiago Principle self-assessments is similarly consequential as it demonstrates to domestic stakeholders adherence to international standards and practices of good governance.

Beyond simply reviewing governance practices, the Santiago Principles also specified that sovereign wealth fund owners might opt to publicly disclose such assessments to the extent that they "may contribute to stability in international financial markets and enhance trust in recipient countries".¹ The first board meeting of the independent IFSWF was held in November, 2013 and reiterated that members might "potentially make [their self-assessments] public on their websites." This process of disclosure has since been institutionalized by the IFSWF and elevates the relevance of the Principles in promoting an open international investment regime.

In 2014, the membership of the IFSWF first established that completion of a self-assessment as a key requirement in its membership application process. Self-assessments submitted as part of a membership application are reviewed by the IFSWF Board, which determines whether it believes that the applicant fund implements the Santiago Principles. In 2016, the IFSWF

¹ [Santiago Principles | International Forum of Sovereign Wealth Funds \(ifswf.org\)](https://www.ifswf.org/)

instituted a formal triennial review of self-assessments with the support of the Secretariat. Founding members had begun to share case studies of their implementation of the GAPP as early as 2014 and again in 2016.³

In February 2017, in the first triennial review, 26 IFSWF members prepared and published their self-assessments on the IFSWF's website. Our Fletcher School team conducted an independent review of these submissions.⁴ This was followed by a recommendation to the IFSWF Board that guidelines be prepared to assist founding members and applicants when interpreting the GAPP. Working with the IFSWF, we proposed draft guidelines and consulted with the Board members until approved by the membership. These were in place for the second triennial review in 2019.⁵ In that cycle, all full IFSWF members reviewed their self-assessments, with most (in fact, 85% of members submitting in both 2016 and 2019) enhancing their submission to increase the scope of their disclosures or to improve the clarity and details of their implementation of the GAPP.

The current, i.e. the third triennial review of GAPP implementations, was initiated by the IFSWF Secretariat in 2022. Since 2019, the IFSWF has expanded to 38 full members, including the admission of the Investment Corporation of Dubai to full membership in February 2023. All eligible full members⁶ submitted self-assessments.⁷ Of these, nine were from new members who did not participate in the 2019 cycle. Thus, 27 submissions from existing members were available for comparative analysis.

² [Santiago Principles | International Forum of Sovereign Wealth Funds \(ifswf.org\)](#)

³ Ibid.

⁴ [Trends in Transparency: Santiago Principle Self-Assessments 2016 | International Forum of Sovereign Wealth Funds \(ifswf.org\)](#)

⁵ IFSWF, [The Origin of the Santiago Principles: Experiences from the Past; Guidance for the Future](#) (2018), p 36

⁶ The Russia Direct Investment Fund (RDIF) was not eligible to submit its self-assessment in 2022. Sanctions imposed on Russia as a result of its invasion of Ukraine precluded the IFSWF, a UK company, from providing services to the RDIF.

⁷ [Santiago Principle Self-Assessments | International Forum of Sovereign Wealth Funds \(ifswf.org\)](#)

Approach

To prepare our analysis, each submission was paired with its 2019 counterpart and then evaluated for changes in content and accessibility. Based upon a screening approach designed for the 2019 cycle, we examined each submission, identifying *significant and material changes from a member's previous submission*. These are defined as the addition or removal of content in individual GAPP with an analytic focus centred in particular on issues pertaining to ownership, governance structures, investment mandate, funding protocols, investment policies and practices, risk management, and, more broadly, the scope of reporting. These included specifically expanded disclosures that sometimes drew extensively from available documentation to add detail and depth to descriptions of investment, risk management, and operational policies and procedures. We similarly examined the documents for *minor changes in scope and materiality*. These, for example, incorporated improvements in the clarity and completeness of disclosures, including removing redundancies, streamlining and reformatting text, and refreshing and expanding weblinks.

Findings and Analysis

As noted in our 2019 report, 85% of participating members exhibited material updates when implementing the GAPP between 2017 and 2019. Sixty per cent of those reporting were found to have instituted significant and material changes in their submissions. In 2022, all reporting members exhibited material updates when benchmarked against their 2019 submissions. Nearly 50% of those were significant and material. Perhaps most notable among the 2022 submissions was that 15 – i.e. 56% - of submitting members formally referenced sustainable investment goals and practices, including being a signatory of the UN Principles of Responsible Investment, integrating ESG data into investment and risk management decisions, carbon foot-printing investment portfolios, and adopting formal climate disclosure policies, such as those recommended by the Task Force on Climate-related Financial Disclosures (TCFD). Such references resulted in updates to the implementation of several GAPP, but most importantly, GAPP 18, 19, and 21, i.e. those Principles directly related to investment policy, risk management, and the exercise of shareholder rights. This finding is interesting for several reasons. First, it highlights the increasing relevance of environmental, social, and governance (ESG) risks to long-term investors. In addition, it firmly establishes a link between ESG, and broader issues of sustainability, in the governance of global investment institutions. Finally, the concentration of updates to GAPP governing investment and risk policies supports the view of ESG and sustainability as critical financial exposures to be factored into investment decision-making.

With regard to the depth of disclosures more broadly, across all submissions, the integration of the self-assessments with other reporting and disclosures by owners continued to grow. This is evident from the expansion in scope and scale of online links to external government sources embedded in the submissions. First identified in 2019, the practical significance of this development should not be understated. Increased online disclosures suggest that IFSWF members, and their owners, to varying degrees, are making greater use of online tools to share relevant information and documentation with their domestic and international stakeholders. Extending disclosures related to processes and

procedures that underpin sovereign wealth funds' organisation and governance, investment, risk, and operational policies, and investment performance can reduce ambiguity between funds and stakeholders while creating opportunities for cooperation and collaboration.

Lastly, new members' submissions were also examined for clarity and completeness and found to be of similar scope and quality. As previously noted, self-assessments are required to be submitted to the IFSWF Board as part of the membership application process. Thus, new members will benefit from feedback from the Secretariat in preparing their self-assessments. This level of active engagement by the Secretariat is part of a broader initiative on the part of the IFSWF to administer and monitor submissions under the self-assessment process and is suggestive of a continued deepening and institutionalisation of the review process under GAPP 24 to encourage greater disclosure by its member institutions.

The Santiago Principles and the Rise of Sovereign Development and Strategic Investment Funds

A review of all 38 current members of the IFSWF indicates that fully half have mandates that are strategic or development in orientation and/or deploy capital in whole or in part domestically. This includes most of the newest members of the IFSWF, including especially funds domiciled in Africa and Southeast Asia. When the Santiago Principles were negotiated in 2008, most working group member mandates overwhelmingly targeted fiscal stabilisation or long-term savings with assets predominantly held in foreign currencies. In the intervening period, the number of development and strategic funds has increased worldwide, and their engagement with the IFSWF continues to expand. The original intent of the Principles was, and remains, to strengthen sovereign wealth fund governance to facilitate the global flow of capital by reducing barriers to

investments by recipient countries. However, as sovereign wealth funds with strategic mandates seek to mobilise inward flows of foreign capital for investment in domestic development, the role of the Santiago Principles in reducing fund-to-stakeholder ambiguity and signalling a commitment to global standards of governance take on additional significance.⁸ This is particularly relevant in cases where investors view institutional gaps in local markets – including legal and regulatory abstruseness – as material risks to investment. Thus, the pursuit of IFSWF membership by funds with strategic and development mandates, and their continuing commitment to the self-assessment process, brings an added dimension to the relevance, and resilience, of the Santiago Principles as a benchmark for institutional governance.

