

IFSWF Members' Experiences in the Application of the Santiago Principles

**Report prepared by IFSWF Sub-Committee 1 and the Secretariat in
collaboration with the Members of the IFSWF**

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ABBREVIATIONS AND ACRONYMS

ADIA	Abu Dhabi Investment Authority
AHSTF	Alberta Heritage Savings Trust Fund
APFC	Alaska Permanent Fund Corporation
AUM	Assets under Management
CBC	Central Bank of Chile
CFA	Chartered Financial Analyst
CIC	China Investment Corporation
FF	Future Fund (Australia)
ESG	Environmental, Social, and Governance
ESSF	Economic and Social Stabilization Fund (Chile)
GAPP	Generally Accepted Principles and Practices (Santiago Principles)
GIC	Government of Singapore Investment Corporation Pte. Ltd
GIPS	Global Investment Performance Standards
GPIF	Government Pension Fund Global (Norway)
IFRS	International Financial Reporting Standards
IFSWF	International Forum of Sovereign Wealth Funds
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IWG	International Working Group of Sovereign Wealth Funds
IPSAS	International Public Sector Accounting Standards
KIA	Kuwait Investment Authority
KIC	Korea Investment Corporation
NPRF	National Pensions Reserve Fund (Ireland)
NWF	National Wealth Fund (Russia)
NZSF	New Zealand Superannuation Fund
ORSFM	Oil Revenues Stabilization Fund of Mexico
PF	Pula Fund (Botswana)
PFTL	Petroleum Fund of Timor-Leste
PRF	Pension Reserve Fund (Chile)
QIA	Qatar Investment Authority
RF	Reserve Fund (Russia)
SC1	Sub-Committee 1 of the IFSWF
SOFAZ	State Oil Fund of the Republic of Azerbaijan
SWF	Sovereign Wealth Fund
SP	Santiago Principles

FOREWORD

Sovereign Wealth Funds (SWFs) are important participants in the international monetary and financial system. SWFs' activities have helped promote growth, prosperity, and economic development in capital exporting and receiving countries. SWFs also contribute to macroeconomic and financial stability.

All Members of the International Forum of Sovereign Wealth Funds (IFSWF) engage in the domestic and/or international environment as is appropriate to their purpose and circumstances. They therefore acknowledge that their investment activities affect many people, places, and organizations. The building of trust and confidence in their home country, and in the countries where they invest, is important to the ability of Members and of SWFs generally to continue to undertake their investment activities without unnecessary restrictions or concerns.

Thus, the Members strive to ensure that they consistently achieve the high standard of professionalism that is expected of all SWFs. This document represents an additional, collective, effort to demonstrate that such professionalism is common across the gamut of SWFs. It also shows Members' commitment to appropriate transparency, using the framework of the Santiago Principles (SP), which enjoy broad support among the IFSWF Membership.

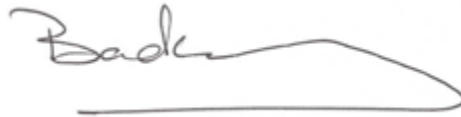
IFSWF Members, and SWFs generally, have typically been perceived as homogenous. What constitutes appropriate practice, and appropriate transparency of those practices, has been subject to the same perception of homogeneity. What this document shows, however, is that there are quite fundamental differences between Members. This means that, while SWFs are a distinct investor group, whose activities are commercially motivated, there is no such thing as a 'typical' SWF. It follows that if SWFs are not all the same, it is neither possible nor useful to have uniform expectations of how they should behave; nor of how and to what extent they should disclose their practices and activities.

The survey of Members' experiences in implementing the SP was originally undertaken as an internal exercise, with the aim of helping Members to learn from each other. However, the Beijing meeting of the IFSWF decided to publish the document in order to provide a deeper insight into the purposes, structures, investment strategies, and practices underpinning their activities of IFSWF Members and, importantly, to clarify how and why those practices differ across the Membership.

We trust that readers find the report useful in gaining a deeper understanding of IFSWF Members, of the IFSWF organization as a whole, and of the Santiago Principles. We, as the Chairs of the IFSWF, continue to promote an open and active dialogue with our stakeholders and welcome any feedback on this report and other IFSWF activities through the IFSWF website www.IFSWF.org.



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EXECUTIVE SUMMARY

Purpose of the Report

This report analyzes the results of a survey, conducted by Sub-Committee 1 (SC1) of the International Forum of Sovereign Wealth Funds (IFSFWF), on IFSWF Members' experiences in implementing the Santiago Principles (SP). It also uses the results of the survey conducted by the Secretariat (General Survey) before the IFSWF meeting in Sydney in May 2010, and where necessary, additional information from Members' websites and other public documents. The report presents the analysis with the aims of enhancing the quality of assistance that the IFSWF provides to its Members and facilitating discussion, debate, learning, and engagement among the Members themselves, which may eventually lead to the refinement of the SP.

Key findings of the SC1 survey

For each of the 24 principles/practices of the SP, Members were asked in the SC1 Survey (i) whether they had implemented investment and operational practices consistent with that particular principle/practice; and (ii) whether that implementation pre-dated or post-dated the issuance of the SP. Not all Members responded to all questions. A summary is given below, based only on the responses given by each Member to the above questions in respect of each SP:

- 95% (404 of 426 responses given) of Member's practices are fully or partially consistent with the SP;
- 80% (340 of the 426 responses given) of Members' SP-consistent (partially or completely) practices pre-date the SP;
- 15% (64 of the 426 responses given) of Members' SP-consistent (partially or completely implemented) practices post-date issuance of the SP; and
- 4% (18 of the 426 responses given) of Members have identified one or more instances of not having implemented SP-consistent practices.

Legal Framework, Objectives and Coordination with Macro Policies

- All Members are authorized to operate under domestic law.
- There are significant differences in Members' legal structures but all have a clear mandate to invest their assets.
- Most Members publicly disclose their legal basis, typically via their websites or annual reports. Additionally, policy objectives are generally stated in the Members' establishing legislation.
- More than half of responding Members do not have standard procedures and/or regular meetings for policy coordination with the relevant monetary and fiscal authorities regarding overall macroeconomic policies. This appears to be so mainly because they are not directly involved in, or do not affect, macroeconomic policies.

- Most Members have clear funding and withdrawal rules which are generally closely related to their policy objectives. The rules are generally set in legislation and, therefore, are publicly disclosed.
- Most Members provide relevant information to their owner, typically through annual, quarterly, or monthly reports. Some Members also provide information to their Ministry of Finance, the Legislature, the Central Bank, or other State Agencies. Just a few Members indicated that they provide information to the National Statistical Agency, but this could be because the other entity to which they report (e.g., the Ministry of Finance) carries out that function.
- There is a high degree of compliance with GAPPs 1–5, since those GAPPs deal with the preconditions for establishing a fund.

Institutional Framework and Governance Structure

- Members' governance frameworks are sound with a clear allocation and separation of roles and responsibilities. Regardless of the fact that some Members are separate legal entities and others are pools of assets, the governance structure of almost all Members clearly separates the operational management from the owner/governing body, and this information is publicly disclosed.
- For most Members, the owner determines their objectives, appoints the members of the governing body, and oversees the activities of the Member. The Member's governing body is responsible for its governance and its operational management is responsible for daily operations.
- Almost all Members have clear minimum requirements for the standard of competency of the members of their governing bodies.
- Most Members are accountable to their legislature. However, the procedure for reporting to the legislature varies. Most Members in this situation are also legally obliged to publicly disclose information about their operations and performance.
- Most responding Members prepare audited financial statements and annual reports, which are publicly available. Most report financial information in their annual reports including their total assets under management, asset allocation and returns.
- Most Members have a clearly defined code of ethics, required either by internal rules or by legislation. In the majority of situations where one exists, the code governs the conduct of staff and management. In some situations, professional and ethical standards for members of governing bodies are also defined.
- The method for dealing with third parties is generally a function of the governance structure. In some cases, policies are defined by the Member's board or the owner country's regulatory authority or by other requirements.
- Most Members say they have not encountered difficulties in complying with the regulations or disclosure requirements of recipient countries. However, in a few cases where such problems have arisen, the reason has been indicated as regulatory bodies' misunderstanding of the Member's specific purpose and background.
- Generally, Members' practices are consistent with GAPPs 6–17.

Investment and Risk Management Framework

- Members' return objectives are typically aligned with their overall objectives. In effect, this means that all Members seek to maximize long-term risk adjusted returns. The exercise of ownership and approaches to responsible investments are, on the whole, motivated by long-term financial concerns.
- Members' strategy work appears to be dynamic. While they emphasize the importance of stability in the strategy, Members also report recent or planned changes. Most state that strategy has been stable and consistent with underlying objectives thus far.
- Most Members disclose information on investment objectives, risk tolerance, investment horizon, strategic asset allocation, investment constraints, use of leverage, and the use of external managers, but the extent of disclosure varies. The majority of Members do not see transparency in regard to these aspects as challenging, but some argue that certain types of information and the frequency with which it is released may create an overly short-term focus.
- All responding Members seem to have a dynamic approach to risk management, and most review and update this at least yearly. Most assess financial, strategic, and operational risks.
- There is generally a high degree of adherence to GAPPs 18–24. However, on the question of self-assessment, there is still some way to go before all respondents adhere to the principle.

Value of Transparency

- The purpose of the Santiago Principles was not to increase transparency per se, but rather to increase the understanding of SWFs and their operations. Nevertheless, the creation of the SP has led to greater transparency, which has been welcomed.
- For all Members, transparency is a combination of compliance and judgment. Compliance transparency is driven by domestic and international requirements, while voluntary transparency is driven by the Member's assessment of what is desirable and appropriate relative to their specific structure, circumstances, and stakeholders.
- All Members see the value in transparency. Much of this value derives from the relationships between trust and domestic legitimacy, and between professionalism and international credibility; and from the practical benefits of being open with other players in global markets.
- Members generally believe that the SP have contributed to the value of transparency by assisting with their own practices in this regard; helping to raise the general standard of practices among Members; and, commonly, by highlighting and providing a reference point for *existing* good practices.
- There is a general belief that the SP have been a useful guide for investment and operating practices. Many Members believe that the value, again, derives from the SP highlighting the actual high standard of existing, pre-SP practices.
- Most Members have completed self-assessments of their implementation of the SP and have given varying degrees of public exposure to these assessments.

I. THE PURPOSE AND STRUCTURE OF THE REPORT

The work underlying this report has given Members of the International Forum of Sovereign Wealth Funds (IFSWF) the opportunity to discuss frankly:

- their experiences in applying the Santiago Principles (SP);
- their operational and investment practices; and
- their view of the degree to which the SP influences those practices including on disclosure and, where influence is perceived, whether it is positive or negative.

The report is largely based on a survey conducted by IFSWF Sub-Committee 1 (SC1) on the Santiago Principles (SP Survey).¹ It also uses the results of the survey conducted by the Secretariat (General Survey) before the IFSWF meeting in Sydney in May 2010, and where necessary, additional information from Members' websites and other public documents. The report is not intended as a rating of the transparency of Members' practices or of the adequacy of the practices themselves.

Primarily, through the findings of this report and our ongoing work, the IFSWF seeks to facilitate:

- enhancement of the IFSWF as a source of learning and, potentially, guidance for Members about best investment, operational and other practices;
- discussion and learning among Members about how fellow Members approach important investment, operational, and stakeholder relations challenges; and
- refinement of the SP at some future point to assist in their implementation and enhance their impact.

Additionally, through external reporting of the key elements of this document—a commitment that was originally publicly stated in the Sydney Statement—the IFSWF seeks to²:

- alleviate some of the broader external concerns that existed at the beginning of the SP process; and
- regain the initiative for the authors of the SP in defining their purpose and clarifying what appropriate implementation of the SP involves.

¹ Sub-Committee 1 is led by Azerbaijan and consists of SWFs from Botswana, Chile, China, Kuwait, New Zealand, and Norway.

² The Sydney Statement committed “to undertake a survey on the experiences with application of the Principles and publish relevant parts of it.” Subsequently, the IFSWF decided in its Beijing meeting to publish the report in its entirety.

Twenty-one IFSWF Members responded to the SP Survey, which represents over 80 percent of the Members, while 17 Members responded to the General Survey.³ The surveys were conducted at different points in time (about 6-9 months apart), but the information surveyed is fairly static and so this is unlikely to cause any comparability issues on a general level.

The report is organized as follows: Section II provides background information on the process that led to the creation of SP and on the SP themselves. Section III presents key findings of the surveys organized under the same general sections as the SP. Section IV concludes. Appendix 1 lists the GAPPs 1–24 of the SP for ease of reference.

³ The list of respondents can be found in the “Acknowledgments” section. IFSWF will review its membership and discuss with its inactive Members about their membership and endorsement of the Santiago Principles before the next meeting of the IFSWF in Mexico in May 2012.

