



FAP 2019

Fondo de Ahorro de Panamá

Pillar 1: Legal

Legal framework, objectives, and coordination with macroeconomic policies

Principle 1

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

1.1. The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.

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

Legal Framework

LAWS (published by the National Assembly/Congress & the Executive Branch – President). Law 38 of June 5th, 2012, modified through Law 51 of October 10, 2018 (“the Law”) – is the law that creates the FAP, enacted by the National Assembly of Panama. The Law establishes that the governing bodies of the FAP are:

- The National Assembly – legislative authority;
- The Ministry of Economy and Finance (“MEF”) – Trustor (asset owner), representative of the Executive Branch of the Rep. of Panama
- The Board of Directors of the FAP – main decision-making body of the Fund
- The Secretariat – provides executive, technical, and financial leadership to the Board of Directors
- Banco Nacional de Panamá (“BNP” or “The Trustee”)
- The Supervisory Commission – reviews the Board of
- Director's actions; represents the civil society; and
- The General Comptroller of Panama – internal auditor of the FAP

EXECUTIVE DECREE (published by the Executive Branch, through the MEF)

- Executive Decree No. 1068 of Sept. 6th, 2012 (“the Executive Decree”) – that regulates The Law, published by the MEF.

INVESTMENT DIRECTIVES (published by the MEF)

- Investment Directives, issued by the MEF (2012, 2014 and 2016), sets forth the general investment guidelines to be followed by the Board of Directors of the FAP; allows for the Board to modify such Directives subject to approval from the MEF.

INTERNAL DIRECTIVES OF THE BOARD (published by the Board of Directors of the FAP)

- The Agreement establishes the Internal Directives of the Board of Directors of the FAP which describes the composition, functions, and responsibilities of: The Chairman of the Board, Directors, the Trustee, MEF, and Secretariat.

INVESTMENT POLICIES & STANDARDS (published by the Board of Directors of the FAP)

- Investment Policies and Standards
- Annual Investment Plan & Strategic Asset Allocation

BIDDING PROCESS AND CUSTODY DIRECTIVES (published by the Board of Directors of the FAP)

- The Bidding Process Directives, Agreement No. 11 of August 31st, 2015, establishes the general guidelines for contracting banks, custodians, asset managers, consultants, or any other financial intermediary
- Custody Services Directives, Agreement No. 16 of June 29th, 2017
- establishes the procedures that the custodian must follow.

Principle 2

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

The Fund was created by the Law with the following main objectives are:

1. Establish a long-term savings mechanism for the Panamanian State; and
2. Establish a stabilization mechanism in case of a state of emergency (declared by the Cabinet's Council) and economic slowdowns.

The Law was approved and published by the National

Assembly of Panama, and can be publicly found on the FAP's website (in Spanish):

<http://www.fondoahorropanama.com/leyes/>

Principle 3

3. 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.

The Law, Article 34 – explains the annual laws of the General Budget of the Panamanian State and the budgetary executions will be subject to the present Law in such a way as to ensure a prudent fiscal policy and sustainable public debt. The absolute value of the deficit adjusted to the Public Non- Financial sector in relation to the estimated annual nominal GDP shall be calculated on a cash basis and may not exceed 2.0% for the years 2019, 1.75% for years 2020 – 2021, and 1.5% for the year 2022.

The Law, Article 35 – explains and establishes when it is declared “state of emergency”, and when it is declared an “economic recession”, as well as withdrawal limits.

The disbursements from the Fund shall comply with the

Growth Rate for Real GDP	Disbursement List
1.1% - 2.0%	-1.0% of nominal GDP
0.0% - 1.0%	-1.5% of Nominal GDP
Negative Growth	-2.0% of Nominal GDP

Disbursement limits are maximum limits, and the request for disbursement shall provide justification for the disbursement limit requested. It shall remain in effect for a maximum period of three consecutive years, as long as conclusive proof exists indicating that the real GDP growth rate remains below 2% motivating the disbursement.

Withdrawals from the FAP used to finance such disbursement shall comply with the limit established in the Law, Article 5.

Principle 4

4. 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.

