



CONFERENCE HIGHLIGHTS

The 7th Annual Meeting of the International Forum of Sovereign Wealth Funds

Hosted by the Fondo Strategico Italiano
In Milano, Italy
29 September – 1 October 2015



IFSWF Chair's message



The 7th Annual Meeting in Milano, hosted by the Fondo Strategico Italiano, was an important time for IFSWF members to look back on a year of substantial achievement--both at the member institutions and in the IFSWF collective – and to plan for the future.

The IFSWF is an organization of sovereign wealth funds bound by common endorsement of the Santiago Principles, and in Milan we reaffirmed our commitment to them. Endorsement strengthens the positive role that sovereign wealth funds play in global financial markets as commercial, long-term investors.

At the Annual Meeting, members approved ambitious work plans for our three sub-committees. SC1 will work to strengthen member implementation of the Santiago Principles, including through workshops and the publications of self-assessments against the Principles. SC2 on Investment and Risk Management will present three case studies at the 8th Annual Meeting in Auckland. Finally, SC3 will build an online repository of good regulatory practices, and increase communications on the purpose and character of sovereign wealth funds, and on the support offered by the Santiago Principles in achieving institutional mandates.

We also accomplished several important organizational tasks: we successfully implemented a new Members' Agreement, elected a new board, welcomed four new members, and prepared to launch a new website and internal sharing platform.

We look forward to staying engaged with you beyond the annual meeting. Please do contact the IFSWF Secretariat at secretariat@ifswf.org with thoughts on how the members might collaborate better and further. For our part, the Board will be giving this important question proper attention. You can find all materials from the conference, including the presentations, speeches, press release, participant list, and agenda, on our website, www.ifswf.org.

Yours sincerely,

Adrian Orr
IFSWF Chair

Departing remarks from Mr. Bader M. Al Saad



Mr. Bader M. Al Saad, Managing Director of the Kuwait Investment Authority, and Chair of the IFSWF from 2 October 2013 through 29 September 2015, delivered the remarks below to the IFSWF membership upon the end of his two-year term as IFSWF Chair:

I thank the IFSWF members for their participation in the vital function of electing the Forum's new Deputy Chair and three board members.

I am very pleased that you had given me this opportunity to serve you and the Forum since our creation in April 2009 after the Kuwait Declaration. I know that I helped in creating an organization which will only strengthen over time.

To every IFSWF member: thank you for your support and continued cooperation. This Forum would not be what it is today without your contributions and help. Good luck for the future. You know that you can continue to count on my personal support and that of the Kuwait Investment Authority.

Sincerely Yours,

Managing Director
Kuwait Investment Authority

Key takeaways from the 7th Annual Meeting of the International Forum of Sovereign Wealth Funds

- The IFSWF welcomed its new Chair, Mr. Adrian Orr, Chief Executive Officer of the New Zealand Superannuation Fund. Other key resolutions included:
- The extension of gratitude, for their service on the Board of the IFSWF, to:
 - Mr. Jin Liqun, the outgoing Honorary Chair and the President-designate of the Asian Infrastructure Investment Bank
 - Mr. Bader M. Al Saad, the outgoing IFSWF Chair and Managing Director of the Kuwait Investment Authority
- The election of Mr. Majed Al Romaithi, Chairman of the Management Committee at the Abu Dhabi Investment Authority, as the IFSWF's new Deputy Chair.
- The election of three new IFSWF Board members:
 - Mr. Li Keping, Vice Chairman, President and Chief Investment Officer, China Investment Corporation
 - Ms. Deanna Ong, Company Secretary and Managing Director, GIC Private Limited
 - H.E. Sheikh Abdullah Bin Mohammed Bin Saud Al-Thani, Chief Executive Officer, Qatar Investment Authority
- The selection of JSC Samruk-Kazyna as the host of 9th Annual Meeting in 2017. The New Zealand Superannuation Fund will host the 8th Annual meeting in Auckland next year.