II. BACKGROUND ON THE SANTIAGO PRINCIPLES

The process that led to the creation of the SP, started with the establishment of the International Working Group of Sovereign Wealth Funds (IWG) at a meeting of countries with SWFs held on April 30–May 1, 2008, in Washington, D.C. In the meeting, it was agreed that the IWG would initiate the process, facilitated and coordinated by the International Monetary Fund (IMF). Hamad Al Hurr Al Suwaidi, (at the time) Undersecretary of Abu Dhabi Finance Department, and Jaime Caruana, Director of the Monetary and Capital Markets Department of the IMF, were selected to co-chair the IWG.

The IWG comprised 26 IMF member countries with SWFs. The IWG met on three occasions—in Washington, D.C., Singapore, and Santiago (Chile)—to identify and draft a set of generally accepted principles and practices that properly reflects their investment practices and objectives. A subgroup of the IWG, chaired by David Murray, Chairman of the Australian Future Fund Board of Guardians, was also formed to carry forward the technical drafting work, and this group also met on three occasions—in Oslo (Norway), Singapore, and Santiago. In carrying out its work, the IWG used the findings of the IMF-commissioned voluntary SWF Survey on current structures and practices, and drew from related international principles and practices that had already gained wide acceptance in related areas.⁴ At its third meeting, held in Santiago in September 2008, the IWG agreed on the Santiago Principles.

The IWG also benefited from input from a number of recipient countries—Australia, Brazil, Canada, France, Germany, India, Italy, Japan, South Africa, Spain, the United Kingdom, and the United States—as well as from the European Commission, the OECD, and the World Bank. The IMF facilitated and coordinated the IWG’s work, and acted as the IWG secretariat.

The purposes of the SP were threefold:

- i) To identify a framework of generally accepted principles and practices that would properly reflect appropriate governance and accountability arrangements as well as the conduct of investment practices by SWFs on a prudent and sound basis. Elements of the SP were therefore drawn from a review of existing SWF practices used in a number of countries and a distillation of principles and practices applicable to SWF activities that were already in use in other international fora;
- ii) To enable home and recipient countries and the international financial markets to gain a better understanding of SWFs; and
- iii) To ensure that, through the pursuit of these principles and practices, SWFs would bring economic and financial benefits to home countries, recipient countries, and the international financial system.

⁴ See IWG (2008), “Current Institutional and Operational Practices”, <http://www.iwg-swf.org/pubs/eng/swfsurvey.pdf>

The SP were underpinned by the following guiding objectives for SWFs:

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

The SP sought to support the institutional framework, governance, and investment operations of SWFs that are guided by their policy purposes and objectives, and consistent with a sound macroeconomic policy framework. Publication of the SP were intended to help improve understanding of SWFs as economically and financially oriented entities in both the home and recipient countries. This understanding aims to contribute to the stability of the global financial system, reduce protectionist pressures, and help maintain an open and stable investment climate. The SP were also intended to enable SWFs, especially newly established ones, to develop, review, and strengthen their organization, policies, and investment practices.

The SP are a voluntary set of principles and practices that the members of the IWG/IFSWF support and either have implemented or aspire to implement. The principles and practices laid out in the SP, along with their explanatory notes, were expected to guide existing and future SWFs in various aspects of their activities—most importantly investing professionally in accordance with their investment policy objectives—and to help inform any associated legal and institutional reform. The SP are subject to the provisions of intergovernmental agreements, and legal and regulatory requirements. Thus, the implementation of each principle of the SP are subject to applicable home country laws.

The SP were drafted with the diversity of SWFs in mind, and not all principles were intended to be applicable for all SWFs. For example, GAPP 21 on exercising ownership rights obviously does not apply for SWFs that do not invest in equities. Another notable feature of the SP—often misunderstood or ignored by many SWF commentators and bloggers who have introduced SP compliance indices—is that not all GAPPs require public disclosure.

When presenting the SP to the International Monetary and Financial Committee (IMFC), the IWG recognized that the framework suggested by the SP could benefit from a continuing exchange of views and an ongoing study of SWF activities. To facilitate this and to follow up on the work undertaken in the context of the SP, the IWG reached a consensus (“Kuwait Declaration”) on April 6, 2009 in Kuwait City to establish the International Forum of Sovereign Wealth Funds (IFSWF). The inaugural meeting of the IFSWF was held in Baku, Azerbaijan in October 2009, followed by meetings in Sydney, Australia in May 2010 and Beijing, China, in May 2011.

III. KEY FINDINGS OF THE SURVEYS

A. Legal Framework, Objectives, and Coordination with Macroeconomic Policies

Legal Framework

Although the legal structures of SWFs vary considerably, it is clear from the Member responses that all of them are authorized to operate under domestic law. Some Members are set up as legal entities and governed by a specific constitutive law (e.g., Abu Dhabi Investment Authority (ADIA), Korea Investment Corporation (KIC) and Qatar Investment Authority (QIA)). Others are state-owned corporations or entities (e.g., Alaska Permanent Fund (APFC), Government Investment Corporation of Singapore (GIC), State Oil Fund of the Republic of Azerbaijan (SOFAZ), and Singapore's Temasek Holdings Pte. Ltd. (Temasek)) and are subject to general company and other specific laws. Legislation establishes the institutional and governance structure and the operational framework for a third group of Members not constituted as separate legal entities (e.g., SWFs in Botswana, Alberta, Chile, and Norway).

Most Members have a clear mandate to invest their assets, even if they are not set up as legal entities. For these Members, management arrangements are very similar to a legal entity, i.e., at arm's length from the government and governed by a board of directors.

From the answers provided to both the SP Survey and the General Survey, and the information available on the funds' websites, most Members disclose their legal basis and structure to the public. Members have said that this disclosure facilitates public understanding and trust of management, and therefore it has a positive impact on domestic legitimacy. This is fully consistent with the main value attributed to transparency by Members who responded to the survey.

Policy Objectives and Macroeconomic Coordination

Most Members publicly declare their policy objectives, typically on their websites or in Annual Reports. The source of the policy objectives is generally the legislation establishing the SWF. In some cases, policy objectives are well defined and easily understood, especially in those SWFs that were created to address the funding needs associated with a specific liability. Although these funds tend to be more immune to political interference and have investment objectives that are easily linked to policy objectives, the persistence of the policy objectives, especially in periods of crisis, will depend on the SWF's legal framework.

This concern is still more valid for Members with broader mandates where, for example, the policy objective is to support fiscal expenditure in the presence of fiscal deficits. Box 1 describes the policy objectives for the Chilean Stabilization Fund.

Box 1: Chilean Stabilization Fund - Policy Objectives

The main purpose of the Economic and Social Stabilization Fund (ESSF) is to finance possible future fiscal deficits and to pay down public debt. These objectives are set forth in the domestic legislature (Decree with Force of Law N°1, 2006, issued by the Ministry of Finance) and are disclosed in the official gazette, annual reports, and on the fund's website.

Rules for transfers and withdrawals are clearly defined by law and are an integral part of the annual budget approved by Congress. The fund's resources cannot be earmarked for a specific expenditure. In this way, the legislation applicable to the fund facilitates its management and the achievement of its policy objectives.

Box 2: Botswana - Procedure for Policy Coordination

The revenue from the foreign exchange reserves constitutes a significant portion of the annual budget. In order to determine the dividend payable to Government, the Bank uses long-term expected bond returns adjusted for equity premium to estimate the size of the dividend due to Government. In case the actual revenue is higher than the estimate, the surplus is paid to Government as additional income at the end of the Bank's financial period. This method helps to stabilize the payments to government and fosters better fiscal management. As it is a Fund for future generations, care is taken that any dividends are paid from profits, thus preserving the capital of the Fund. In the event of a prolonged budget deficit, the rules specify measures to be taken before drawdown of the Fund.

Fiscal and monetary policy coordination is done through several Joint Working Groups that meet regularly to discuss and exchange information on pertinent issues. For this purpose, there are specialized joint committees that deal with technical subjects. Policy issues are discussed and agreed by senior staff of the Bank and the Ministry on an ongoing basis. The terms and conditions are set out in Policy Documents and Guidelines adopted by the Ministry and the Bank, and so far this approach has served the country well.

More than half of the Members (60 percent) do not have standard procedures and/or regular meetings for policy coordination with the monetary and fiscal authorities regarding overall macroeconomic policies, mainly because they are not directly involved in or do not affect macroeconomic policies. It is important to highlight that most Members indicating some standard procedure or regular meeting with monetary and fiscal authorities are those Members established as a pool of assets (not separate legal entities), which, in fact, demonstrates their closeness to the fiscal authorities (e.g., Botswana, Chile, Norway). Box 2 explains the procedure for policy coordination in Botswana.

Funding and Withdrawal Rules

Based on the answers provided to both surveys, most Members have clear funding and withdrawal rules, which are generally closely related to the policy objectives of the Member. Since these rules are generally set in legislation, they are clearly and publicly stated, but some

Members still face constraints regarding the information they can disclose. There seems to be a clear difference in this respect between the types of Members.

- *Pension reserve Members.* The funding and withdrawal rules of pension reserve Members are designed to take into account future obligations. The funding rules typically take the form of a required minimum contribution per year to meet estimated future pension expenditure targets. Similarly, withdrawals may take place only if the fund has exceeded its targeted level, and may also require parliamentary approval.
- *Fiscal stabilization and reserve corporation Members.* The funding and withdrawal rules of fiscal stabilization and reserve corporation Members are typically tied to the source of their funds. In the case of reserve investment Members, the rules involve meeting reserve adequacy targets, where, once targets are exceeded, funds are transferred to the Member and drawn back to the liquidity (reserve) fund once the level of reserves falls below a certain level.

In some cases, however, funding rules are more discretionary, and take the form of capital injection by government as a shareholder. In the case of fiscal stabilization Members, funding and withdrawal take place contingent on a budget surplus or deficit. In some cases, rules are specified in legislation, while in other cases the amounts will be decided annually by the authorities, either the ministry of finance or parliament.

Thirteen Members responding to the SP Survey confirmed that transfers and withdrawals are determined as part of the annual budget process, and the procedure depends on the funds' objectives and each country's fiscal rules. See Box 3 for a detailed description of the transfer and withdrawal procedures for Azerbaijan and Singapore (Temasek).

In spite of the difficulties faced by some of the respondents, the high level of disclosure demonstrates the value that most Members give to the transparency of their operations, allowing a better public understanding of the uses of fiscal resources.

Statistics Compilation and Reporting

Most Members provide their owner with relevant information about their financial status. This is done typically through annual, quarterly, or monthly reports (the frequency depending on the Member). In some cases, these reports and/or additional information are provided to the ministry of finance, the legislature, the central bank, or other state agencies.

Box 3: Transfers and withdrawals procedures - Azerbaijan and Singapore (Temasek)

State Oil Fund of the Republic of Azerbaijan

SOFAZ's Funding and Withdrawal rules are clearly defined in the "Statute of the State Oil Fund of the Republic of Azerbaijan," which is publicly disclosed on the Fund's website.

SOFAZ's budget is a part of the annual consolidated government budget. According to the "Law on the Budget System" the amounts of the transfers to the state budget are being adopted by the Parliament and approved by the President each year.

According to legislation, preparation of the Fund's draft budget requires close cooperation between SOFAZ and relevant government bodies.

Singapore (Temasek)

Temasek is an investment holding company (incorporated under the Singapore Companies Act), which owns and manages its assets. Temasek is primarily funded by its investment income, including dividends and distributions from investee companies and proceeds from divestments, commercial borrowings, and occasional capital injection from its sole shareholder (the Government of Singapore). Commercial borrowings include US\$1.75 billion raised through a 10-year fixed rate bond issue in 2005. For details of bond issuances, please refer to www.temasek.com.sg.

The government's relationship with Temasek is that of a sole shareholder of the company rather than as owner of the underlying assets. Temasek pays out dividends to the Government of Singapore on an annual basis. The dividends paid are a function of Temasek's performance and take into account Temasek's cash flow needs.