4.1. The source of SWF funding should be publicly disclosed.

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

The Law, Article 3– explains the rules of funding. This article describes the sources of funding of the FAP, which are:

1. the 50% of the contributions from the Panama Canal Authority ("ACP") under the following conditions:
 - for the years 2018 and 2019, when all contributions of the ACP to the National Treasury exceed the 2.5% of the Gross Domestic Product ("GDP") Nominal
 - for the year 2020 onwards when all contribution of the ACP to the National Treasury exceeds 2.25% of GDP.
2. any inheritance, legacy and donation that are made to the FAP; 3) any resources that by Law are destined to go to the FAP.
3. Law 51 of October 10, 2018, now allows for the capitalization (reinvestment) of returns until the Fund’s net assets exceed 5% of the nominal GDP of the previous year.

The Law, Article 5 – describes the withdrawal rules. FAP’s resources will be used only for transfers to the Panamanian National Treasury, under the conditions established in Article 11 of Law 34 of 2008 and the rules in this article. Withdrawals will be associated only in the following scenarios

- State of Emergency declared by the Panamanian Cabinet Council if the associated costs are equal or greater than 0.5% of GDP;
- Economic recession. This rule became effective in 2015.

*Withdrawals from the FAP mentioned in the last two points, will be conditioned that the assets of the FAP will not be less than 2.0% of nominal GDP of the previous year.

Principle 5

5. 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.

FAP reports, including the performance of portfolios and assets, are published on a weekly, monthly, quarterly, and yearly basis.

Monthly, quarterly and yearly reports are published and available to the public.

FAP reports and financial statements can be accessed through the webpage:

<http://www.fondoahorropanama.com/>

Pillar 2: Institutional

Institutional Framework and Governance Structure.

Principle 6

6. 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.

The Agreement of the Board of Directors of the FAP, based on the Law, Article 11, establishes the Internal Directives of the Board of Directors of the FAP which describes the composition, functions, and responsibilities of: The Chairman of the Board, Directors of the Board, the “Trustee, MEF, and Secretariat.

Refer to Principle 1

Principle 7

7. 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.

The Law, Article 1 provides the objective and creation of the Fund.

The Law, Article 11, explains the composition of the Board of Directors. The Executive body will select and name the members of the Board of Directors of the FAP. The selection of the members of the Board of Directors will be subject to the ratification of the National Assembly of Panama.

Principle 8

8. 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.

The Law establishes, through its articles, the mandates of every governing body(ies) who’s role influences and involves the FAP. Also, the Executive Decree, Investment Directives, FAP’s Investment Policies and Standards (mentioned in answer 1) clearly defines the mandate of the following governing bodies, and their role:

- MEF
- Board of Directors;
- Secretariat;
- Banco Nacional de Panama
- Supervisory Commission

- The General Comptroller of the Republic of Panama

Principle 9

9. The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.

MEF is the Trustor and owner of the assets of the FAP and is responsible for issuing the Investment Directives which will be the base to establish the Investment Policies. MEF also selects and names the members of the Board of Directors;

The Governing body of the FAP is the Board of Directors, and they manage the assets of the Fund. Their objective is to define the investment policies of the FAP;

The Secretariat of the FAP is the executive body that manages and operates the Fund. With the directions from the Board of Directors, they will instruct the trustee, asset managers, and custodians and investments, payments, withdrawals, liquidation of any portfolio, and any other topic related to the management and movement of assets of the Fund. They will also provide technical support to the Board of Directors regarding financial analysis, creating of investment plans, bidding Directives, and management in the selection process for asset managers, custodians, auditors, consultants, and financial intermediaries;

The Trustee of the assets of the Fund subscribes the contracts, on behalf of the Fund, with the asset managers, custodians, financial reporting, and external auditors.

Principle 10

10. The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.

Refer to Principle 1

Principle 11

11. 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.

FAP reports, including the performance of portfolios and assets, are published on a weekly, monthly, quarterly, and yearly basis.

Audited financial statements are published on a quarterly basis by an international Big Four auditing firm.

Principle 12

12. The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.

FAP reports, including the performance of portfolios and assets, are published on a weekly, monthly, quarterly, and yearly basis.

Audited financial statements are published on a quarterly basis by an internationally recognized auditing firm.

They can be accessed through our website: <http://www.fondoahorropanama.com/financiero>

Principle 13

13. Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.

The Agreement establishes the Internal Directives of the Board of Directors of the FAP which describes the composition, functions, and responsibilities of: The Chairman of the Board, Directors, the Trustee, MEF, and Secretariat.

Principle 14

14. 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.

The Law, Articles 26, 28, and 30, describes that the Secretariat of the FAP, instructed by the Board of Directors of the FAP, can select and contract asset management, custodian, and external auditing firms.