28 IFSWF Members participated in the 7th Annual meeting in Milano, Italy

Abu Dhabi Investment Authority

Bank of Botswana-Pula Fund

China Investment Corporation

Fondo Strategico Italiano

Fundo Soberano de Angola

Future Fund Board of Guardians

GIC Private Limited

Heritage and Stabilization Fund

Ireland Strategic Investment Fund

JSC "National Investment Corporation of National Bank of Kazakhstan"

JSC Samruk-Kazyna

Khazanah Nasional Berhad

Korea Investment Corporation

Kuwait Investment Authority

Libyan Investment Authority

Ministry of Finance, Chile

Ministry of Finance, Norway

Moroccan Fund for Tourism Development

National Development Fund of Iran

New Zealand Superannuation Fund

Nigeria Sovereign Investment Authority

Oil Revenues Stabilization Fund

Palestine Investment Fund

Qatar Investment Authority

Russian Direct Investment Fund

State General Reserve Fund

State Oil Fund of the Republic of Azerbaijan

Timor-Leste Petroleum Fund



Core objective

After acknowledging the leadership of Mr. Jin Lique and Mr. Bader M. Al Saad with thanks on behalf of the IFSWF members, Adrian Orr outlined his commitment as the incoming IFSWF Chair to promoting the Santiago Principles, a set of best practices for sovereign wealth funds which provides practical guidance on good governance, accountability and transparency.

The IFSWF's thirty members comprise one-third of the world's sovereign wealth funds, and manage close to four-fifths of the capital held by sovereign wealth funds globally. Adrian Orr encouraged the IFSWF to use the strength and commitment of its members to continue advancing its mission: supporting the free flow of capital and long-term global economic prosperity through the implementation of the Santiago Principles.



Mr. Maurizio Tamagnini, CEO of Fondo Strategico Italiano

Maurizio Tamagnini welcomed his IFSWF peers to Milan and commented:

"We will accomplish our mission as patient long-term investors if we make good investments and achieve solid market returns, whilst promoting local development, economic stability and sustainability."

Welcome remarks

IFSWF members and their affiliates publicly discussed several issues pertinent to the long-term investment environment.



Claudio Costamagna, Chairman, Cassa Depositi e Prestiti and Fondo Strategico Italiano

As host, Claudio Costamagna opened the Forum, welcoming the Forum's attendees:

"Italy's small and mid-sized companies need to grow and sovereign funds can help them. Growth is crucial and scale is important. We need to support our companies, as small and mid-sized firms are the backbone of Italy."



Adrian Orr, IFSWF Chair and CEO, New Zealand Superannuation Fund

"If you cast an eye over our new strategic plan, the Forum has much to accomplish in the years ahead. The rewards for doing so are real and relevant to the global community."

The Forum is independent, the Secretariat is established, our goals are agreed, and our policies and processes are codified. With this essential infrastructure built, we can set sights with confidence on considering and, more importantly, taking action on the questions that matter."



Pier Carlo Padoan, Minister of Economy and Finance, Government of Italy

Italian Economy Minister Pier Carlo Padoan detailed his 'Finance for Growth' strategy and told representatives that the Italian government is open to foreign investors and is committed to helping those who want to invest in the country for the long term. He stressed that innovation is the key way Europe can grow, including by simplifying regulation to help innovation. He outlined that the European Union was returning to growth and that structural reforms were taking place. He conveyed the importance of these reforms to the task of engendering the confidence necessary for sovereign wealth funds to increase their willingness to invest in Europe.

He detailed the pillars of Italy's economic strategy: consolidation of tax policies; structural reform; and creating a more flexible labour market through the Jobs Act.

"I'm struck by the fact that this room represents 2.8 times of Italy's GDP but hope that when I return next year that number will have fallen as our GDP expands further."



Session 1: An investment plan for Europe



Presenters:

- Dario Scannapieco, Vice-President responsible for SMEs, European Investment Bank.
- Alessandro Carano, Senior Counsellor to the Deputy Director General, DG Economic and Financial Affairs, European Commission.

Discussion:

Against the backdrop of a challenging global economic environment, the EU has continued growing at a moderate pace. Most formerly vulnerable economies are growing faster than expected, and the EU is benefitting from the strength of economic tailwinds such as low oil prices. Labour markets are gradually improving, but unemployment remains high. Crucially, however, investment is still 15% lower than it was in 2007.

The speakers detailed the steps Europe was taking to attract capital into relevant European investment projects. Markets across the European Union have become more integrated and regulation more harmonised. The plan to attract more investment was said to be driven by an investment and competitiveness gap, high liquidity in the market, public budget constraints and barriers to investment.