⁸ For example, The World Bank, in its detailed 2022 study of establishing and operating of strategic investment funds, leverages the Santiago Principles as a benchmark for sovereign investors to evaluate the governance challenges of strategic domestic investors. See <https://openknowledge.worldbank.org/entities/publication/476738d1-22f0-51a0-abdf-4de5fa353392>

Takeaways

The 2022 IFSWF Santiago Principle self-assessments include submissions from all eligible full IFSWF members. Overall, our review of the 2022 submissions suggests a continued improvement in the scope and quality of disclosure by IFSWF members, which we attribute in part to a concerted effort on the part of the IFSWF and its Secretariat to administer and monitor the self-assessment process, coupled with increasing member willingness to disclose details of their governance structures and investment and risk management processes. We further note that as the overall quality and completeness of submissions continue to improve, the scale of significant and material changes to the self-assessments declined marginally and anticipate this to continue. In this respect, it is important to properly appreciate the role and intent of the GAPP as accepted practices and governance principles for the professional management of global investment organizations. The changes and enhancements reflected in the self-assessments are indeed professional in nature, i.e. they are largely procedural and policy-centric and focus on investment, risk, and operational processes. It is in this regard that the Santiago Principles represent an appropriate, and meaningful, benchmark for operational and institutional governance.

2019 IFSWF Member Self-Assessment Review

The Generally Accepted Principles and Practices (GAPP) – widely known as the Santiago Principles – were agreed and adopted by an International Working Group of twenty-six sovereign wealth funds in October 2008. The purpose of the Santiago Principles is to define a practical framework for sovereign wealth funds for appropriate governance and accountability. All members of the International Forum of Sovereign Wealth Funds voluntarily endorse and apply the Principles to their governance structures, investment and risk-management processes and practices. Under Principle or GAPP 24, IFSWF members commit to undertaking a regular review of their implementation of the GAPP.

Beginning in 2014, the IFSWF instituted a self-assessment review process to support member efforts to review their implementation of the GAPP. The same year, the IFSWF was opened to new membership applications and a self-assessment of how applicants implemented the GAPP was made a formal requirement of the membership application process. In November 2014, 15 IFSWF members published their self-assessments. In 2016, the IFSWF published 12 case studies of IFSWF members' experiences of applying the Santiago Principles. Then in February 2017, 29 IFSWF members published their self-assessments on the IFSWF website.

In the aftermath of the publication of the 2017 self-assessments, the IFSWF Secretariat worked with member funds to develop a set of guidelines to further assist them in preparing these documents. The guidelines were designed to promote a consistent interpretation across the membership, clarity of disclosure and comprehensive responses. They are based directly on the Santiago Principles and draw extensively from the commentary and explanations included in Part II: Discussion of the Santiago Principles. They were compiled by consensus and agreed formally by the membership in September 2017. They offer applicants, new members, and existing members, guidance in the self-assessment process.

The IFSWF's publication of the 2019 IFSWF member Santiago Principle self-assessments represents a next step in the evolution of member disclosure. The publication of the 2016 self-assessments was the first time that most full IFSWF members

made this document publicly available; in 2019, all full IFSWF members have revisited their self-assessments and the Libyan Investment Authority has undertaken this process for the first time. This has, for the first time, enabling a complete and detailed comparison of follow-on reporting. Findings from this analysis reveal significant material improvement in the areas targeted by the guidelines – completeness, consistency, and clarity – and further institutionalisation of self-assessment review as reporting and disclosure process.

Approach and Findings

During this comparison process, we identified two categories of changes. First, we recognised significant and material changes including discrete changes in ownership, governance, investment mandate, funding matters, investment policies and practices, risk management, or broadly the scope of reporting. Second, we highlighted minor changes in scope and materiality: improvements to the clarity of disclosure, such as including links to relevant online materials, for example, legislative and organisational documents, financial reports, codes of conduct, investment policies, asset allocation, risk management, and shareholder engagement. During this process, we found that almost 60% of funds reporting in both 2017 and 2019 – had significant and material changes in their self-assessments, while seven reported minor changes in both scope and materiality. Thus, approximately 85% of these institutions have provided material updates in their implementation of the GAPP via the self-assessment process.

Across all submissions, the 2019 self-assessments reflect marked improvements in clarity and depth of reporting over prior versions. Sovereign wealth funds are increasingly using online platforms to provide a wide range of financial and legal information to their stakeholders and counterparties, as indicated by the number of official documents linked to in the 2019 self-assessments. Some of this information highlighted relatively nuanced changes in investment mandate and organisational

detail, including to investment and risk management policies, that reflected either a government-mandated change in investment objectives or organisational adjustments to investment or risk policy deliberation. Sovereign funds are dynamic, continually evolving institutions. A comparative review of the self-assessments enables us to monitor this ongoing evolution and provides primary references with which to assess fund-level transitions. We offer several discrete illustrations below.

Self-Assessment as a Process

The relative completeness of the 2016 self-assessment process provided a baseline from which to assess members' understanding and interpretation of the Santiago Principles. A key theme of our last review was the obvious diversity of the sovereign wealth fund community. This extended in part to the interpretation of and completeness in reporting on certain GAPP (e.g. GAPP 3 – macro-economic integration). Conversely, in 2019 we observe greater continuity in the interpretation of the Santiago Principles among IFSWF members and a far greater commitment to include a formal response for each GAPP if even to report it to be under formal review.

This point concerning completeness also demonstrates a greater member commitment to a process of regular review of how they implement the Santiago Principles, which is advised under GAPP 24. Many funds report a formal annual or biennial review of their self-assessment. This trend implies greater institutionalisation of self-assessment reporting as a “process” across the IFSWF membership. It also points to its integration by members into their disclosures and periodic reporting as a lens into changes and official updates to – and details of – key elements of ownership, formal structures of governance, mandate, investment and risk policies and practices, etc.

Details and Selected Cases

Selected cases serve to illustrate the diversity of scope and scale of material change reflected in the 2019 self-assessments. We have chosen these examples to highlight how certain members' discrete challenges and the resulting structural impacts have been captured and reflected in the self-assessments. These case studies have been previously disclosed and reported widely.

Concerning changes in ownership, for example, the Russia Direct Investment Fund (RDIF) in its 2019 self-assessment reported that its sole owner was the Federal Agency for State Property Management, on behalf of the Russian Federation. This reflects the 2017 transfer of ownership from State Corporation Bank for Development and Foreign Economic Affairs (VEB), an entity – as is The RDIF Management Company – that is on the US Treasury’s Sectoral Sanctions Identifications List.