The Law, Articles 27 and 29 describes the requirements of the firms mentioned in the previous paragraph must comply in order to be selected and contracted by the FAP.

- Asset Managers (Article 27): the firm(s) must have a credit risk rating, issued by at least two of the three international renown rating agencies (Fitch, Standard & Poor's, and Moody's) equal or greater than investment grade for the last 12 months.
- Custodian (Article 29): the firm(s) must have a credit risk rating, issued by at least two of the three international renown rating agencies (Fitch, Standard & Poor's, and Moody's), equal or greater than investment grade for the last 12 months.

Principle 15

15. 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.

The Investment Policies and Standards assure that the contracted asset managers and custodians comply with all regulatory and legal frameworks in the countries in which they invest the assets of the FAP.

Principle 16

16. 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.

Please refer to Principle 1.

This information can be found in Spanish version on our website: www.fondoahorropanama.com

Principle 17

17. 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.

Audited financial statements are published on a quarterly and annual basis by a recognized international auditing firm.

They can be accessed through our website: <http://www.fondoahorropanama.com/financiero>

Pillar 3: Investment

Principle 18

18. The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.

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

18.2. 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.

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

The Law, Chapter IV, Article 7, describes the general Investments Directives of the FAP.

The Investment Directives establishes the investment policy of the FAP's assets and sets forth risk tolerance limits through benchmarks and corresponding tracking error.

The FAP's Investment policies and standards establish the principles, parameters, and directives for the administration and management of the Fund, which at the same time, regulates the strategies in strict compliance of the Trustee, the custodian and the asset manager, as well as to follow the Santiago Principles.

Also in section 15 of the Investment Policies and Standards, risk management is based mainly on the use of tracking error for each portfolio manager, asset class, and corresponding benchmark. Other methods may be used, such as Montecarlo simulation, Sharpe ratio, Treynor index, information ratio, beta, convexity, etc.

A description of the investment policies and Directives can be found on our website at:
www.fondoahorropanama.com

Principle 19

19. 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.

19.1. 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.

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

The FAP's Investment Policies and Standards established by the Board of Directors describes the principles, parameters, and Directives for the administration and management of the Fund, which at the same time, regulates the strategies in strict compliance of the Trustee, the custodian and the asset manager.

The Investment Policies and Standards are the base to prepare the Annual Investment Plan, which defines the strategic asset allocation according to the parameters and Directives of these politics.

The investments to be made should help keep a balanced risk/return profile of the Fund, in order to preserve the assets of the Fund.

The Investment Policies and Standards, Section 6, describe the ethical principles, which established the levels of professionalism to preserve the integrity of the Fund.

Investment Policies and Standards, Section 8, establishes the framework of management and ethics in order to comply with the Santiago Principles.

Principle 20

20. The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.

Executive Decree, Chapter VII, Article 31, explains the responsibilities of public servants. Public servants, directors, and any other person that has in his/her responsibility the decision, authorization, execution of any matter regulated by the Law and this Executive Decree, should be accountable for the decisions taken, or executed actions and results obtained.

Principle 21

21. 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.

The Law, Article 21, states that the MEF, acting as Trustor, and as representative of the Republic of Panama owner of the assets of the FAP, will issue the investment Directives in which the Board of Directors will establish the Investment Policies and ensure that the Board of Directors is governed by the investment parameters of the FAP.

Investment Policies and Standards, Section 19, states the proxy voting services. In case that, during the management of the assets of the FAP, the asset managers will have the duty to exercise proxy voting rights in the representation of the FAP, it will do so considering the best interests of the Fund. For these matters, the asset managers will exercise such proxy voting rights based in guides and principles established by the entity that provides these services, including the principles and guides of the asset manager itself.

Principle 22

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

22.1. 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.

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

Principle 23

23. 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.

- Ministerial Resolution, Article 3.1, explains and describes the investment portfolios and its benchmarks. The asset classes that the FAP can invest in and to which benchmarks are linked to.
- Investment Policies and Standards, Section 11.1, explains that the average return and performance of the investments of the Fund can be measured by applying different standard methodologies. These can be:
 - Time-weighted rate of return; or
 - The value-weighted mean rate of return
 - The performance of the asset classes should be measured in comparison with their benchmark.

Principle 24

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

The FAP expects to review the implementation process of the GAPP on a yearly basis.