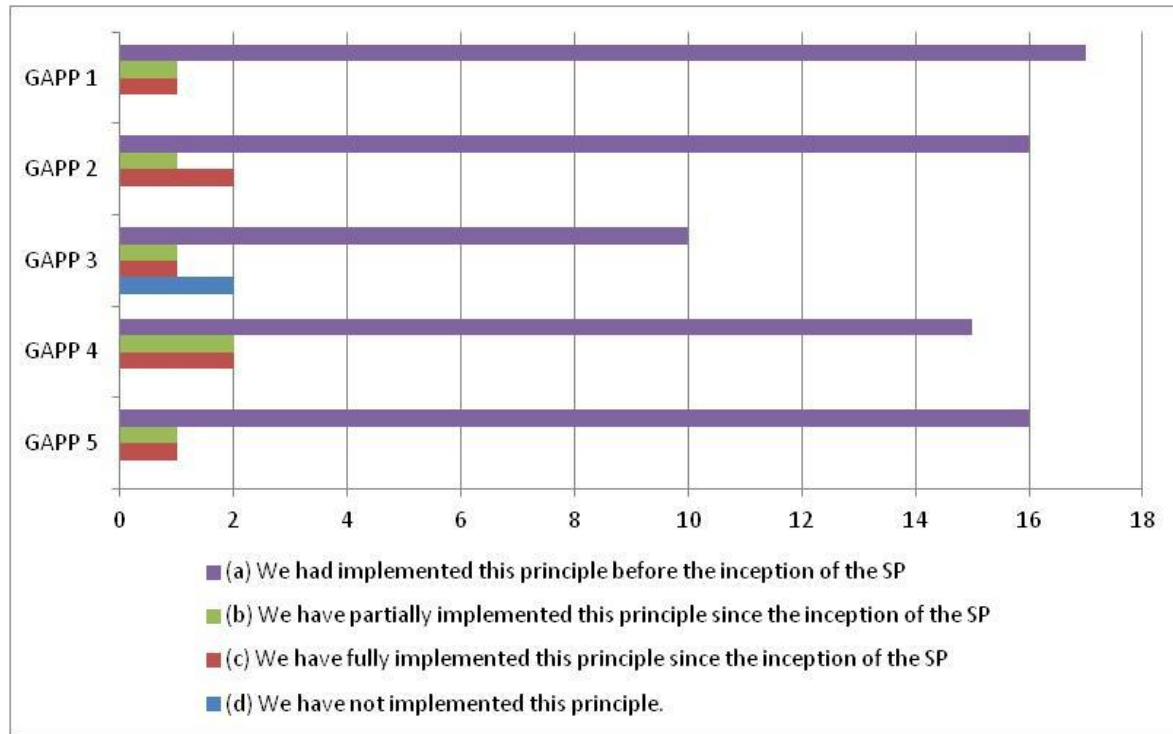
The Constitution of the Republic of Singapore provides that part of the investment income on Singapore's reserves – which includes dividends from Temasek – can be taken into the Government's budget to support spending. Specifically, the Constitution allows the Government to spend up to 50% of the "Net Investment Income" (NII) derived from past reserves (please refer to Article 142(3) and 142(4) of the Constitution).

Four respondent Members said they provide some type of reporting to the National Statistical Agency. Australia's Future Fund (FF) provides the Australian Bureau of Statistics with information for the quarterly surveys of financial information, as well as information which impacts Australia's international investment position. The Russian Finance Ministry provides information on total volume of the Reserve Fund (RF) and National Wealth Fund (NWF) to the Federal State Statistics Service. It should be noted that the respondents to the SP survey are SWFs, and in most countries it is not the responsibility of the SWF to provide the information directly to the statistical agencies; rather, it is another party's responsibility – e.g., the minister of finance. This may have influenced the low number of positive responses to this question.

Implementation Summary for GAPPs 1 – 5

GAPPs 1–5 deal with the Legal Framework, Objectives, and Coordination with Macroeconomic Policies, which as expected had largely been implemented well before the SP process, as many of them are preconditions for establishing a fund. The responses, however, reflect the diversity of the Members, as many have no macroeconomic function and as such, the GAPPs may not be directly applicable. Figure 1 summarizes the implementation of GAPPs 1–5.

Figure 1: Implementation of GAPPs 1–5



All Members confirmed they have fully or partially implemented GAPP 1. Although 89 percent were fully consistent with this principle before SP inception, two Members, China Investment Corporation (CIC), which is a newly established SWF, and Bahrain, responded that they have made efforts to implement it. The fact that Bahrain has done it only partially reflects the difficulties being experienced by SWFs in moving faster when the legislature is involved. All Members confirmed they have fully or partially implemented GAPP 2.

Ten Members confirmed full compliance with GAPP 3, but this figure is misleading since this principle does not apply to all Members. The Members stating some level of coordination with the fiscal or monetary authorities regarding overall macroeconomic policies were Canada, Azerbaijan, Bahrain, Botswana, Chile (stabilization fund), Kuwait, Norway, and Russia.

All Members answering the question confirmed that they have fully or partially implemented GAPP 4. Botswana and Kuwait did not answer whether they have fully or partially implemented the principle; however, as mentioned before, Botswana pointed out some disclosure constraints,

which make the fund unable to disclose the principles being utilized for the transfers. Bahrain, the only Member that recognized that it has not been able to fully comply with this principle, does not provide the reasons why. All Members confirmed that they have fully or partially implemented GAPP 5.

B. Institutional Framework and Governance Structure

Governance Framework

From the survey responses, it can be observed that the governance framework is sound and there is a clear allocation and separation of roles and responsibilities in most of these funds. Thirteen of the 21 Members responding to the survey (62 percent) are separate legal entities. The remaining 8 Members (Alberta, Botswana, Chile, Mexico, Norway, Russia, Timor Leste, and Trinidad and Tobago) have been established as pools of assets without a separate legal status.

All but two Members confirmed that their governance framework and objectives, and their operational independence from the owner, were clearly defined in relevant legislature and were publicly disclosed. Bahrain and Russia's RF and NWF had partially implemented this principle since the inception of SP. RF and NWF indicated that the Ministry of Finance combines the role of governing body and operational management, and this imposes limits on the investment policy of these funds.

Owners determine the objectives of most Members, appoint the board, and oversee the Member's activities. The Members in the sample are generally governed by a Board of Directors, typically comprising five to nine members. The chairman of the Board is either selected externally (by the minister of finance, central bank governor or head of state) or by the Board.

When the Member is not a separate legal entity it is either managed by the Ministry of Finance (e.g., Chile and Norway) or by a separate board of directors comprising members of various government bodies involved in economic planning. The Board is appointed by the Minister of Finance or by other elected government officials; these appointments are typically for periods of three years or longer. When the Member is a separate legal entity it is, in most cases, managed by elected board members. The board members are generally drawn from among government officials (the Minister of Finance, Central Bank Governor, etc). In some cases non-government officials – e.g., former government officials or private sector executives – are also part of the board (e.g., Alaska, Azerbaijan, Korea, and New Zealand). All members of Australia's Board of Guardians are non-government officials.

Despite some Members being separate legal entities and others being pools of assets, most Members have a clear division of roles and responsibilities for their governing bodies and operational management. Botswana's Pula Fund (PF) indicated that there is "less clear segregation of duties", with the Governor of the PF chairing both the Investment Committee and the Board; however, "there is a Board Charter that governs the caliber of the Board members". In some other Members (e.g., Bahrain, CIC, and Qatar Investment Authority (QIA)), senior

Box 4: The minimum competency requirements for Board members at KIC

KIC's board (Steering Committee) comprises the CEO, Central Bank governor, Minister of Finance, and 6 civil professionals. The members who are civil professionals are nominated by the Civil Member Candidate Nomination Committee and appointed by the President of Korea. The minimum competency requirement for these members of the board is set by the following criteria (as per The KIC Act (Article 11)):

1. "A person who is employed at a university or research institute and whose research experience in finance or investment is more than ten years;
2. A person with more than ten years' experience in investment at international financial organizations or domestic/overseas financial institutions of more than a certain size set forth by the Presidential Decree; or
3. An attorney-at-law or a certified public accountant with more than ten years' experience in finance, investment or company audit."

management can be part of the governing body. Even in these cases, the roles and responsibilities of the board and the managing body are clearly separated in the appropriate legislature.

Almost all Members (20 funds) confirmed that there was a clear requirement for a minimum standard of competency for governing body members. These were set in legislature for some Members (e.g., APFC, Australia's FF, NPRF, and KIC). See Box 4 for the minimum competency requirements for Board members at Korea's KIC.

Most Members' internal governance structure is similar to that typically found in private enterprise. The head of the Member is responsible for executing the assigned investment mandate and for the employment and management of staff. The Member's head typically has a number of subordinate executives with specific functional responsibilities (e.g., Chief Operating Officer, Chief Financial Officer, and Chief Investment Officer). The structure then branches out into various functional clusters, which are headed by managers. Almost all of the Members confirmed that they have operational independence.

APFC, however, indicated that "pressure is brought to bear on the Board from elected officials on certain issues." While APFC's Board resisted this pressure, it created some issues for operational management. Chile's operational independence is assured by the fact that the central bank, which is responsible for the operational management of the funds, is established in the Chilean Constitution as an autonomous public institution. Russia's RF and NWF indicated that before the financial crisis the operational management of these funds was implemented in an independent manner. However, "in 2009–2010, the Russian government placed US\$22 billion of NWF assets in long-term ruble deposits with Vnesheconombank to implement a number of unprecedented crisis measures, supporting the banking system and financial markets as well as several other sectors."

Accountability and Assurances of the Integrity of Operations

Most Members are accountable to their legislature, although the procedure for reporting to the legislature varies (see Box 5 for Chile's accountability framework as an example). The report to parliament usually contains the Member's audited financial statements and provides information on its operations and performance.

In cases where the Member is not a separate legal entity, the ministry of finance is accountable to the parliament for almost all aspects of the Member's management. The ministry of finance presents an annual report to parliament, giving detailed information on returns and a broad discussion of issues related to the Member's investment strategy and the implementation of ethical guidelines.

Even if the Member is a separate entity, the minister is sometimes responsible to the legislature for the Member's performance and answers to the public for any problems or controversies arising in connection with the entity, by responding to parliamentary questions and participating in reviews.

Most Members also have a legal obligation of public disclosure about their operations and performance. Many Members provide monthly or quarterly disclosure in addition to their annual reports, thereby helping market participants gain a better understanding of the Member's operations and ongoing financial performance.

Figure 2 shows that most Members (20 of 21) prepare audited financial statements. Six Members confirm that their financial statements are required by law. Most Members report financial information in an annual report (or equivalent) or more frequently, and most include size, allocations, returns, and financial statements (see Figure 3, from General Survey). Reporting of financial statements through Members' own websites is widespread; however, some Members (e.g., APFC, SOFAZ, NZSF, Norway, Timor Leste) are required by law also to publish such data in papers, reports to parliament, or official gazettes.

Most Members (18 of 21) follow audit processes that were defined before the SP (see Figure 4). Three Members indicated that, for reasons not related to SP recommendations, this process has been modified since the SP; however, only Norway states what changed (they hired an external auditor). Chile mentions that, due to SP, some changes are in the process of being implemented: "The Treasury is in the process of elaborating audited financial statements according to International Financial Reporting Standards that will be publicly disclosed".

Box 5: Chile's accountability framework

In order to ensure an effective accountability framework, several reports are prepared by the different entities involved in the funds' management.

Articles 12 of the Fiscal Responsibility Law and 7 of the Decree with Force of Law N°1, regulating the Pension Reserve Fund (PRF) and the Economic and Social Stabilization Fund (ESSF) respectively, establish that quarterly reports regarding the funds must be presented to the Finance Commissions of the Senate and the lower house of Congress and to the Special Joint Budget Commission of Congress. Concurrently, they also state that monthly executive reports on the state of the funds must be presented to the same parliamentary commissions. In addition, an annual report is prepared by the Ministry of Finance. All these reports are publicly available on the funds' websites.

The Central Bank of Chile (CBC) is accountable to the Ministry of Finance regarding the operational management of the funds according to the rules set forth in Supreme Decree N° 1383. The CBC prepares daily, monthly, quarterly, and annual reports for the Ministry of Finance.

The Financial Committee (FC) serves as an advisory body and it is accountable regarding the accomplishment of its duties according to Supreme Decree N° 621. As established under article 7° of the Decree, the FC must present an annual report on its work to the Finance Minister and submit a copy of this report to the Finance Commissions of the Senate and the lower house of Congress and to the Special Joint Budget Commission of Congress.

In addition, the General Comptroller of the Republic, which is an autonomous public body in charge of auditing the Chilean public sector finances, has the power and exercises the authority to carry out public legal and financial audits. The Minister of Finance is also accountable to Congress.