On matters of legal basis, structure, and governance, the 2019 self-assessment of the Fundo Soberano de Angola (FSDEA) was significantly revised to reflect July 2019 legislation to restructure and enhance its governance practices in the wake of the dismissal and arrest of its chairman, José Filomeno dos Santos, son of the former president of Angola, on charges of corruption, criminal association, money laundering and fraud. The treatment of these changes is clear and succinct and includes reference links to source materials that facilitate a detailed analysis of their impacts on the Fund’s organisation and governance.

Concerning investment policy and mandate, the National Development Fund of Iran (NDFI), in its self-assessment, highlights a change in its mandate that includes a stabilisation function integrated into a revised budgetary system that includes implementation of a fiscal rule. This results from pressure on Iran’s oil exports and a deepening budget deficit resulting in part from a widening sanctions regime imposed on the country.

Khazanah Nasional Berhad’s self-assessment also reflects a significant corporate restructuring and reorganisation conducted in 2018 that resulted in leadership changes at both the Board and Management levels in the wake of far-reaching changes to Malaysia’s political leadership. The changes “refresh” Khazanah’s mandate in the aftermath of the 1MDB matter to sustainably increase the value of its assets, while “safeguarding capital contributions”. This is clearly articulated in a formal Investment Policy Statement (IPS) to which reference links are provided in the self-assessment. The IPS is comprehensive in scope with coverage that includes not only mandate, but also investment philosophy and structure, sourcing of funding, and governance.

In addition to examples of substantive change linked discretely to factors attributable both directly or indirectly to members, other examples represent the material policy or process changes that may not have received wide global attention, but are nonetheless important to understanding the evolution of both governance and investment practices of sovereign investors. The Alaska Permanent Fund Corporation's submission, for example, offers a detailed view into the fund's organisational and operational structure, complemented with data on the fund's reporting timelines, processes, and requirements as well as additional details related to its objectives, governance structures, investment policy, and funding sources, citing precise statutory provisions both in-text and in reference. Similarly, the Abu Dhabi Investment Authority added considerable clarity to the description of its investment policies and practices, including specific organisational changes at the committee and department levels that affect the governance of its investment processes. The Ireland Strategic Investment Fund (ISIF) significantly revised its self-assessment to add further detail to its description of governance structures, including those related specifically to its investment process. Especially interesting is the self-assessment's detailed coverage of the change in the ISIF's mandate prompted by growth in the Irish economy and strong capital flows.

Likewise related to investment practices, several funds used the self-assessment process to highlight formal commitments to sustainable and responsible investing, including commitments to integrating environmental, social, and governance factors (ESG). The New Zealand Superannuation Fund, for example, cites specifically its adoption of a "climate change investment strategy" to enhance the resilience of the fund to climate change. The Qatar Investment Authority highlighted its role as a founding member of the One Planet Sovereign Wealth Funds Working Group, emphasising its goal to reduce its carbon footprint. Khazanah, a 2017 signatory of the UN's Principles of Responsible Investing since its last self-assessment, cited this adoption and its expressed commitment to integrating ESG factors into its investment process.

Takeaways

The 2019 IFSWF Santiago Principle self-assessments include entries from all current full IFSWF members. The inclusiveness of these submissions has allowed a detailed comparative analysis across the documents to assess Member completeness in document preparation, consistency in interpretation of the GAPP, and clarity in disclosure related specifically to implementation. The breadth and depth of participation acknowledge the need for global markets to better understand SWF behaviour. Moreover, the institutionalisation of the review and reporting process can enhance the disclosure credentials of IFSWF members across all stakeholders in well-functioning global capital markets. The extent of material improvements across member submissions suggests an ongoing commitment to the self-assessment process. Notwithstanding, the overall quality of the submissions is not uniform and so offers members, working with the IFSWF Secretariat, ample opportunity to continue to enhance and expand the role of the self-assessment as a key component of their disclosures.

Trends in Transparency: Santiago Principle Self- Assessments 2016

In 2016, the International Forum of Sovereign Wealth Funds (IFSWF) requested each of its member institutions to complete a self-assessment of their implementation of the Generally Accepted Principles and Practices (GAPP, or Santiago Principles) adopted by members of the IFSWF. These Principles address issues pertaining to legal and governance structures, organisational design, and operational practices.

A review of the self-assessments reveals the breadth and depth of diversity across member countries and funds. While there are common structures and approaches to applying the Santiago Principles, no single model – or even small cluster of models – emerges from the reports. Rather, the self-assessments reflect local traditions, particularly in terms of legal and governance structures.

Despite this diversity, there are some clear themes that emerge in structures and approaches to implementation across funds and countries. Here we identify and highlight some of those themes and offer specific illustrations from the self-assessments.

We have organised this analysis into the three pillars consistent with those in the GAPP. Pillar I addresses the legal framework and objectives of funds, as well as how they coordinate investment activities with macroeconomic policies. Pillar II defines the institutional framework of a fund, as well as governance structures. Finally, Pillar III concentrates on the investment and risk framework of funds.


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

Legal Framework

Most IFSWF members report being organised as one of three legal frameworks: A presidential, ministerial, or sovereign decree; an act of a legislative body; or other legislation, such as laws related to fiscal or budgetary matters or the management of natural resources. For example, the Fundo Soberano de Angola, the State Oil Fund of Azerbaijan (SOFAZ), Morocco's Ithmar Capital, Oman's State General Reserve Fund (SGRF), and the Qatar Investment Authority (QIA) were all established under a form of presidential or sovereign decree. Formal legislative acts also provide the legal foundation for Australia's Future Fund, Alberta's Heritage Savings Trust Fund (HSTF), the Abu Dhabi Investment Authority (ADIA), the Korea Investment Corporation (KIC), the New Zealand Superannuation Fund (NZSF), the Nigeria Sovereign Investment Fund (NSIA), and Trinidad-Tobago's Heritage and Stabilization Fund (HSF) and the Russian Direct Investment Fund. In Chile and Mexico funds were established under legislation governing fiscal or budget functions. In Timor-Leste, the legal structure of its Petroleum Fund is detailed in the Petroleum Law.

However, several funds have a hybrid or alternative legal structure, including those resulting from administrative or ministerial actions. The National Development Fund of Iran (NDF), for example, was established under a specific article of Iran's Fifth Five-Year Development Plan. The legal foundation of the Ireland Strategic Investment Fund (ISIF) is established through Ireland's National Treasury Management Act.

In Kazakhstan, which has two member funds, Samruk-Kazyna (SK) was established by decree, while the National Investment Corporation (NIC), was established under local company law as a subsidiary of the National Bank of Kazakhstan. Kazakhstan's case is relevant as it reflects the relevance of both legal tradition and the role or function of the fund as informing modes of implementation of the GAPP.



In many cases, the nature of a fund’s legal framework also establishes its legal status, i.e. if it enjoys separate legal status as corporate entity or functions without separate status as an “account” or trust entity. Further details on legal status can be found below in the discussion on governance structures under Pillar II.