The investment plan is built of three pillars: mobilising finance for investment; making finance reach the real economy; and an improved investment environment.

The session also stressed the valuable role the European Commission plays in supporting SMEs to gain better access to finance, and highlighted the market gaps Europe still needs to address.

Session 2: Responding to the European Infrastructure Financing Gap



Panellists:

- Richard Abadie, Global Leader of Capital Projects and Infrastructure, PwC
- Veronique Ormezzano, Head of Official Institutions Coverage, BNP Paribas
- Manfred Schepers, Senior Advisor to the President for Institutional Investment Partnerships, EBRD
- Patrick Thomson, International Head of Institutional Clients, JP Morgan Asset Management
- Niels Thygesen, Professor Emeritus of International Economics, University of Copenhagen

Moderator:

- Bernardo Bortolotti, Professor of Finance and Director, Sovereign Investment Lab, Bocconi University

Discussion:

- The panellists discussed a range of topics centred on four main questions:
 - What is the current state of affairs in European infrastructure?
 - What are the challenges facing regulators?
 - Will the Juncker Plan succeed?
 - How can we engage sovereign wealth funds on the Juncker Plan?

The panellists viewed the Juncker Plan as a step forward but stressed that it needs to be realised, and quickly. Banks continue to play a key role in project finance and although liquidity is abundant, infrastructure requires patient, long-term financing, which is insufficient. As such, there is clearly an investment and tenure gap but arguably not a financing gap.

Investors seek predictable and stable returns from their infrastructure investments within a consistently stable political and economic framework. However, a body of investable projects does not exist consistently across Europe. Because of varying national conditions and a lack of policy unification at the European level, risk-return profiles of infrastructure investments vary greatly across countries. Investors therefore need to carefully evaluate the different political risks and regulatory environments within European countries individually, a daunting task that sometimes has discouraged investment.

Given the differing investment environments across Europe, the Juncker Plan has attracted many initiatives at the national level, but not many at European level. There is a great need however to strengthen the European Union by launching large-scale, cross-border, coordinated projects that foster interconnection and integration. By doing so, the Juncker plan could support projects which may otherwise not be investable.

In broad terms, the Juncker Plan is (or should be) a policy initiative that, by increasing the investability of projects, creates jobs and sustainable growth over and above what can be achieved by private investors. If this condition is met, sovereign wealth funds, pension funds along with other like-minded, long-term investors will participate, allowing Juncker Plan financing to begin in earnest.

Finally, investors and policymakers must consider the breadth of the infrastructure sector, as there are many different projects and activities under this title. Core infrastructure, particularly large, brown-field projects with stable cash flows, has become a popular subset with investors because of its stability. But the scope of investable projects could be much broader, and could involve many other types of investments stretching to social housing and education. While such investments may be riskier, they are fundamentally important to ensure economic cohesion and societal progress in Europe.



Lunch address by The Hon. Peter Costello AC



Former Treasurer of Australia and now Chairman of the Future Fund Board of Guardians, Hon. Peter Costello AC, delivered a speech about the history of the Santiago Principles and their ongoing importance to sovereign wealth funds.

He outlined that, in the mid 2000s, for some, the growth in size of sovereign wealth funds, the activity of SOEs and the change in the established economic and financial order was threatening. In response, an effort to address these concerns and provide a framework for better understanding of sovereign wealth funds was begun under the auspices of the IMF resulting in what we know today as the Santiago Principles. The Principles today serve as a broad public benchmark for sovereign wealth funds reflecting appropriate governance and accountability arrangements and provide a 'best-practice' template.

Peter Costello then discussed the role of the IFSWF and said its strength would be to remain as a respected body that promoted the Santiago Principles and enabled emerging sovereign wealth funds to establish themselves in accordance with them. He emphasised that sovereign wealth funds that implement the Santiago Principles should be recognised and acknowledged, noting that the Principles are designed to enhance transparency and to demonstrate that investments are made for financial reasons and not as an arm of some other political objective. For that reason, he said, there should be smoother access to investment markets for funds that demonstrate implementation of the Principles.