Figure 2: Preparation of annual report

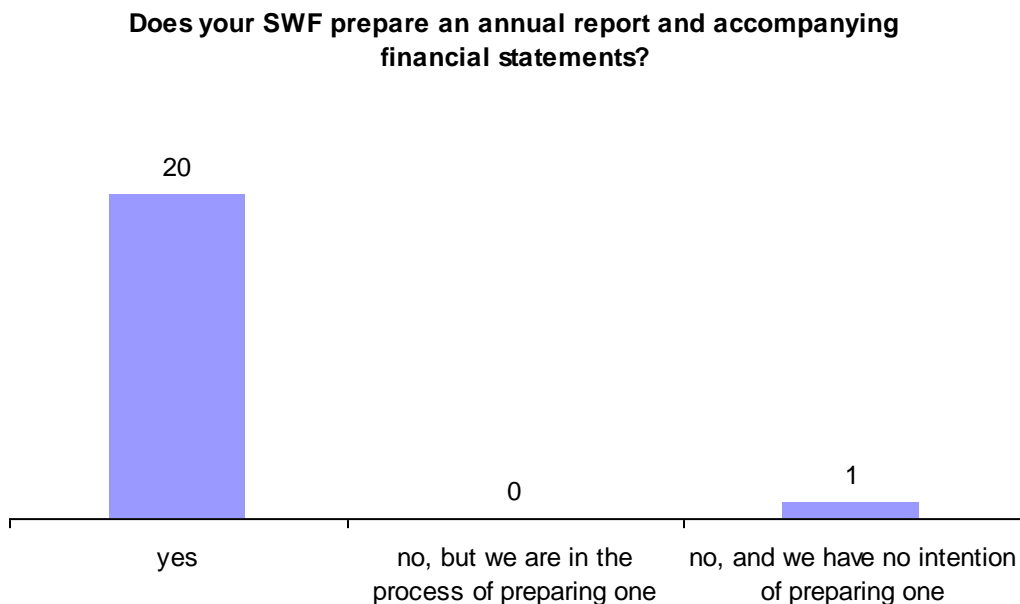


Figure 3: Disclosure of information

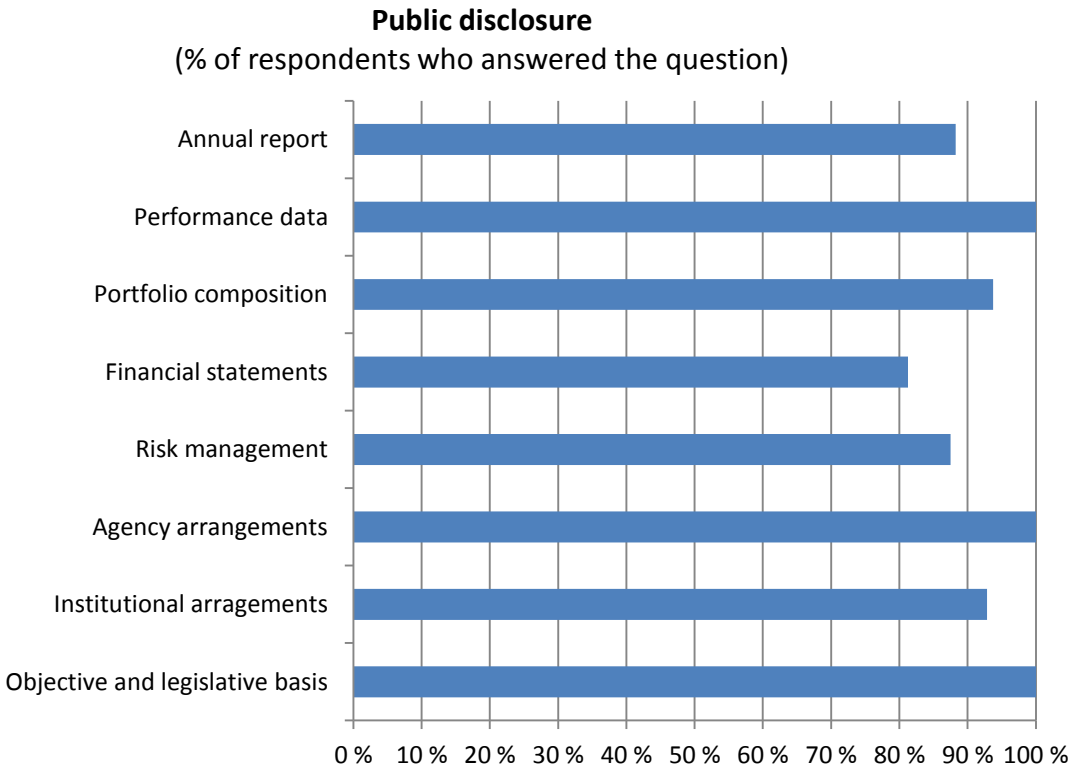
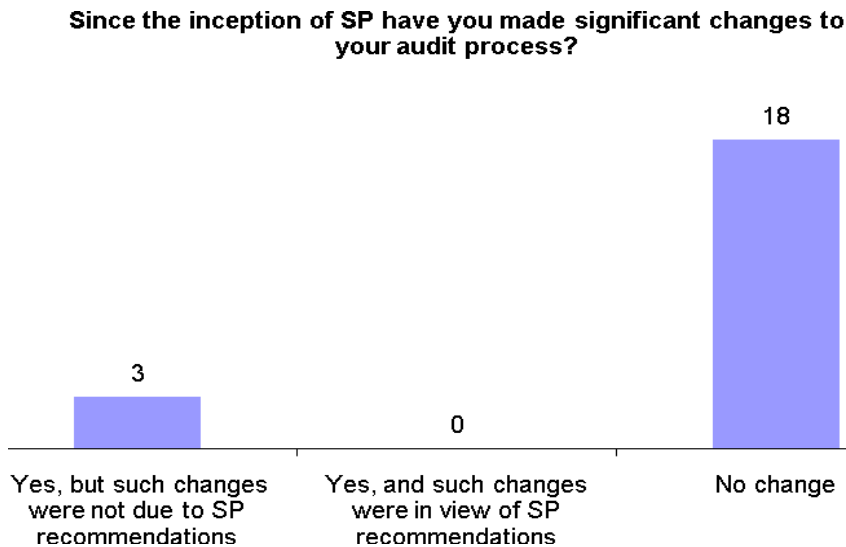


Figure 4: Changes in audit process



Most Members confirmed that they have a clearly defined code of ethics and this code of ethics is required either by internal rules or by legislature. In most Members, the code is for staff and management; however, some Members have also defined professional and ethical standards for their governing bodies (e.g., APFC, FF, NBIM, NPRF, QIA, Singapore (Temasek)). The code seems to depend on the Member's governance structure. For example, some codes (e.g., APFC and NPRF) apply to public service staff in general, thereby capturing Member staff. When the manager is the central bank, the bank's code is utilized.

Some Members have (or are in the process of creating) their own specific codes of conduct or codes of ethics. Some Members mentioned professional designations (for example, AHSTF utilizes Chartered Financial Analyst (CFA) standards along with other professional and ethical standards). From Members' responses it is not clear if the codes of conduct are publicly available – this is not a requirement of the SP and nor was this specific question asked in the survey. One Fund (KIC) indicated that ethics training was periodically offered to its staff to provide them with guidelines for sound decision-making and ethical judgments.

For most Members, the definition of professional or ethical standards is a continuous/dynamic process. Ten of 17 Members confirmed that they have been revising these standards, and at least 6 Members indicated that there is an ongoing review of the standards. Australia, Azerbaijan, Chile are planning to update them.

The way Members deal with third parties is a function of the Member's governance structure. In some cases, policies are defined by the Member's Board (e.g., FF, Botswana, and NZSF) or by the Member's home country regulation (e.g., APFC, RF, and NWF). Nineteen of 21 Members have policies dealing with third parties, especially external asset managers and, in most cases, third party dealing seems to be based on economic and financial grounds and in the best interests of the Member.

Only 2 of 20 Members who responded to this question confirmed they had encountered difficulties in compliance with regulations or the disclosure requirements of recipient countries. In both cases this was attributed to the recipient country's regulatory bodies not sufficiently understanding the Member's specific purpose and background. APFC states: "As a public agency, APFC does not have some of the legal documents that are common to private corporations. This can create problems when registering to invest in certain countries." Another fund stated: "Regulations of some recipient countries are not transparent and not well defined; and other requirements could potentially endanger the legitimate commercial interest of SWFs."

Implementation summary of GAPPs 6 – 17

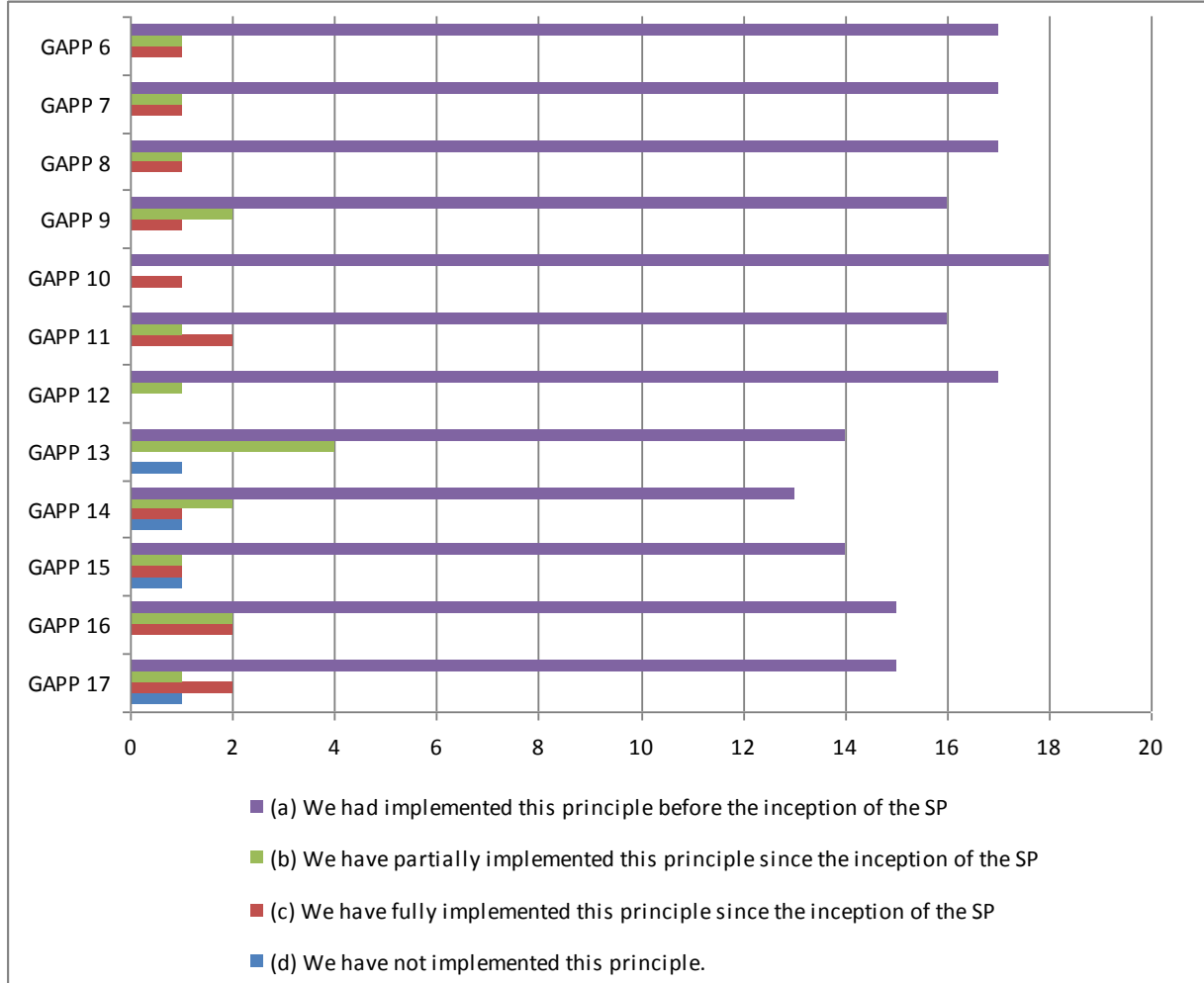
GAPP principles 6–9 cover a range of issues on governance frameworks. Figure 5 shows that more than 80 percent of Members had implemented GAPP 6–9 before the inception of SP, and this had increased to more than 90 percent by the date of the survey. Furthermore, the survey showed that all the other Members have at least partially implemented these principles.

All Members, except for two funds were fully compliant with GAPP 6–8 before the inception of SP, but these have since then either fully or partially been implemented. The implementation of GAPP 9 similar

GAPP principles 10–17 deal with accountability and assurances of integrity of operations. Implementation of GAPP 10–12 and 13–17 was completed before the inception of the SP by around 85 percent and 75 percent of Members, respectively. All but one of the Members had at least partially implemented these principles by the date of the survey.

All Members answering GAPP 10 confirmed that they have implemented this principle till the survey date, and one Member indicated that they have implemented this principle since the inception of the SP. For GAPP 11, there were two Members who had fully implemented it after the inception of the SP, and one who had partially implemented it. Seventeen Members confirmed that they had fully implemented GAPP 12 before the inception of SP. While not responding to the implementation of GAPP 12, Botswana mentioned that their “operations and financial statements are audited annually by both internal and external auditors”.

Fourteen Members confirmed they had fully implemented GAPP 13 before the inception of SP. Four Members (Bahrain, Chile, Russia, and Trinidad and Tobago) have partially implemented this GAPP since the inception of SP. Mexico – the only Member that has not implemented this principle – mentioned: “The Trust is not constituted as an entity”. For GAPP 14 the implementation progress is very similar, Mexico being the only one responding not having implemented this principle. Fourteen Members indicated that they had fully implemented GAPP15 before the inception of the SP. Again, two Members have done some fully or partially since the inception of the SP. For GAPPs 16 and 17 there were four and three Members, respectively, who had implemented it after the inception of the SP. On GAPP 17 QIA stated the reason for not having implemented GAPP 17 as “There is no legal requirement for QIA to make public disclosure of information. However, from time to time, senior executive management may make public comment of certain aspects of the operations of QIA or its principal operating subsidiaries”.

Figure 5: Implementation of GAPPs 6–17

C. Investment and Risk Management Framework

The survey shows that Members' return objectives are typically aligned with their overall objectives and explicit liabilities. In effect, all Members are seeking to maximize the long-term risk adjusted return, within a given risk framework. As noted in the original IWG explanation and commentary on GAPP 19, this is a core principle. Members with specific liabilities in the future tend to have absolute return objectives over a specified long-term period. On the other hand, Members with a general mandate for long-term returns tend to have relative return benchmarks. Most Members disclose their investment policy or elements of their policy on websites and in annual reports.