Here it is useful to note a general alignment of structure and mandate: Funds with an economic development or strategic mandate are often organised under local company law as corporations with separate legal identities. These include Ithmar Capital, the Palestine Investment Fund (PIF), and Samruk-Kazyna. To the extent that such entities serve as holding companies for state operating assets, separate legal status is useful – if not required – to permit these funds operating flexibility, including the ability to raise capital in international debt markets.

Diversity of Mandates and Key Fund Objectives

A key focus of the GAPP is the fund objective. The self-assessments reflect a wide range of fund mandates and objectives. Broadly, these conform to a conventional sovereign wealth fund typology.

- **Fiscal stabilisation:** Mexico’s Budgetary Income Stabilisation Fund (BISF) for example has a clear mandate to support macroeconomic stability by managing the fiscal impacts of resource price volatility.
- **Intergenerational savings:** Savings funds have a mandate to preserve and grow wealth for the benefit of “future generations” – a long-term savings function. Alberta’s HSTF, Oman’s SGRF, and the Alaska Permanent Fund (APF) are noted examples.
- **Pension reserve:** Australia’s Future Fund and the New Zealand Superannuation Fund both are designed to fund future retirement liabilities and are examples of funds with pension reserve mandates.
- **Economic development:** Most sovereign wealth funds have discrete commercial or financial objectives. However, some indicate an emphatic policy objective to promote economic development and diversification, including investment in local infrastructure. Funds with a clearly articulated economic development mandate include the ISIF in Ireland, Samruk-Kazyna, Ithmar Capital, the Palestine Investment Fund, and RDIF. The latter is also unique in reporting that its purpose is to execute its mandate within a fifteen-year period.
- **Reserves management:** Reserve management is sometimes cited as an objective of sovereign funds. NIC’s mandate involves managing the alternative assets held among Kazakhstan’s foreign reserves.

- **Hybrid mandates:** Several funds have multiple or hybrid mandates. Most common is a dual stabilisation and savings mandate, as the case with Angola’s Fundo Soberano, SOFAZ, Botswana’s Pula Fund, and the HSF in Trinidad and Tobago. Other IFSWF members isolate mandates using discrete sub-funds, like the Nigeria’s NSIA, which has three sub-funds focused discretely each on stabilisation, savings, and investment in local infrastructure. Chile, in fact, has two funds with distinct mandates. These are respectively for stabilisation and the management of pension reserves.

Institutional Integration with National Economic Policy Framework

The GAPP state clearly that where sovereign wealth fund activities have “significant direct domestic macroeconomic implications” these should be coordinated with domestic fiscal and monetary authorities. To implement this principle, funds tend to focus on the size and materiality of investment impacts on their economies. Generally, members take one of two approaches. The first is to report no direct and material macroeconomic impacts due to the size of the fund and the scale of domestic investment. Alberta’s HSTF, Botswana’s Pula Fund, China Investment Corporation (CIC), Korea’s KIC, the Russia Direct Investment Fund, among others – report in this way.

The second is to identify the fund’s investment activities as either directly or indirectly affecting near-term or long-term macroeconomic performance. Several funds with stabilisation or development mandates, such as SOFAZ, the NSIA, the ISIF in Ireland, Ithmar Capital, and the Palestine Investment Fund implement in this fashion.

Lastly, some member funds also highlight a formal link between policy coordination and governance through the participation of key government ministers and the central bank governor on advisory or executive boards of the funds. Angola’s Fundo Soberano, Iran’s NDF, Morocco’s Ithmar, and Nigeria’s NSIA are noted examples.

Funding and Withdrawal Mechanisms

Provision for withdrawals from sovereign wealth funds to support fiscal programmes or other initiatives of public investment or economic development is often linked to a fund's operating objective. Most funds' capitalisation and withdrawal mechanisms are outlined in their founding decrees or legislation, and thus publicly disclosed. This is the case for Chile, KIC in Korea, Ithmar, and Oman's SGRF. Both pension reserve funds – from Australia and New Zealand – also have specified withdrawal policies. Several funds, particularly those funded by resource revenues like Alaska's APF, report discrete funding and withdrawal metrics, including restrictions against withdrawing other than investment earnings.

Coherence and Scope of Executive Reporting to Asset Owner

Reporting is an important element of the GAPP. The scope of reporting extends from the primary shareholder of the fund to key stakeholder, and ultimately – in prescribed cases – to the public. The theme of reporting returns in Pillars II and III below. For Pillar I, reporting relates to sharing relevant statistical data with the owner. The self-assessments are quite detailed on matters of reporting, particularly those related to the owner. All reports highlight the scope and extent of reporting coverage to fund owners. Many extend to include detailed references to information reported to various government ministries, including central banks. Additional references include information reported directly to the public via national gazettes, the general media, and directly via fund websites.

Pillar II: Institutional Framework and Governance Structures

Nature and Role of Owner

Many self-assessments stipulate that governments own their funds. However, there is significant variation in the how ownership is structured. For example, in many countries including Australia, Botswana, Alberta, Ireland, Italy and Timor-Leste, the Finance Ministry or national treasury is responsible for the fund and carries out ownership functions. On the other hand, the governments of Angola, Azerbaijan, and Qatar execute the ownership function through their individual heads of state. Others, like Iran, have fund ownership vested in Parliament.

Some funds have unusual ownership structures. For example, the people of Palestine, as shareholders of the PIF, are represented by a General Assembly, which is comprised of 30 individuals experienced in business, academia, and regulation and appointed by the Palestinian President. The owners of the Nigeria Sovereign Investment Authority are represented by a Governing Council, whose membership includes the President of Nigeria, the governors of Nigeria's 36 states and representatives of academia, civil society and Nigeria's youth.

The role of the owner in fund management and operations is closely linked to the ownership structure. In general, governments tend to maintain passive oversight over the activities of their funds, leaving the asset management and allocation functions to a separate institution. Many of the self-assessments re-affirm this separation of the ownership and management functions of the funds.

Governance Structure

Governance structures vary significantly across the funds. A large majority are independent legal corporations, while several others – ISIF in Ireland, Mexico’s BISF, Rwanda’s Agaciro Development Fund (AGDF) – are managed by a board of trustees. Governance frameworks for trusts and corporations can be substantially different. For example, a trustee’s responsibility is to administer the trust assets for the benefit of the trust’s beneficiaries. Directors of a corporation might act in the interests not only the corporation but also its shareholders and other stakeholders.

The reports also reveal various unique fund structures, which are neither corporations nor trusts. For example, the Timor-Leste Petroleum Fund is established as an account of its Finance Ministry maintained with the Banco Central de Timor-Leste. RDIF is organised as a common-law mutual fund with a general partner, while Alaska’s APF is constituted as a pool of funds owned by the State of Alaska with no distinct legal identity or organisational structure.

In many self-assessments, there is some identification of the relationship between the owner and the governing board, and between the governing board and the manager. The owner typically appoints the governing board members and may be required to represent the owner’s or beneficiaries’ interests. For example, the governing board of the Iran’s NDF is the Board of Trustees, which is comprised of cabinet ministers and members of Parliament. Similarly, the governing body of SOFAZ consists of the country’s prime minister and other cabinet ministers. In these cases, the owner is represented on and has direct influence over, the fund’s governing body.

