

IN THIS LOW growth, low yield environment – marked also by increased social and political instability – institutional investors with a long-term mindset bring much-needed discipline and patience to financial markets.

Sovereign wealth funds are one such class of investor; as defined by their public ownership and their pursuit of long-term investment returns to fulfil specified macroeconomic purposes such as intergenerational wealth transfers and fiscal stabilisation.

The International Forum of Sovereign Wealth Funds (IFSWF) aims to enhance transparency over the activities of member sovereign wealth funds and to serve as a platform for collaboration and knowledge sharing between them. The forum has 30 members from all corners of the globe.

The single, most fundamental component of IFSWF membership is a commitment to transparency, accountability and good governance, as expressed by the Santiago Principles – a set of best practice guidelines for sovereign wealth funds.

Each member starts implementing the principles from a different place, depending on their history and legacy structures. We understand that what the evolution looks like may not be the same for every member.

Nevertheless, the objective is the same. Members aspire to establish the best governance, accountability, and operational methods to fulfil their mandate to the highest possible standards for their ultimate stakeholders: the people of their countries.

There is much that other (non-sovereign) funds can learn from these principles, especially in regards to transparency and good governance. Stronger governance builds

BY
ADRIAN ORR

Adrian Orr is the chief executive of New Zealand Super and the chair of International Forum of Sovereign Wealth Funds (IFSWF). He was previously deputy governor of the Reserve Bank of New Zealand.



valuable reputational capital, bolstering a fund's strategic positioning.

Inevitably, commercially oriented investors, known to operate transparently and in compliance with the regulatory standards of host countries, will see themselves bumped to the front of the queue.

When the New Zealand Superannuation Fund partnered with Infratil to acquire RetireAustralia in 2014, it was the fund's experience, access to capital and long-term outlook that recommended it to management.

Good governance is essential to sound portfolio management.

The economic benefits are manifold: more consumer support of the businesses invested

in, less legal and regulatory risk, more dynamic companies, potential excess returns from investing early in the life cycle of assets, less conflict between asset owners and asset management, and the potential to leverage long investment horizons to exploit long-term trends – such as resource sustainability – which may not be fully priced in markets influenced by shorter-term investors.

At the end of last year, the IFSWF released 12 case studies demonstrating how its members have sought to implement the Santiago Principles.

Australia's Future Fund described how the Santiago Principles guide continuous disclosure of the thinking behind investment decisions.

A statement on behalf of the Chilean government outlined how the Santiago Principles are guiding its thinking on whether it is appropriate to delegate proxy voting to external fund managers.

China's Investment Corporation revealed it has hosted more than a thousand groups of guests at its Beijing headquarters as part of its commitment to improve transparency in line with the Santiago Principles.

In the last year, IFSWF's London-based secretariat has expanded and online platforms have been developed to facilitate member wide discussion. Workshops and meetings were hosted in Azerbaijan and Auckland.

We've established partnerships with the Bocconi University's Sovereign Investment Lab, Milan, and the Fletcher School at Tufts University, Boston. In the past few months, we have also formed ties with the Commonwealth Secretariat and the Hedge Funds Standards Board, to complement relationships in place with the International Monetary Fund, World Bank and OECD.

This focus on building partnerships, underscored by a shared commitment to the Santiago Principles, has given rise to an expansive network of relationships. One by-product has been co-investment by member funds. An example is Wessal Capital, a joint venture that brings together five sovereign wealth funds: Ithmar Capital, Aabar Investments, the Kuwait Investment Authority, the Public Investment Fund of Saudi Arabia and Qatar Holding.

The venture focuses on structural projects that will support continued economic and social development in Morocco. Such ventures are a natural outcome of common purpose, shared endowments and reduced potential for principal-agent conflict. ✕

What super funds can learn from the Santiago Principles

There are lessons for the local superannuation industry *in how an international collective of sovereign wealth funds is working together TO IMPROVE THEIR TRANSPARENCY AND GOVERNANCE STANDARDS.*