Box 6: Asset allocation and policy portfolios at GIC

Anchoring the asset allocation in a policy portfolio or strategic benchmark is a widespread method to clearly define a baseline for strategic asset allocation decisions. GIC's policy portfolio, decided by the Board of Directors, is the anchor of GIC's investment activities. 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 owner of the funds. It is kept under review but is not changed frequently.

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 the portfolio managers and their investment results are constantly monitored. In addition, an independent risk and performance management department regularly monitors the portfolio's performance, risk and asset exposures against the approved thresholds and limits.

Policies for setting return and risk objectives vary across countries. While management and operational procedures are often centralized within the Member, the responsibility for setting specific return and risk objectives and/or determination of return benchmarks is more decentralized. In cases where the Member is not a separate legal entity, there are several possible approaches: (i) the minister of finance or another government official may be responsible for setting the specific objectives (often in consultation with an advisory board or following discussions in parliament); (ii) the government officials in charge of setting the investment objectives may be part of the governing body of the Member; or (iii) the objectives are set by government officials and mandated to the Member.

Strategy work in the funds appears to be dynamic, and while they emphasize the importance of stability in the strategy, Members also report recent or planned changes. Chile is in the process of implementing a new investment policy which is better aligned with its pension fund's risk tolerance and investment horizon. Box 6 describes GIC's approach for asset allocation. QIA is actively engaged in developing internal investment management resources to enhance in-house areas of expertise (see Box 7 for a more detailed description of QIA's approach to investing).

Stability of the Investment Policy

Some Members have found it challenging to maintain consistency between their investment policy and the underlying objectives of the fund, especially during periods of market turbulence⁵ (as can be seen from Figure 6). There is some evidence of pressure on withdrawals and a focus on short-term performance in times of volatility, which can create challenges for a long-term

⁵ The most obvious example here is Ireland, where external shocks to the Irish economy have led to the liquidation of assets from the NPRF to support the objective of recapitalizing the Irish banking system.

Box 7: Qatar Investment Authority's Investment Strategy

QIA seeks to achieve real long-term investment returns without exposing itself to undue levels of risk. QIA benefits from significant positive cash flow and has no liabilities. Certain investments, for example in funds or real estate, may involve leverage at the fund level, as determined by the fund manager. Ordinarily, QIA's positive cash flow allows it to operate without engaging in leverage.

QIA manages its investments with a blend of internal and external investment management resources. QIA utilizes its internal investment management resources in areas where it has particular expertise; otherwise it will use external investment management resources. QIA is actively engaged in further developing its internal investment management resources.

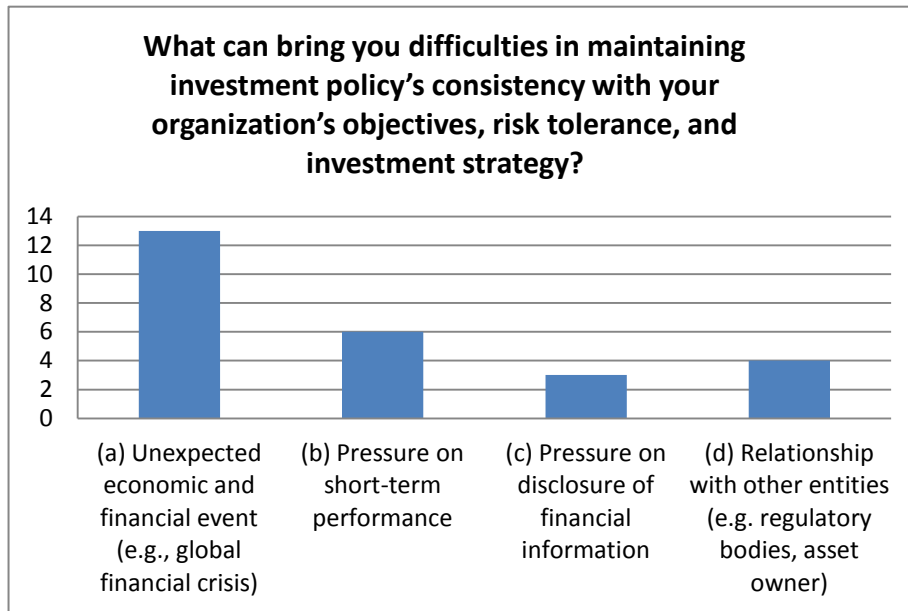
QIA is committed to pursuing its strategic investment mandate based purely on economic and financial objectives. This applies equally to fund investment operations as it does to direct equity investment activities. QIA does not normally include other factors in its investment execution and management processes; however, where it is possible within QIA's overall economic and financial strategy, QIA will include considerations of an environmental and/or humanitarian nature. No part of QIA's strategic investment mandate, or its execution, is motivated by considerations of a political nature.

QIA's Board approves the Investment Strategy, QIA's strategic and tactical asset allocation and relative investment guidelines, which are adhered to during the related investment processes. Portfolio performance is measured on a pre-defined basis and reported. Performance reports feature the portfolio analyses, deviations/exceptions (if any). Necessary processes are in place to identify, assess, report and mitigate significant risk. At the macro level, the risk management objectives are primarily achieved through a prudent and conservative investment approach that has a long-term horizon, minimizing the concentrations through portfolio diversification across the geography, asset classes, instruments, currencies, etc.

investment strategy. However, most Members state that their strategy has been stable and consistent with the underlying objectives, thus far.

It seems that Members without explicit liabilities are better able to maintain a long-term strategy through periods of unexpectedly high market volatility, such as the financial crisis. APFC says that the combination of no short-term set liability and their independence from state government has resulted in it being able to hold steady to its investment policy even in times of unexpected financial crises. Alberta, meanwhile, writes that maintaining capital and income when faced with tough financial markets is challenging. Another issue is maintaining a long-term focus when annual income withdrawals are required. Botswana referred to established mechanisms which may automatically affect the portfolio in periods of financial stress: 'Financial difficulties and economic challenges that affect the Government Budget increase outflows from the reserves [...] large withdrawals automatically trigger drawdown from the SWF'.

Figure 6: Difficulties in maintaining investment policy's consistency

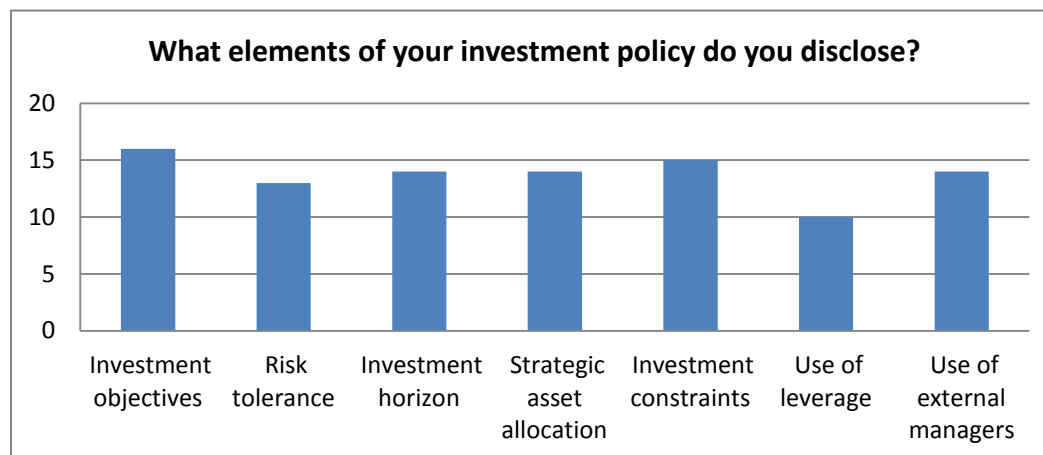


Disclosure of Elements of the Investment Policy

Norway argues that being subject to a high degree of transparency and much public interest has resulted in a broad communication of the strategy, and explanation of the various sources of risk. This may have helped to maintain a long-term focus through the financial crisis. Amongst other things, Norway continued to implement an increased equity allocation, which captured the benefits as returns as markets recovered.

Investment policies provide the backbone of Members' investment approach. By defining the investment policy, Members commit to a disciplined investment plan. The investment policy also guides Members' implementation activities consistent with the approved investment objectives and strategies, and risk tolerance. Disclosure of elements of their investment policy is an important way for Members to reassure portfolio companies, recipient countries, and other stakeholders about the Member's commercial nature.

Disclosure of information on investment policies varies. Most Members disclose information on investment objectives, risk tolerance, investment horizon, strategic asset allocation, investment constraints, use of leverage, and use of external managers (see Figure 7). However, only eight Members disclose information on all these topics, and one Member currently does not disclose any of this information.

Figure 7: Elements of investment policy disclosed

Accurate and consistent measurement and reporting of investments and investment performance enables the Members' managers to make well-informed investment judgments. Investment benchmarks are an important tool for assessing performance and monitoring Member accountability. 76 percent of Members disclose the benchmarks they use to assess their performance. Some Members also disclose information such as costs and cost benchmarking, relative performance and performance attribution, and information about responsible investments and exclusion of companies from the portfolio on ethical grounds. The majority of Members do not see transparency on these issues as challenging, but some argue that certain types of information and the frequency with which it is released might create an overly short-term focus. Norway's Government Pension Fund Global (GPF) also highlights that there are limits to transparency and that it may, for example, be legitimate not to disclose information which might be market sensitive or which may interfere with legal obligations vis-à-vis contracted private parties. Sometimes the data itself might be hard to disclose in a meaningful way; Russia points out that, for example, a set quantitative values for the investment horizon might be hard to establish.

The GIC discloses relevant information in the annual report to demonstrate how it has achieved its investment objectives, including the 20-year rate of return. The 20-year rate of return is disclosed in the report as an appropriate basis to assess how the GIC has achieved its long-term investment objective.

The responses to questions related to disclosure of elements of the investment strategy show evidence of disclosure in almost all funds, but also to varying degrees. This is appropriate given the Members' heterogeneity, and the principles do not define absolute levels." However, it does seem that there is still some way to go before all Members satisfy the aspirations underlying the principles.

Policy for Choosing and Monitoring External Managers

Most Members (75 percent) have an explicit policy for the selection and monitoring of external managers and a little over half (53 percent) of those make it public. Note that two Members do not use external managers.

The GPFG responds that their particular approach to external managers places specific emphasis on the importance of ensuring alignment between the GPFG's economic interests and external manager compensation schemes, risk profile and time horizon. GIC, meanwhile, adopts the principle of best sourcing in the continuous and global search for excellent managers. GIC has a dedicated team of professionals to select and monitor the pool of external managers and selects only those external managers who GIC believes can best add value to the portfolio through superior investment ideas, insights and operations.

75 percent of Members have arrangements or frameworks in place to prevent inappropriate use of privileged information or influence by the broader government. However, not having these in place is not necessarily alarming, as it could also mean that no measures are needed given the nature of the investments.

Non-Financial Restrictions on Investment Decisions

There is considerable variation in the responses of Members regarding restrictions on investment decisions which are not based on economic or financial considerations. Members seem to have evaluated this question differently, with some counting risk, transaction, or concentration measures as non-financial restrictions, and some not.

Australia's FF, for example, writes that "the Future Fund Act of 2006 requires the Board to seek to maximize returns while adopting an acceptable but not excessive level of risk. This legislation establishes modest restrictions on the investment of the assets of the Fund, including: limiting holdings in listed companies to less than 20 percent. The legislation also requires that the Board minimize the potential to effect any abnormal change in the volatility or efficiency of Australian financial markets and is unlikely to cause any diminution of the Australian Government's reputation in international financial markets and that the Board have regard to international best practice for institutional investment in determining its approach to corporate governance principles, including in relation to its voting policy."

Some Members may exclude certain investments for various reasons, including legally binding international sanctions and social, ethical or religious reasons. The requirement in the SP is that if such non-financial restrictions are adopted, the reasons and factors should be publicly disclosed. QIA responds that it is committed to pursuing its strategic investment mandate based purely on economic and financial objectives. This applies equally to fund investment operations as it does to direct equity investment activities. However, where it is possible within QIA's overall economic and financial strategy, QIA will include considerations of an environmental and/or humanitarian nature, but will never be motivated by considerations of a political nature.

NZSF follows a similar line of reasoning and responds that the mandate makes clear that the Fund is to be invested on a prudent, commercial basis. This is characterized as follows:

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

In respect of the last point, NZSF excludes some investments on the basis of Responsible Investment considerations, and makes these exclusions public. NZSF considers the inclusion of Responsible Investment considerations in its investment processes to be entirely consistent with best-practice portfolio management and with avoiding undue risk. Due to the Cluster Munitions and Anti-Personnel Mines Act of 2008, Ireland's NPRF must avoid investment in manufacturers of cluster munitions or anti-personnel mines. The list of excluded stocks is made public in the Annual Report. In addition to this, the fund's Responsible Investment policy refers to the integration of environmental, social, and governance (ESG) factors.