In other cases, the governing bodies are subsumed under the organisational structure of the fund (as, for example, the boards of directors of Ithmar and KIC). In many instances, the relationship of the governing body with the owner and/or the manager (including the manner of appointment of governing bodies) is stipulated in the law governing the fund. Here examples include Australia’s Future Fund, SOFAZ, the HSTF from Alberta, and the NSIA in Nigeria among others.

Despite the diversity of fund objectives, governing bodies generally share overarching responsibility for investing and for supervising fund managers. For example, in Australia, the Board of Guardians of the Future Fund is responsible for investing the assets of the fund. The governing bodies of some funds – KIA and NSIA – are tasked with providing strategic guidance and direction to the funds’ managers. Some governing bodies, such as those of at the HSTF, Mexico’s BSIF, and New Zealand’s NZSF, have the responsibility of reporting to the owner/beneficiaries on the performance of the fund and its managers. In doing so, the governing bodies act as a conduit of information between the owner/beneficiaries and the manager. Exceptions to this general rule include China’s CIC, whose board of directors is required to report directly to the owner.

Management Structure

Fund management structures broadly fall into two categories: Funds managed by a government-appointed manager – such as Australia’s Future Fund Management Agency, the Guardians in New Zealand, Iran’s NDF, the KIA in Kuwait, and Singapore’s GIC – and those managed by central bank or other development bank (as in Botswana, Mexico, Timor-Leste, Trinidad and Tobago). This distinction arises from the significant differences observed in organisational structure and fund management. For example, in Mexico, the fund features a hybrid management structure where asset allocation decisions (relating to portfolio composition, withdrawals, the volume of investible funds) are made by the government and asset management is carried out by a federal development bank.

As with the distinction between the roles of owner and governing body, many of the self-assessments state that the funds appoint independent managers, which have distinct roles and responsibilities. In general, managers are required to execute the fund’s corporate strategy, achieve its targeted rate of return, and oversee day-to-day operations. However, there are cases when

the governing body may take on an operational rather than a purely supervisory role. For example, the board of directors of Samruk-Kazyna is responsible for approving the budget of the fund, acquisition proposals, and increases in the fund's liabilities. Similarly, the board of directors of the Fundo Soberano in Angola fund is responsible for administering the fund, with the chairman responsible for leading and coordinating the executive functions of the fund.

In some cases, manager and governing body duties are dispersed. This is the case with Chile's sovereign funds. The state of Chile is the owner, but the General Treasury is the bearer of the resources. However, Chile's Finance Ministry is responsible for defining how the funds are managed, drawing up investment policies and managers' supervision. Similarly, although the Bank of Botswana has overall responsibility for management of the Pula Fund, the Ministry of Finance and Economic Development also plays a key role in strategic asset allocation and the determination of investment policies of the fund.

Fund managers may be appointed under statutory mandate (as in Australia, and Nigeria), through a combination of statutory mandate and administrative action (for example, in Chile, Italy, and Morocco), by the governing body (China and Kuwait), or by the fund's shareholder or head of State (as is the case with Kazakhstan's NIC, the Palestine Investment Fund, and Qatar's QIA).

The GAPP also address the operational independence of fund managers from owners. Here implementation varies across members often for functional reasons. In the case of Abu Dhabi, for example, ADIA's Managing Director is vested by Law (5) with financial independence, including the decision authority over investment proposals following review and analysis. In Kazakhstan, Samruk-Kazyna manages strategic state operated assets. As the sole shareholder, the government appoints Samruk-Kazyna's CEO and board members. The ex officio chair of the board of directors is the prime minister of Kazakhstan and the government of Kazakhstan is required to approve operational aspects of the fund, including the sale of assets, annual financial statements, and long-term strategy.

Scope of Public Disclosure

Most IFSWF members disclose information publicly, although the scope, and manner varies. For example, Australia's Future Fund publishes quarterly portfolio updates, providing details of the investment activity and performance of the fund. Rwanda's AGDF also publishes regular updates on its financial status and plans, as well as publishing financial statements with the source of funds and returns from investment each quarter. New Zealand's NZSF publishes an analysis of the drivers of value added along with an overview of portfolio activity during the year. It also makes monthly disclosures including a breakdown by asset class and geography of the fund's portfolio and its ten largest equity holdings by value.

Conversely, the Qatar Investment Authority has no legal obligation to make disclosures. The fund's board of directors has the power to decide the time and extent to which more information on the fund's financial orientation and position will be made publicly available. From time to time, senior executive management may make public comments on certain aspects of the fund's operations or its principal operating subsidiaries, but there is no fiduciary or legal obligation to do so.

Pillar III: Investment and Risk Management Framework

Compatibility of Investment Policy and Decision-making with Mandate

Most IFSWF members invest to maximise risk-adjusted returns subject to their investment policy. Because the primary objective of most funds is wealth management and growth, this objective is consistent with their mandate to grow the wealth of the fund. Several funds have a discrete economic or development mandate in addition to an objective to generate solid financial performance. Ireland's ISIF, Italy's CDP Equity, the RDIF in Russia, and the Palestine Investment Fund all share such a mandate, as does one of the sub-funds of Nigeria's NSIA.

In the context of investment policy statements, many funds report geographic or other investment constraints. Funds generally reported that they are restricted either to investing domestically or abroad. ADIA, SOFAZ, Botswana's Pula Fund, and Trinidad and Tobago's HSF all have mandates to only invest internationally, while others – ISIF, CDP Equity, the RDIF and PIF – are tasked to make significant domestic investments. For them, the focus on domestic investments is consistent with their mandate to promote domestic economic growth. ISIF, for example, is required to maximise benefit to the Irish economy by allocating 80% of its capital to sectors that have a substantial impact on metrics as GDP growth, employment, and net exports. The fund's mandate includes maximising the discrete value created by its investments while avoiding crowding out the opportunity for private capital to participate.

The use of derivatives is the most commonly restricted investment strategy amongst IFSWF members. Mexico's BSIF and PIF in Palestine restrict the use of derivatives to hedging foreign currency exposures. Mexico's Budgetary Income Stabilisation Fund, for example, is passively managed and is required to maintain high levels of liquidity. It hedges to reduce exposure to

federal government revenues. The Palestine Investment Fund hedges against currency exposures in its highly liquid foreign asset portfolio. SOFAZ restricts derivative use to hedging or optimising currency composition and asset allocation. In the case of other funds – those in Botswana, Chile, and Iran – the use of derivatives by fund managers is more tightly circumscribed.

Many funds publicly disclose specific information related to their investment policy. The Future Fund, SOFAZ, ISIF, Italy's CDP Equity, NZSF, RDIF, GIC, ADIA, and the Alaska Permanent Fund are all suitable examples. The nature of the disclosures ranges from general statements about investment policy to links to the full investment policy statement and associated legislation. Many funds also include their investment policy statement in their annual report.