Session 3: Reshaping the Institutional Investment Industry



- Li Keping, Vice Chairman, President and Chief Investment Officer, China Investment Corporation
- Lim Chow Kiat, Group Chief Investment Officer, GIC Private Limited
- David Neal, Managing Director, Future Fund
- Keehong Rhee, Deputy Chief Investment Officer and Head of Research Center, Korea Investment Corporation
- Roger Urwin, Global Head of Investment Content, Towers Watson

Moderator:

Patrick Schena, Co-Head of SovereignNet, The Fletcher School, Tufts University

Discussion:

The panel discussed the growing influence of global public investors, including sovereign wealth funds, and the opportunities for collaboration based on a set of shared objectives, such as scale and long-term investment horizons. The industry has become increasingly professionalised and can therefore compete for talent, but it is above all the culture of the fund which plays the most vital role. The culture defines how and why people make decisions. The financial services industry, for example, is a long way from the ethos seen in the medical and legal professions, and the effects of this can be seen on the global markets.

The panel discussed the important role governance plays in defining the actions of a fund's board. Governance is unique to each fund but there are some points applicable to many funds. For example, scale gives a fund the ability to attract expertise in-house, but this same scale can impact how streamlined and 'joined-up' a fund is.

Some sovereign wealth funds, such as GIC, selectively outsource management and therefore develop talent in manager selection. Through the use of external managers, the fund can gain exposure to markets where it does not have capabilities and also develop benchmarks for internal teams. However, using external managers opens funds to situations when manager decisions may diverge from their own. Such inefficiencies require care in aligning mutual interests through specifically designed contract and incentive structures.

The panel agreed on the importance of a two-way relationship between asset owners and external managers including regular engagement to develop deep understanding of mutual interests. Building fewer but stronger and deeper relationships with managers is key. An extension of this relationship building is co-investment between funds and managers, including investments originated and led by funds whose scale, market, and sector expertise offer advantages in deal sourcing.



Session 4: Building Long-term Stabilizing and Responsible Institutional Investors



- Timothy Adams, President and Chief Executive Officer, Institute of International Finance
- Hendrik du Toit, Chief Executive Officer, Investec Asset Management
- Dag Dyrdal, Principal, Montalban AS (formerly Chief Strategic Relations Officer, Norges Bank Investment Management)
- Uche Orji, Chief Executive Officer, Nigeria Sovereign Investment Authority
- Gavin Walker, Chairman of the Board, New Zealand Superannuation Fund

Moderator:

- Conor Kehoe, Director (London), McKinsey & Company

Discussion:

The panel began by noting that many sovereign wealth funds are endowed with large scale, limited liabilities, and long-term investment horizons. Such endowments can enable sovereign wealth funds to implement long-term, countercyclical investment strategies, and to potentially earn higher investment returns by doing so.

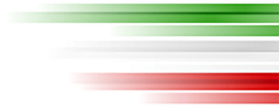
The panel also noted that, in practice, long-term investors face a variety of challenges in implementing such investment strategies. Challenges may include investment governance, benchmarking, human capacity, and incentive alignment across internal structure and external partners, such as

investment managers. Sovereign wealth funds, as investment institutions owned by governments, also manage an additional set of complicating factors, such as communicating the long-term investment strategy to a sovereign owner, working within a governmental context, and maintaining the continued support of external stakeholders and the public.

The Santiago Principles, as a set of good governance practices for sovereign wealth funds, can guide both new and established sovereign wealth funds, to help them utilize their endowments as long-term investors of scale. As a widely adaptable set of practices, the Santiago Principles transcend the wide variation within the sovereign wealth fund community on issues such as host country context, investment objective, and institutional structure. Through the annual meeting, self-assessment, case studies, and knowledge exchange, investors' organizations such as the IFSWF provide important venues for peer learning. In particular, the iterative nature of peer learning within a network helps investors continuously innovate and improve their practices, while adapting them to diverse new contexts.

Other long-term investor initiatives, such as Focusing Capital on the Long-Term, also aim at drawing out innovative practices that can be replicated globally across the institutional investment community. The panel agreed that such collaborative efforts among long-term investors bring significant value to the countries in which they invest because strengthening the ability of long-term investors to provide much-needed risk capital supports economies globally.





The 8th Annual Meeting of the IFSWF

The New Zealand Superannuation Fund looks forward to welcoming IFSWF members at the 8th Annual Meeting in Auckland in November 2016.