The GPFG notes that the owner can choose to exclude assets from the fund's portfolio if the continued ownership of these would be in breach of the guidelines for observation and exclusion, following a recommendation from the Council on Ethics for the Fund. The Council on Ethics is an independent council that makes recommendations to the Ministry of Finance on the exclusion of companies from the fund, because of acts or omissions that conflict with the criteria in the guidelines. The GPFG notes that exclusion should always be a measure of last resort once the company's will and ability to improve its practices have been assessed. All exclusion decisions are made public once the divestment process is finished. Box 8 describes the responsible investment approaches of NZSF and the GPFG in more detail.

The GIC has a mandate which prohibits investments in countries against which the UN Security Council has imposed sanctions. The Norwegian Ministry of Finance may in exceptional cases prevent the GPFG from investing in fixed income instruments issued by governments or government-linked issuers in situations where Norway supports large-scale international initiatives aimed at specific countries.

Exercise of Ownership Rights

Members' demonstrated ability to contribute to the stability of global financial markets derives in part from their ability to invest on a long-term, patient basis. The exercise of ownership rights is seen to be important by some Members for their capacity to hold assets and preserve value rather than becoming a forced seller and, by definition, a shorter-term investor. More than half of the Members have an overall strategy for exercising ownership rights. Two Members confirmed that they are in the process of developing a principled approach. Some Members do not invest in equities, or have only very recently started to invest in the asset class. Members' principles for the exercise of ownership largely seem to stem from a realization that this might be required to

safeguard financial interests. This is in line with the original explanation and commentary on the principle which states: “To dispel concerns about potential non-economic or non-financial objectives, SWFs should disclose ex ante whether and how they exercise their voting rights. This could include, for example, a public statement that their voting is guided by the objective to protect the financial interests of the SWF.” For a case study on how such a disclosure could look, see Box 9, which details Alaska’s themes/principles for the exercise of ownership.

Another example is Australia’s FF, which seeks to maximize returns on the Fund consistent with international best practice for institutional investment and to have regard to international best practice in its approach to corporate governance, including in relation to voting policy.

NZSF has included exercise of ownership rights in its Statement of Investment Policies, Standards and Procedures, which is available on the website. It publicizes its proxy voting guidelines and how voting rights have been exercised via the Responsible Investment section of the website (see Box 8).

QIA believes that its economic and financial interests as a shareholder are protected and enhanced by seeking board representation when its shareholding is particularly significant. In this regard, QIA does not seek to achieve unusual or improper influence over a company, or to distract or divert the normal operations of a company’s board of directors. In the event that QIA has board representation in a company in which it holds a significant investment, QIA is motivated strictly by the desire to protect its investment according to the economic and financial objectives described above.

NBIM, the manager of the Norwegian fund, has developed publicly available principles for voting. It is the manager’s aim to vote at all annual general meetings. Each year, the manager votes at about 10,000 general meetings. The number of resolutions voted on every year now exceeds 85,000. The manager votes on all issues, including those that fall outside the focus areas. The voting records are made public every year. Also, Ireland’s NPRF discloses its approach to voting on the website, as well as full voting records. The NPRF’s exercise of ownership rights is conducted via Hermes and is in accordance with the principles set out on the NPRF website.

The Members, however, also see some limitations to ownership related activities, for example host country discriminatory restrictions and market speculations. Moreover, NZSF emphasizes that commercial confidence and confidentiality are sometimes necessary elements of successful Responsible Investment engagements. Norway’s comments mirror these sentiments, noting that the Fund is already very transparent and that further transparency could threaten the efficiency of the ownership effort, as it might in reality reduce the topics the manager could include in dialogues with companies, external managers, and other stakeholders.

Box 8: Responsible investments – a closer look at New Zealand and Norway

Both SWFs believe that long-term financial performance can be affected by environmental, social, and governance issues. The funds have also adopted the UN Global Compact and are founding members of the UN Principle for Responsible Investment. Both funds support the Carbon Disclosure Project and have employed dedicated internal responsible investments teams.

The Guardians of the New Zealand Superannuation Fund (NZSF) highlight the importance of corporate governance and shareholders' rights and aim to use voting rights to promote corporate best practice in the long-run interest of the Fund. To this end, the Guardians have put in place proxy voting guidelines. These guidelines are reviewed regularly. Domestically, the Guardians of the NZSF vote themselves.

The NZSF also has an engagement program to encourage improvements in responsible corporate behavior and encourage disclosure by companies, and consideration by investors, of material social and environmental information. The NZSF utilizes exclusion or divestment as appropriate. The Guardians have service level agreements and operating standards in place to monitor the NZSF equity holdings against their responsible investment standards. The Guardians use information from these processes to prioritize the engagement efforts.

The Norwegian Government Pension Fund also utilizes many different tools to achieve its responsible investments ambition:

- International collaboration and contribution to the development of best practice
- Targeted investment programs
- Research and investigation
- Active ownership
- Exclusion of companies

In its ownership work, the Fund seeks to promote better market standards and shareholder rights. These include dialogue with companies in the portfolio, other investors and standard setters. The manager of the Fund also vote on the Fund's behalf at shareholder meetings, file shareholder proposals and take part in open consultations on corporate governance.

The manager of the fund, Norges Bank, has six strategic focus areas for its ownership activities:

- Equal treatment of shareholders
- Shareholder influence and board accountability
- Well-functioning, legitimate and efficient markets
- Children's rights
- Climate change management
- Water management

The Fund views exclusion as a measure of last resort. 52 companies are currently excluded from the Fund's investment universe, either on the basis of production of certain products (tobacco, cluster munitions, nuclear weapons and land mines) or responsibility for or contribution to grossly unethical behavior.

The Norwegian fund's environmental investment program currently consists of some 4.5 billion dollars invested in external water management, environmental technology, and clean energy mandates.

Box 9: Alaska Permanent Fund’s themes/principles for exercising voting rights

The APFC Board’s stated policy for equity investments includes a policy for voting proxy ballots, and is posted at www.apfc.org. 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.”

The policy also encourages but does not require managers to consider the following principles when voting proxies:

- (a) proxy matters dealing with a corporate governance process have the potential to improve board-shareholder dynamics for an extended period;
- (b) board independence is one of the cornerstones of good corporate governance; independent corporate boards of directors lead to the creation and maintenance of good decision-making processes within companies in which the Fund is invested;
- (c) an independent director is someone whose only non-trivial past and present connection to the corporation is that person’s directorship.

The following proposals have the potential to impact corporate governance and improve board-shareholder dynamics:

i. proposals that support:

- a) independent compensation, nominating, and audit board committees;
- b) majority of independent directors;
- c) confidential voting by shareholders;
- d) right of shareholders to act by written consent;
- e) right of shareholders to call a special meeting;
- f) requirement that shareholders approve poison pills, payment of greenmail, or dual-class share structures;
- g) requirement that the audit firm be limited to performing audits only; and
- h) except for companies that allow cumulative voting, election of directors by a majority of shareholder votes or adoption of director resignation policies for directors receiving more “withhold” versus “for” votes;.

ii. proposals that are against:

- a) classified or staggered boards and
- b) supermajority vote requirements

The policy requires each manager to furnish to the APFC annually copies of the manager’s written policies with respect to voting proxies and at least annually report to the APFC how the manager voted all proxies on behalf of the APFC.

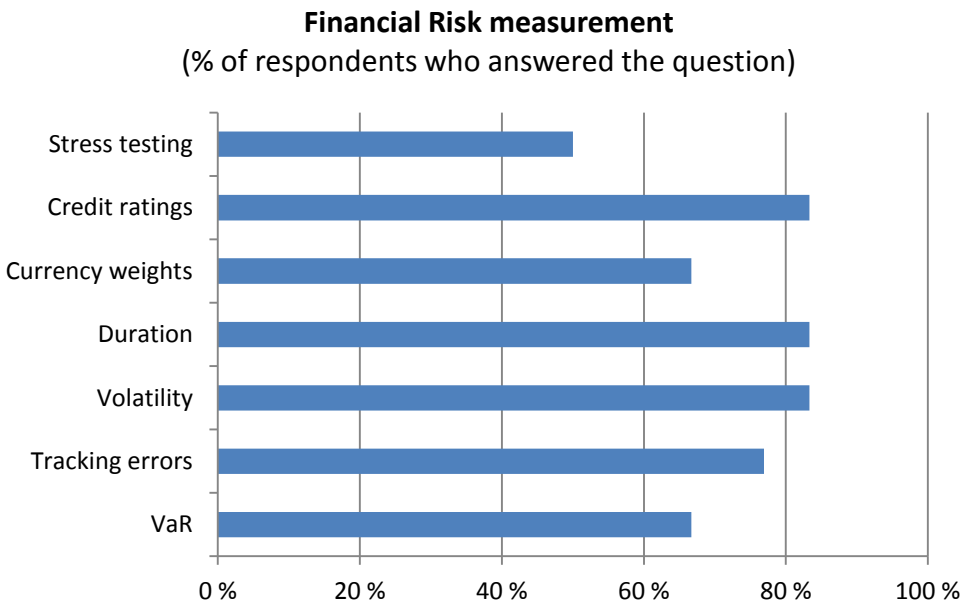
Risk Management and Performance Measurement

It is important for Members to have a strong risk management culture, where senior management is engaged in crafting and enforcing risk management processes. It is equally important for Members to have a well-functioning risk management framework to ensure that it is able to identify, assess, and manage its risks to protect its assets and stay within the tolerance levels as set in its investment policy. Adherence to high standards in risk management with sound

operational controls and systems also helps to achieve the aim of preserving international financial stability as well as maintaining a stable, transparent, and open investment environment.

Guidelines about risk management are mainly determined by the government agencies in charge of oversight (e.g., Ministry of Finance) or the Members' Boards. The most common risk measures and methods to manage financial risks are credit ratings, currency weights, duration, and volatility. Credit risk is usually constrained by limits on the lowest ratings of assets. Liquidity risk is limited by investing primarily in securities with a high trading volume or listing on recognized exchanges. Some Members conduct stress testing and scenario analysis to gauge the impact of low probability but high impact events. Figure 8 from the General Survey describes types of risk measures used by Members.

Figure 8: Risk measurement practices



Members' operational risk measures include control system failure, financial error, financial misstatement, and loss of potential income. In the General Survey, over 80 percent of Members confirmed that they have an operational procedure manual to effectively control operational risks. Several Members confirmed that they have offsite storage of back-up records and back up all important data on a daily basis.

A few Members have expanded their areas of risk measurement and changed related methodologies to establish more sophisticated risk management systems. One Member has responded to the financial crisis and transformed its risk management system through the creation of a new division for risk management and the appointment of a Chief Risk Officer. This Member has also enhanced tail risk measures using quantitative methods and a credit risk management framework. It has also developed a risk management system for alternative investments such as private equity, commodities, real estate, and hedge funds.

All Members seem to have a dynamic approach to risk management, and most review and update this at least yearly.

The APFC's risk management framework is based on an asset allocation that is diverse across and within asset classes. Assets are grouped by the economic conditions that affect them, rather than by investment type. Staff has created a program of risk measures, referred to as the "risk dashboard," and regularly monitors asset allocation and risk levels, and provides for notification and response times when levels fall outside of pre-set boundaries.

Australia's FF states that the Board is focused on the prudent management of risk and considers risk in three broad categories: Investment Risk, Strategic Risk, and Operational Risk. The CIC utilizes an internationally accepted risk management system as its risk analytic and reporting backbone. The company has also developed a comprehensive risk control system to manage market, credit, sector, country, and currency exposure.