Policies Concerning Ownership and the Exercise of Shareholder Rights

Most funds exercise voting rights directly as shareholders for economic and financial reasons. Of these funds, the Future Fund, CIC, NZSF, the RDIF, and Alaska's APF each share publicly how they exercise shareholder rights. ADIA reports that it does not exercise voting rights unless it believes it must protect its financial interests or those of shareholders as a body. SOFAZ and Chile's SWFs indicate that they do not exercise shareholder rights or they take a neutral position. Mexico's BSIF and PIF in Palestine do not have shareholder policies. In Trinidad and Tobago, the HSF does not disclose its policy, while Botswana and Nigeria's sovereign funds rely on their external managers to exercise voting rights by proxy.

Organisation and Execution of Risk Management Function

Most funds publicly report on risk management at least annually. Otherwise, the self-assessments exhibit little consistency in the implementation risk management processes identified in the GAPP. Some funds describe the risk function in the context of their operational structure. Others discuss overall risk management goals, some their risk mitigation and monitoring structures, while others simply acknowledge having risk management guidelines.

If a sovereign fund has not developed an in-house risk management department, their custodian may undertake this function. Botswana's Pula Fund, Chile's funds, the Timor-Leste Petroleum Fund, and the HSF from Trinidad and Tobago each report having some elements of risk management delegated to the custodian of the fund. Funds with internal risk-management teams typically report a hierarchical structure, where the risk management department reports directly to the executive management team or the board of directors. Several funds report using external platforms or frameworks as part of their risk management function. Kazakhstan's NIC and Oman's SGRF provide further details and identify their risk platforms.

Scope of Performance Reporting

There is also little consistency in how the funds report performance. All the funds report their performance to their owners. Funds prepare performance reviews at least annually. Several funds also report monthly and quarterly. The NZSF and the Chilean Funds, for example, report monthly, quarterly, and annually. The Iran's NDF reports biannually. While all the funds report performance to their owners, several funds – the Future Fund, SOFAZ, CIC, KIC, NZSF, PIF, AGDF, and the Alaska Permanent Fund – publicly report periodic investment performance. The NZSF publishes monthly performance returns on its website. Other funds distribute performance data through their annual reports.

Sovereign Wealth Funds: Oversight And Accountability

Richard Collins

Much has been written about how sovereign wealth funds (SWFs) have developed over the years. But from the establishment of the Kuwait investment Authority in 1953 to those being currently developed or being contemplated, one overriding issue has always been at the fore – what is the optimum model for oversight and accountability – in effect ‘governance’. Different models apply for this also, but notwithstanding the differing set ups, the different cultures, the different purposes of Funds across the world, there are generally a number of key areas that need particular attention. This article examines some areas of such attention – and suggests some areas of emphasis.

First, it is worth considering why governance is so important. Although SWFs are governed by their own by-laws, normally set out in the formative legislation creating the SWFs, SWFs will generally not be regulated by financial services regulators, since they do not have clients and merely act as asset owners investing for their own account. And, partly as a result of the lack of transparency that is a consequence of not being regulated by financial services regulators, over many years SWFs have developed a reputation for secrecy about almost all areas of their activities, including governance. That trend is now reversing, since all stakeholders – be they the citizens of the country whose assets are in the Fund, the government of the country, co-investors, partners, even employees, are keen to understand how oversight and accountability works. And if a SWF wants to be a successful participant in the world’s financial markets, and wants to have access to the best investments, it needs to be trusted. It will only gain that trust – and credibility – if it can demonstrate that it is subject to proper oversight and accountability. Getting this right will open doors to successful investment returns, getting it wrong will result in it being treated with suspicion and being cold shouldered by its stakeholders. There are many studies which indicate that for a commercial institution, good governance reduces the cost of capital and improves access to capital – nothing is different for SWFs, but they have the added aspect that they do not necessarily always have to raise capital on open

markets, so sometimes that motivation of getting governance right to unlock that access is not as strong as it might be. The Santiago Principles – established by the IFSWF back in 2008 – are very helpful guidance about how good governance should work at SWFs. However, there are many practical considerations which can help achieve good governance also.

It is always worth remembering what ‘Governance’ is there for – the word ‘Governance’ derives, ultimately, from the Greek verb ‘kubernaein’, meaning to steer. Governance is all about setting and steering the organisation in the right direction; it is not therefore micromanagement of specific decisions, instead it is more about ensuring the right structures, delegations of authority, policies, processes and oversight practices are in place and are effective. And best decisions in relation to governance are made by groups of persons, not individuals acting alone – although of course sometimes there have to be exceptions.

The main areas where oversight and accountability comes to the fore are:

- Parliamentary Oversight;
- Appointment of the Chairman and the Board;
- Oversight of the Board;
- The need for a ‘Governance Strategy’;
- The three most important policies of a SWF;
- Oversight at Executive level;
- Alignment with the Santiago Principles;
- Other issues.

Parliamentary Oversight

In many countries with SWFs, the Parliament or other state body representing the people will want to have some oversight of the SWF and its activities. This is very understandable, as the SWF is in effect investing the funds of the citizens of the country – and indeed the activities and investments of a SWF will be a matter of keen public interest. The challenge is to find a mechanism that can provide that oversight but with efficiency.

A good method here is to create a mechanism whereby oversight is provided by those with some expertise in the financial sector. Some Parliamentarians may have backgrounds in business or finance or law or accountancy – and it may be helpful to provide training for others so that they are conversant with some of the technical aspects of the investment world. If a Parliament can find a mechanism to elect a cadre of representatives to a Parliamentary Oversight Committee of the SWF, including those with specific finance expertise but also some lay members, then that can provide a good combination. This can be similar to the Select Committee model that is used in the UK Parliament – introduced in its modern form in 1979, this provides a way for Parliament to oversight specific government departments or agencies, and is widely seen as successful.

Appointment of the Chairman and of the Board

The processes for this will normally be documented in the legislation setting up the Fund. But it is worth noting that a SWF can be as impactful and as high profile in some countries as the Central Bank, so if designing a structure from scratch, a model for appointing the Board of the SWF could be similar to that for appointing the Board of the Central Bank.

One model is that a Minister is the Chair, and is appointed by the government. The other Board and Board Committee members, including the Chief Executive Officer – or Governor – are appointed by the Chair through a traditionally Board selection process – but if the Minister is not the Chair it is helpful all such appointments are with Ministerial consent.

In appointing the rest of the Board, role specifications should be identified, and appropriate candidates sought. Any Board, to be effective, needs a mix of skills and experiences in its composition – for SWFs these may include persons with backgrounds in investment, finance, the public sector, governance, all with the ability to bring best practice in their own areas of expertise,

and contacts for outreach, to the table. The Board should end up being a combination of ‘networkers’ – who can add value with their previous experiences, skillsets and knowledge of particular sectors, projects and practices in providing advice and guidance on how things can be done better, and ‘challengers’, who are able to use their experience and skills to challenge appropriately with knowing the right questions to ask in any specific situation and are not afraid to speak up.

In many situations there is also a strong case for creating and appointing an ‘Advisory Board’. This is a separate grouping of individuals who can provide advice and guidance to the SWF on specific areas without legal liability issues. They can be brought together periodically – and would potentially consist of experts in outreach, specific investment type opportunities, governance, ESG, and also can include stakeholders from outside government – for example representatives from a civic society and other groupings which could provide helpful input into the SWF’s strategic thinking. This grouping can become a useful consultative forum to the Board, and can include overseas expertise in the particular subjects, thus enabling international expertise to be garnered without such individuals needing to be on the Board of the SWF, nor for expensive consultants to be appointed.

Board-Level Governance

Here traditional Board governance tools can be used – but for a SWF key areas where there is added risk and therefore emphasis required is that it must be expected that Board members – who are highly qualified individuals whose skills, experience and judgement can assist the SWF in achieving its objectives – will have other professional responsibilities, perhaps in public office. And these interests may conflict with their duty to the SWF. However, they are appointed to the Board in their individual capacity – not as a representative of another government department, and there needs to be an understanding of the difference between ‘vested interests’ – which are interests which are known about, cannot be avoided, and arise because of public office – and potential ‘conflicts of interest’ which normally arise because of commercial interests. The former can be dealt with

on the basis that they are understood by all Board members, the latter need to be disclosed as needed and measures need to be put in place to address these. Protocols need to be established to achieve this – and a specific Code of Conduct for Board Members is a useful vehicle for this.

Some key areas where Boards should keep in view duties and responsibilities are as follows:

- Ensuring that, practically, the external auditors' prime relationship and duty is to a governance Audit, Risk and Compliance Committee ("ARCC") – rather than to the Board as a whole or the Executive. External audit firms also sometimes have governance or other issues arising within them, and it is helpful to have these explained by the firms as and when they happen – so that the SWF can be assured that there is no impact on the firm's ability to discharge their responsibilities to the SWF;
- Ensuring that professional advisers are fully clear about to whom they owe their duties – the Board may find it helpful to consider using separate advisers who are not potentially aligned to the Executive for sensitive matters;
- Creating standardised Board reportage from the Executive, including regular reportage from the CEO, other disciplines as appropriate, and reportage to the ARCC from Finance and Governance functions;
- Ensuring that the Board paper submission process does not become a 'sanitisation' process;
- Having Board members spend time with the SWF's departments;
- Ensuring the expenses of the most senior persons are reviewed by the ARCC or the Board;

It is also helpful to demonstrate inclusivity to the Board members by seeking periodic feedback from Board members regarding the operation of the Board.

The Need for a Governance Strategy

Many organisations regard Governance as a ‘Hygiene Factor’ – i.e. something that everybody does and knows how to do because that is how they have seen it done throughout their career elsewhere, and there is no need to change habits and practices now. There is therefore a real risk of thinking that it's just a necessary process, with no one really thinking it through properly, and perhaps nobody really paying too much attention to it.

But that is not the right way to approach Governance. Governance is a discipline, just like any other business focus – such as Investments, Finance, Operations and the sub-categories thereunder. It too needs a Vision, a Mission Statement, a Strategy, a Plan, a Roadmap with milestones and all the other aspects of corporate project implementation.

And for a SWF it should start with a ‘Governance Risk Assessment’, which drives the priorities, structure and detail, including matters specifically applicable to the SWF such as:

- Alignment with the country’s ‘National Development Objectives’ – by whatever name – these could include matters such as:
 - Increasing employment for nationals;
 - Ensuring international investment has a demonstrable return into the country in terms of expertise as well as simply monetary;
 - Alignment with other government aspirations, such as climate change considerations, education benefits, gender diversity in the workplace etc;
- Specific legal, regulatory and other constraints applicable to government agencies such as data sovereignty laws (which potentially affect the Fund’s activities if the data is deemed ‘government data’), state secrecy laws (which potentially place more restrictions on government data confidentiality than in a private sector corporation);
- Required observance of government practices on other specific matters – for example procurement practices

A standard best practice model for governance within a financial institution – and is suitable for SWFs – is the Three Lines of Defence Model, defining roles of a:

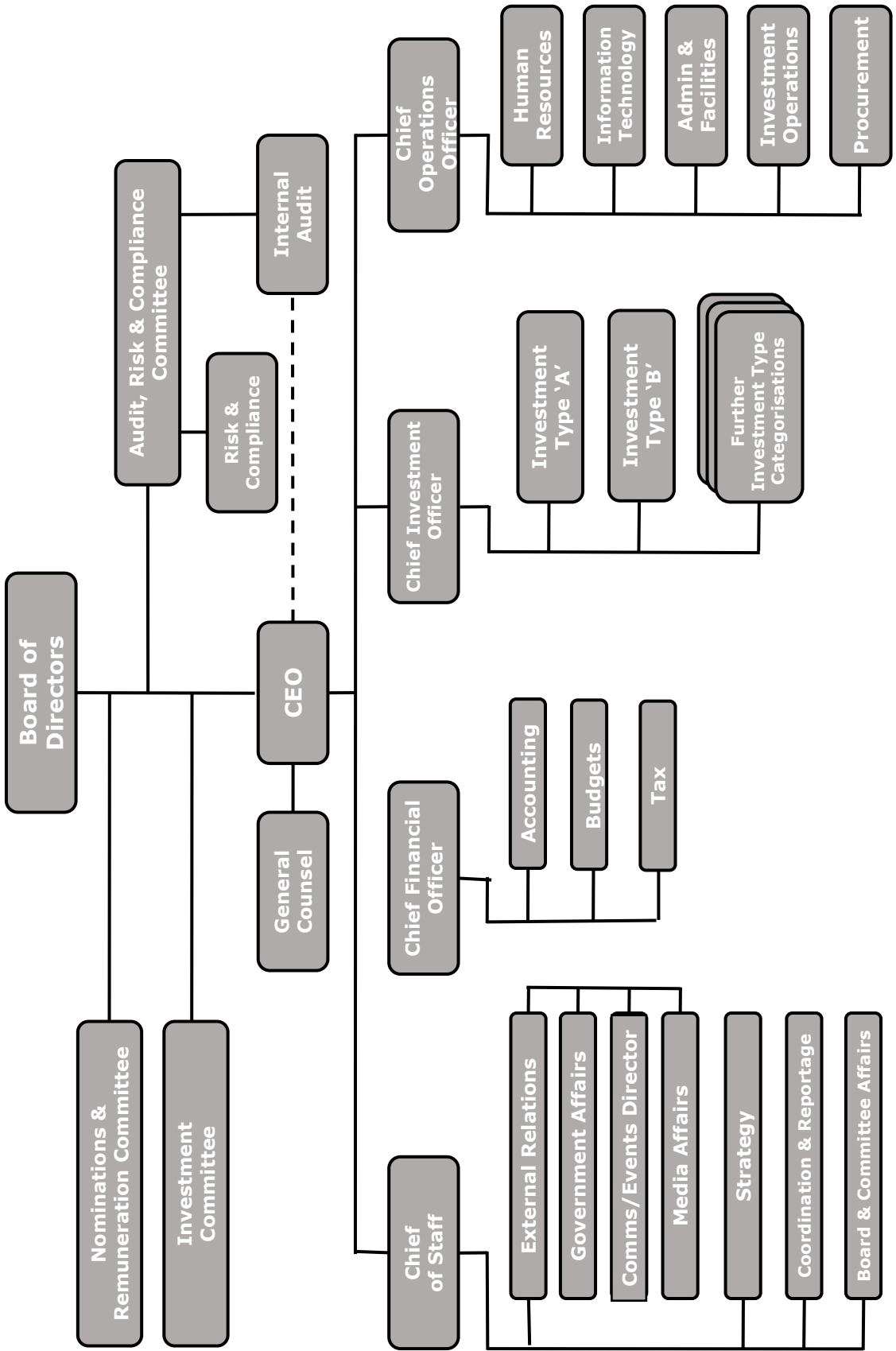
First line of defence whereby business leaders at executive level are responsible for establishing and maintaining effective control environments within their areas of responsibility;

Second line of defence whereby oversight control functions of Risk and Compliance, advise on and oversee accountable areas, review the controls environment, have stewardship of company-wide risk and compliance policies, and independently investigate and resolve incidents across the institution. A Board Committee, on behalf of the Board, will oversee these functions.