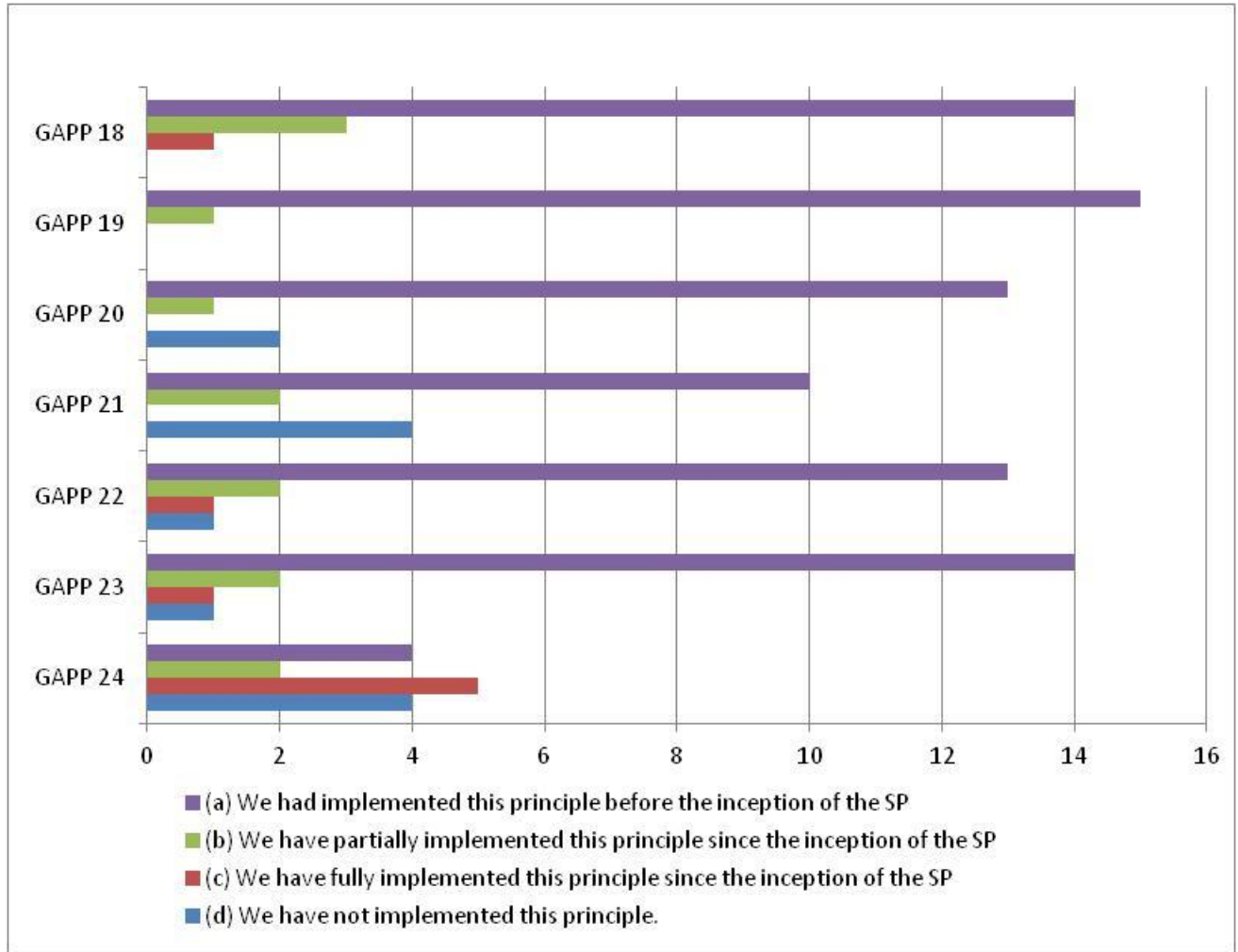
The KIC's risk management focuses on minimizing losses and appropriately allocating risks by preventing unnecessary or excessive risks associated with the investment process. Risks are managed on multi-dimensional aspects, for example, by sponsor, by asset class, by individual fund, and by risk type including market risk, credit risk, derivatives risk, and operational risk, etc. In terms of the risk management process, the Risk Management Division, which is separated from the front office and has an independent reporting line headed by the Chief Risk Officer to the CEO and Board of KIC, is responsible for KIC's overall risk management.

Another Member said that an investment style can in itself meet risk management objectives, through a prudent and conservative investment approach with a long-term horizon, minimizing concentration risk through portfolio diversification across geography, asset class, instrument, currency, etc.

Almost all Members measure performance according to Global Investment Performance Standards (GIPS), but some members report according to national standards.

Implementation Summary for GAPPs 18 – 24

GAPPs 18–24 deal with investment and risk management frameworks. The responses, again, reflect Member diversity. Some Members do not invest in equities or employ external asset managers, and so some of the principles are not applicable. Figure 9 summarizes the implementation of GAPPs 18–24.

Figure 9: Implementation of GAPPs 18-24

All members had fully or partially implemented GAPPs 18 and 19. These are important principles which establish that Members operate in a sound and commercial manner. The majority of members had implemented GAPPs 20 to 24. Whilst there are very legitimate reasons (such as not investing in equities) why some Members have not implemented all of these principles, where the principles concern transparency requirements there appears to be scope for some improvements for individual Members. GAPP 24 is a key principle and it is related to the self-assessment question, which is discussed in more detail at the end of Section III.D. 73 percent report that they have partially or fully implemented GAPP 24. The principle states that “a process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF”. 27 percent report that they had implemented the principle before the inception of the GAPP, which is likely a reflection of members indicating that they have had a continuous self assessment on appropriate practices and disclosure policies.

D. The Value of Transparency and the Santiago Principles

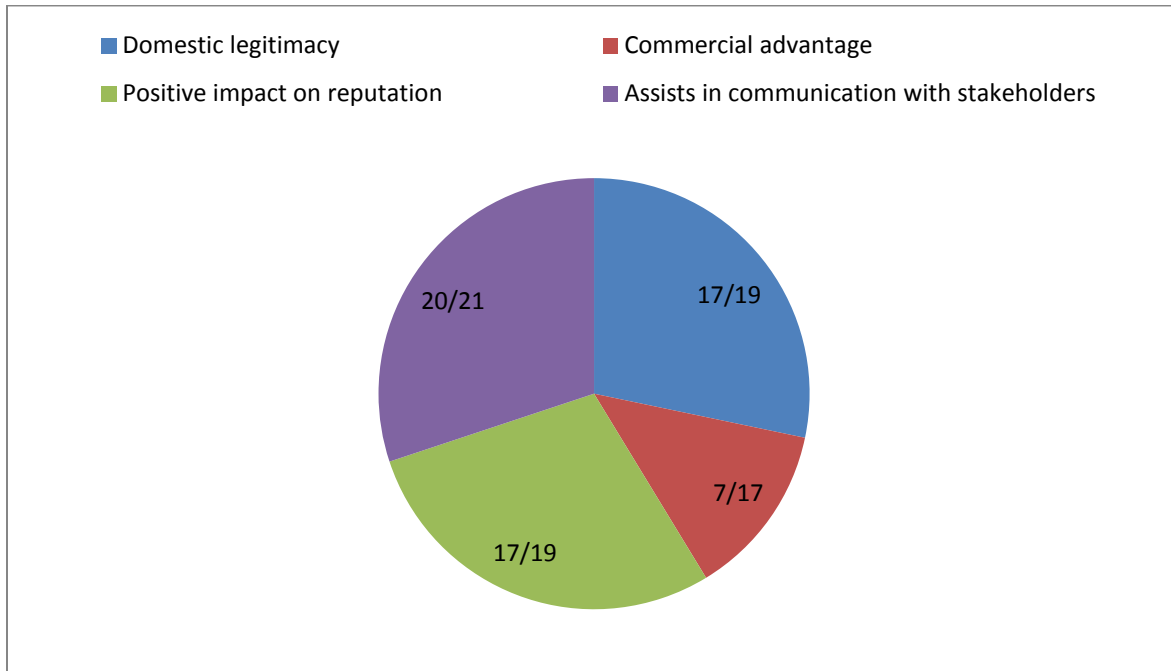
Each Member's level of transparency is a combination of compliance and judgment.⁶ The judgment element is inescapably based on the Member's self-assessment of what is necessary and desirable, relative to the formal and informal requirements of some or all of:

- the Member's owner and purpose
- the nature of the Member's intended investment activities
- the demands of the third parties with whom their investment activity brings them into contact
- the financial markets in general
- their direct beneficiaries (including staff) and
- the public in general.

Accordingly, from the Member responses presented in this report, it is clear that the degree to which each is transparent is first a function of their domestic legal requirements. As an illustration, Botswana commented that while it discloses fund matters to its Board and Parliament, fuller disclosure is hampered by PF's SWF investment activity being separate from the Bank of Botswana balance sheet.

No Members perceive transparency as value-destroying and the overwhelming majority agreed that there is value in transparency and the SP. Norway provides a useful explanation of its perception of the value of transparency in Box 10. Across the Members there are widely varying views on the source of that value. As is shown in Figure 10, the perceived value is broadly divided into legitimacy, commercial advantage, a positive impact on Member reputation, and assisting in communication with the Members' stakeholders. Temasek cautioned that care should be taken to ensure that the SP are seen by Members and by external stakeholders as a voluntary code of practice, as SWFs are a diverse group, each with its own unique circumstances.

⁶ We define transparency as the extent to which the underlying purpose, structure, conduct and outcomes of a Member's investment and operational practices can be easily accessed and understood.

Figure 10: Members' perception of value in transparency and the SP

*Not all Members responded to each question. The number of Members (out of the 21 responding Members) who responded to each question is indicated in each segment of the graph. We also note that in analyzing the responses to the questions relating to the 'reputation' and 'communication with stakeholders' categories, we assessed a Member as perceiving value in transparency in those categories if that Member has either agreed that it does have value or has remained neutral. This is because we read neutrality as meaning the Member does not perceive transparency to **detract** from the Member's reputation or communication with stakeholders, which is a mild positive in our view.

Box 10: Norway on the value of transparency

We see transparency as crucial to building trust and confidence in the management of the Fund – both domestically and internationally. It is also a precondition to secure public support for sound management of Norway's petroleum wealth and is therefore directly linked to the purpose of the Fund.

In terms of our organizational structure, we view transparency in results and operations as having a disciplinary effect on management. It provides an added pressure to deliver sound financial returns and minimizes the risk of bad governance.

More generally, we believe strongly that SWF-transparency is important in achieving stable international financial markets, and increasing SWF predictability. As an investor who is primarily invested in foreign markets, protectionism, discrimination and a less open investment climate would be serious threats to our management model.

Domestic and International Legitimacy

The primary value of transparency derives from its positive impact on domestic legitimacy – 17 of 19 responses to this question agreed outright with this proposition. The legitimacy arose from transparency meeting explicit expectations from Members’ owners, and/or implicit expectations from the citizens in their home countries (and in the countries where a Member conducts investment activity), that a critical mass of information should be available about how the funds at the Member’s disposal are being invested and how they are performing. Trinidad & Tobago simply stated that openness was ‘generally positively correlated’ with legitimacy.

Achieving that critical mass of information is seen as assisting in forming trust, credibility, and a ‘license’ to operate. A recurring theme, which was emphasized strongly in Chile’s response, was the importance of professionalism in fund management in establishing credibility. Australia’s FF stated “transparency supports the independence and accountability of our organization.” SOFAZ stated in its response that transparency was a “key element in building trust, both internationally and domestically. This in turn contributes to the [domestic] population having a stronger perception of the legitimacy [of the SOFAZ as a] public institution.” SOFAZ regarded this as important because of the generational wealth transfer underpinning its purpose “to transform finite hydrocarbon resources into financial assets to benefit current and future generations of the country.” Russia also drew a clear link between transparency, societal education and preservation of SWF assets.

NZSF stated that ‘if the citizens – and their representatives – of New Zealand; and the citizens and their representatives of those other nations where we invest or wish to invest understand why we exist, who we are, what we do and that we do it professionally, they are less likely to be concerned about and attempt to prevent or limit our activities.’

QIA said that as an international institutional investor, market information was ‘intrinsically important’ and transparency was consistent with that. Similarly, Temasek said that transparency around its annual financial results, major transactions and significant organizational developments facilitated its engagements with international credit rating agencies (and ultimately the ratings bestowed on Temasek).

The CIC makes a similar point in its 2009 Annual Report by discussing the SP and transparency in the context of its being a ‘welcomed investor throughout the world’. In the same report, CIC says that a readiness to engage in dialogue was part of establishing its track record with international policy makers, regulators, and market participants in general.

Transparency can also provide useful governance controls. Botswana’s PF very frankly observed that transparency mitigated the potential use of the PF by politicians for development projects ‘against the spirit of saving for future generations’. Transparency therefore ‘creates the checks and balances needed for preservation of capital,’ PF concluded.

Commercial Advantage

Seven out of 17 Members who responded to this question perceived, or had experienced, commercial advantages in transparency and the SP. GIC stated that having the SP as generally accepted SWF arrangements and practices is helpful because it has given SWFs and recipient countries a ‘common language’, which assists SWFs to demonstrate their financial orientation. GIC, however, noted that the SP does not replace the most important way for a Member to demonstrate that orientation, i.e., how it conducts its investments and deals with third parties.

NZSF believed that if its purpose and investment approach were well and broadly understood by the market, its opportunities to make investments across the full scope of asset classes, access points and locations would be maximized: ‘We would prefer the market to have a clear picture from us, than to have to rely on guesswork.’ NZSF also admitted that being transparent has assisted it, as a relatively small fund, to access opportunities in engaging with larger market players and potential investment opportunities.

Most of the 10 Members reporting no commercial advantages from the SP explained that their level of transparency had already been sufficiently high prior to the advent of the SP and changes had not been seen on that basis. Chile explained that the nature of its investment approach, which focuses on liquid and conservative instruments, meant that commercial advantages were unlikely to derive from any degree of transparency.

Norway’s GPFG said that it had not experienced ‘pressure’ on investments prior to the SP and, given the principles’ short history, had not experienced any benefits from the SP’s inception. The GPFG, however, considers SP important for ensuring a ‘better investment climate overall.’ Australia’s FF simply said it was ‘too early to judge’.

Positive Impact on Reputation

Twelve of the 21 Members responding to this question agreed that transparency and the SP have a beneficial impact on their reputation, 8 were neutral. We regard a neutral response as a mild positive, as the Member at least does not perceive the SP and transparency to have been harmful to their reputation. This was also reflected in Figure 10.