Third line of defence whereby an Internal Audit function as an independent function reports to a Board Committee on the controls effectiveness, and provides assurance on the workings of the first and second lines.

Organisational Design

One of the first priorities will be to create an Organisational Design to incorporate effective but proportionate oversight and governance. A sample design is as follows:



As can be seen the idea here is to have a traditional structure with a Board and Board Committees and then with a CEO running the executive functions. Whatever the structure, in general there are pillars for Investments under a Chief Investment Officer, for Finance under a Chief Finance Officer and for Operations under a Chief Operations Officer. There are many other functions which could normally report into a CEO – Public Relations, Strategy, and the like, but in order to reduce the number of direct reports of the CEO, these have been garnered under a Chief of Staff, who in effect becomes the co-ordinator for the CEO of all the various functions – thus leaving the CEO time for outreach, dealing with stakeholders and strategic issues.

The Three Most important Policies for a Sovereign Wealth Fund

In any institution, there will be a Delegation of Authority, determining – amongst other things – which policies need to be approved by the Board, and which can be delegated to the CEO and Executive Management. There are a myriad of policies to be concerned about, but it is generally accepted practice that the Board should set the three most important policies at a SWF – policies which should not be delegated to the Executive to design and approve.

These policies are:

- The Investment Policy Statement. This will include:
 - **A Sanctions Policy**, indicating which jurisdictional sanctions the SWF chooses to comply with – for example, US, EU, UK. The Sanctions policy should generally follow that of the SWF's host country;
 - **Diplomatic Restrictions:** There may be countries which the SWF's host country does not deal with, or has not got diplomatic relations with, this should again be aligned to the country's governmental policy;

- **Financial Product Restrictions:** this is where a policy states whether or not the SWF should invest in specific products such as crypto-currencies, derivatives etc or in what circumstances.
- **Investment Categories:** there may be desires not to invest in specific categories, either because of local legislation – eg organisations with material revenues from alcohol, gambling, pornography, military weapons and the like or, indeed, recognising the prohibition of investment into tobacco under the UN Convention. Other categories also exist.
- **The Risk Appetite Statement:** this sets the authorised parameters for the taking of risk, and establishes a structure for measuring and reporting deviations.
- **The Code of Conduct:** this sets the behavioural guidelines for all employees of the Fund. As noted above, a separate Code of Conduct for Board Members can also be very helpful.

Oversight at Executive Level

Once the Board is in place, and the CEO has been appointed, the next task is for the CEO to create a Management Team and establish an Executive Committee, define a 'Delegation of Authority' schedule, and then begin to establish sub-committees such as the important Executive Investment Committee, which should consider all investments prior to their being reviewed by the Board.

The three lines of defence model, as noted above, can be a helpful way to ensure that responsibilities for executive level governance functions such as Risk, Compliance and Internal Audit are laid out, together with Divisional Management responsibilities being articulated and well understood.

Roles, policies and processes for relevant areas can be defined, in particular:

- The Investment Process;
- Underlying policies of the Code of Conduct – including Financial Crime issues such as bribery and corruption and anti money laundering policies, confidentiality requirements;
- Other divisional policies as for any corporate organisation, ensuring internal controls and checks are embedded therein.

Monitoring architecture needs to be designed and implemented which can provide the Board with confidence that the activities of the Fund are being oversighted effectively by the CEO through the Executive Committee and the governance functions. Providing such confidence to the Board is absolutely key to the success of the Executive.

Alignment with the Santiago Principles

The Santiago Principles represent an excellent guide as to the areas to be addressed in respect of being able to demonstrate overall good governance at a SWF. But they can look quite daunting at first glance, and may seem quite challenging to reach a point of full compliance with them all.

Full compliance will not happen instantly, and indeed there may be some areas where – by reason of the purpose, set up or driver of the SWF – there may be no expectation of full compliance for a number of years. So, like other areas of governance, it is helpful to have an aspirational level of compliance with the Principles and a timescale and put in place a roadmap to chart out the journey to get there.

Although some institutions like to measure compliance on a ‘Principle by Principle’ basis with judging percentages against each Principle and sub-Principle, a good overall sense of the state of alignment can be arrived at by simply analysing all the Principles and measure compliance through using the IMF categorisations of Fully Compliant, Partially Compliant,

Non-Compliant – showing aspirations for the coming years, for example.

This format also makes it easier for reportage – it becomes simpler to make visually impactful for Board presentations, for example. Boards should request reportage on the Principles as a Standing Agenda item, perhaps initially after commitment to the Principles on a quarterly basis, but after a couple of years on say a six monthly basis.

Other Issues

Lastly, getting proper oversight and accountability embedded into any institution is a journey, and as such the road is subject to trip hazards, pitfalls and potholes. ‘Stuff happens’, as the phrase goes – for example, some appointments of key individuals may not work out, external market factors may present other impediments, relations with stakeholders may not be as successful as wished, and incidents can occur.

But as long as the institution is on a path that is ‘directionally correct’ in terms of governance, with a proper strategy, plan and roadmap, then it’ll get there in due course.

Acknowledgements

The International Forum of Sovereign Wealth Funds would first like to thank all its members for their continued commitment to implementing the Santiago Principles and undertaking and publishing their self-assessments every three years.

We would also like to thank Professor Schena for his long-term support in bringing his experience and independent viewpoint to evaluating our members' self-assessments. By so doing, he has played an important role in helping us improve the public understanding of sovereign wealth funds in the financial services industry and in academia.

Since 2016, Professor Schena has benefitted from the research assistance of several students, including most recently Ms Isha Vajpeyi, who helped to co-author the 2022 Review.

We would also like to thank Adnan Mazarei, Non-resident Senior Fellow at the Peterson Institute for International Economics, for his thoughtful comments on the 2022 Review.

Finally, we would like to thank Dr Victoria Barbary, Director of Strategy and Communications at the IFSWF Secretariat, for her management of the triennial self-assessment review process, and Enrico Soddu, Head of Data, for assisting in publishing the self-assessment documents.



International Forum of Sovereign Wealth Funds