Alberta Heritage Savings Trust Fund (AHSTF) said candidly that “being associated with the SP has given the AHSTF a level of international credibility that was not as fully recognized before.” Just as direct, Petroleum Fund of Timor-Leste (PFTL) stated that its stakeholders and the Timorese people in general “were more confident in the management of the Fund when being informed that many principles applied were similar to the SP.”

Qatar’s QIA disagreed with the question: While their reputation was important, QIA said it did not rely on the SP for preserving or enhancing it.

Assisting Communication with Stakeholders

Thirteen of the 21 Members responding to this question agreed that transparency and the SP assisted them in communicating with stakeholders, 6 were neutral. As above, we regard a neutral response as a mild positive and again have rated it accordingly in Figure 10.

Chile agreed that the SP had assisted it in communicating with its stakeholders. Recommending changes in the management of its funds with explicitly stated consistency with the SP, assisted in getting support for those changes. More broadly, Chile endorsed the SP, which supported its communication efforts aimed at generating confidence that its funds were managed according to international best practices. Oil Revenues Stabilization Fund of Mexico (ORSFM) said that having the SP as a reference point for its practices assisted its communications, particularly with Congress and broader public stakeholders.

Members responding neutrally judged that their pre-SP transparency was sufficient not to harm stakeholder communications and that no benefits had yet been observed as a consequence of the SP. NZSF echoed this point, but then added: “the SP has, however, assisted us in providing a greater level of formalized awareness, appreciation and appetite for the depth and breadth of transparency we have adopted.”

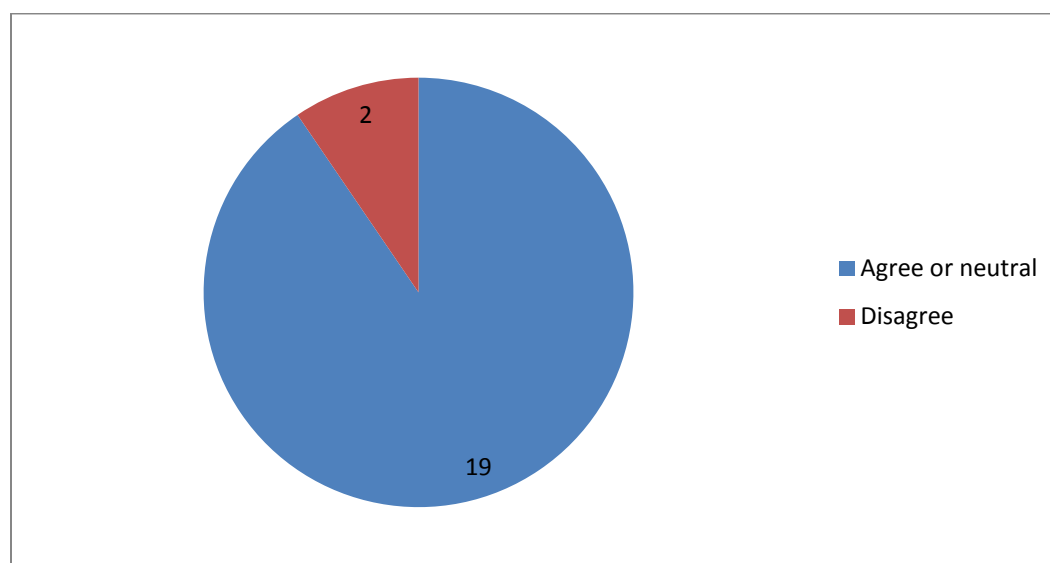
The SP and Operational and Investment Practices

There is a general belief that transparency and the SP have been a helpful guide for operational and investment practices as a great majority (19 out of 21) of respondents did not disagree with this notion (see Figure 11). Some Members agreed that SP have guided their own practices – fundamentally in Timor Leste’s case, as PFTL acknowledged that the SP had played an important role in a recent review of its establishing legislation.

A more common view and an explanation for the majority of neutral responses, however, was of a broader and more indirect benefit derived from an increased awareness of existing, pre-SP practices. This was expressed in several ways:

1. the SP helpfully highlighted practices at the responding Member, which already met or exceeded the specified standards;
2. the SP are a useful guide for other Members, to work toward the standard of practices achieved at the responding Member;
3. the SP more generally assisted market understanding of SWFs and how they operate; and
4. the SP facilitated improved external views – and assessments – of SWF practices, regardless of Member views as to whether those practices had changed as a consequence of the SP.

Figure 11: Helpfulness of the SP in guiding operation and investment practices



As an example of 1 above, QIA said: “Since commencing operations in 2006, QIA has become a major and sophisticated international investor. While the SP have not guided QIA in its organizational development, they do reflect the organizational structures and procedures that QIA has put in place since its inception.” On that point, China’s CIC went further to say that the SP would become more useful when it is more widely recognized by the governments of countries receiving SWF investments.

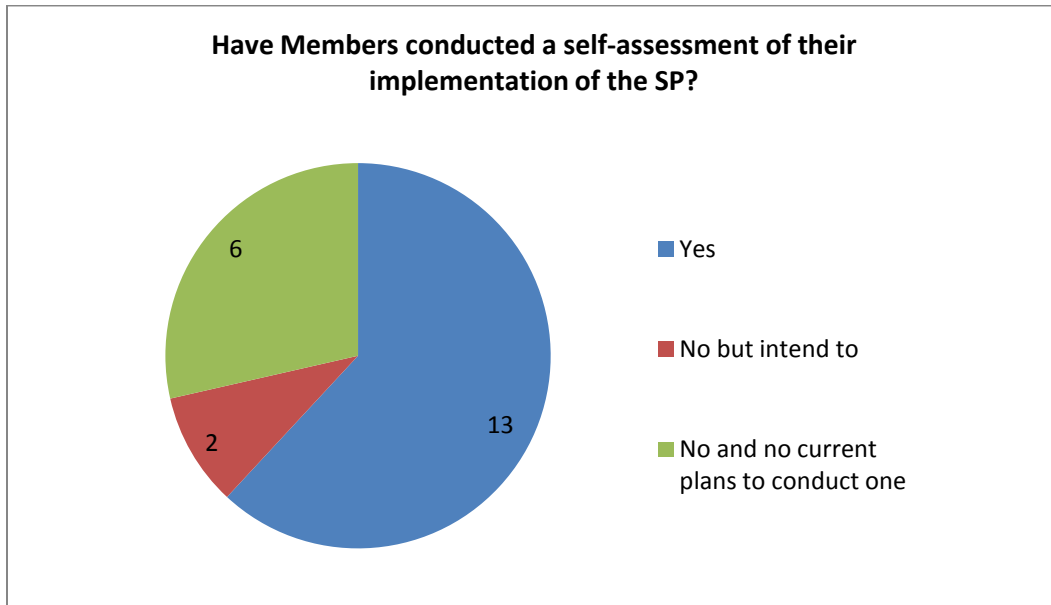
As an example of 2 above, Trinidad & Tobago said that the SP were particularly useful for new SWFs through having been established by existing, experienced SWFs. As an example of 3 above, Singapore’s GIC said “We believe the SP is a good framework for SWFs and it helps to enhance the understanding of SWFs as financially oriented entities.”

As an example of 4 above, NZSF said: “we look to the general trend of improvement in how SWFs are being scored by third-party transparency surveys. This suggests that, regardless of how each SWF believes its operational and investment practices have changed, external observers believe that they have – and have done so for the better. Instinctively, this makes sense. If an SWF has attributed value to some degree of transparency about its practices, the SWF will logically ensure that the practices on which it has chosen to shine some light are sufficiently robust to cope with it.”

Self-Assessments of Implementation of the SP

Fifteen Members have conducted a self-assessment, are in the process of one, or plan to begin one within the next year. Of the self-assessments completed, the majority (9 out of 13) have been internal (including QIA, which undertakes a regular assessment of its performance in implementing the GAPP as part of its ongoing compliance monitoring program, undertaken by the Compliance Unit of the Legal Department of QIA).

Figure 12: Members' self assessment on SP implementation



In most cases, the results of these self-assessments have not been published. However, a number of Members have publicly disclosed that they have undertaken such self-assessments and have concluded that they are compliant or consistent with the SP or are making good progress toward that status. So far, NZSF, Australia's FF, GPFG, and SOFAZ have published self-assessments. GIC plans to publish its self-assessment, as do Chile and PFTL (in their 2010 Annual Reports).

Six Members have not completed a self-assessment and have no current plans to do so. Botswana's PF explained this by referring again to the challenges of its Pula Fund activities not being separate from the Bank of Botswana balance sheet. Ireland has explained that its self-assessment is deferred, pending the resolution of (well-publicized) changes in the fundamental nature of the NPRF. The mixed progress is reflected in the low implementation rate of GAPP 24 (see Section III C).

IV. CONCLUSION

This report summarizes the results of a survey of IFSWF Members with regard to their experiences in applying the Santiago Principles. The original intention was for the report to be a resource for Members to learn from each other, which was one of the purposes of the establishment of the IFSWF. However, the Beijing meeting of the IFSWF then decided to publish this report, to provide a deeper insight into Members' operational and investment practices and, importantly, how and why those practices differ across the Membership. Thus, to achieve this expanded purpose, this report provides an in-depth analysis of the results, making extensive use of the additional and extremely valuable comments made by Members.

The result is an unprecedented consolidation of information about the legal and institutional frameworks of SWFs, their governance structure, their approach to investment and risk management, and their stance on transparency and disclosure. Since the detailed information has been provided willingly by the Members, it is confirmation of their desire to share valuable experiences and to learn from each other.

The main conclusions that this report highlights are the following:

- Members are a heterogeneous group and, consequently, it is neither possible nor useful to have uniform expectations of how they should behave – including disclosure practices;
- Because of the heterogeneity of the organizations involved, members have different approaches and application targets and not all the Principles require public disclosure. This is substantially because the home country law applicable to some Members, their structure, or both, means that certain Principles are applied in different ways;
- Members' investment activities are based on risk and return related considerations and they should be perceived and treated accordingly;
- Members see the value of transparency and have a high common level of commitment to it, via the SP;
- Most Members regard the SP as a useful guide for investment and operating practices; and
- The overwhelming majority of Members' practices are fully or partially consistent with the SP, while Members acknowledge that further progress can be made in regards to some principles – most notably GAPP 24.

Our consequent aspiration for this report is that it represents a solid, initial step toward a better understanding of the IFSWF and of the SP, by our stakeholders and by interested parties in general. The report will be a key part of our own focus on promoting and participating in an open, active, factually based dialogue on IFSWF's and its Members' activities more generally.

APPENDIX 1: SANTIAGO PRINCIPLES⁷**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 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 Subprinciple The source of SWF funding should be publicly disclosed.*
- *GAPP 4.2 Subprinciple 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.

⁷ For the full SP document please refer to: <http://www.iwg-swf.org/pubs/eng/santiagoprinciples.pdf>.

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 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 bodies, 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 bodies, and be based on sound portfolio management principles.

- *GAPP 18.1 Subprinciple The investment policy should guide the SWF's financial risk exposures and the possible use of leverage.*
- *GAPP 18.2 Subprinciple 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 Subprinciple 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 Subprinciple 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 Subprinciple 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 Subprinciple 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 Subprinciple 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.

ACKNOWLEDGMENTS

This publication was prepared by IFSWF Sub-Committee 1 and is largely based on survey responses by participating members (see list below). The Core Team and Authors (listed below) wish to thank all IFSWF members for their valuable inputs and comments.

Survey Respondents

Abu Dhabi	Abu Dhabi Investment Authority (ADIA)
Alaska	Alaska Permanent Fund Corporation (APFC)
Alberta	Alberta Heritage Savings Trust Fund (AHSTF)
Australia	Future Fund (FF)
Azerbaijan	State Oil Fund of the Republic of Azerbaijan (SOFAZ)
Bahrain	Future Generation Reserve Fund (FGRF)
Botswana	Pula Fund (PF)
Chile	Economic and Social Stabilization Fund and Pension Reserve Fund (ESSF and PRF)
China	China Investment Corporation (CIC)
Ireland	National Pensions Reserve Fund (NPRF)
Korea	Korea Investment Corporation (KIC)
Kuwait	Kuwait Investment Authority (KIA)
Mexico	Oil Revenues Stabilization Fund of Mexico (ORSFM)
New Zealand	New Zealand Superannuation Fund (NZSF)
Norway	Government Pension Fund Global (GPFG)
Qatar	Qatar Investment Authority (QIA)
Russia	Reserve Fund and National Wealth Fund (RF and NWF)
Singapore	Government of Singapore Investment Corporation Pte. Ltd. (GIC) Temasek Holdings Pte. Ltd. (Temasek)
Timor-Leste	Petroleum Fund of Timor-Leste (PFTL)
Trinidad and Tobago	The Heritage and Stabilization Fund (HSF)

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Jukka Pihlman	Asset Management Advisor, IMF and IFSWF Secretariat.
Francisco Vergara	Chief, Sovereign Wealth Fund Unit, Ministry of Finance, Chile