



PIF 2021

Palestine Investment Fund

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.

Palestine Investment Fund ("PIF") was established by a Presidential decree in 2000 as an independent entity and was formally registered in 2003 as a public shareholding company under the Palestinian corporate law. PIF shares are owned by Palestinian People.

PIF's articles of association/ bylaws set the general objectives and governance structure for PIF.

PIF operations are overseen by an independent eleven members Board of directors, appointed by the President for a three years term. The Board is comprised of leading business figures, economists, and policymakers from across the region, and is responsible for setting PIF's goals and objectives.

The General Assembly, which acts on behalf of the Palestinian people, is PIF's highest supervisory and oversight body. The General Assembly provides strategic guidance to the Board of Directors, reviews PIF's annual report, and ratifies the distribution of dividends to the Palestinian Treasury.

The PIF General Assembly is comprised of 30 individuals representing the various segments of Palestinian society, including the business community, regulatory agencies, and civil society. General assembly members are appointed by the President for three years term.

Information about PIF's structure, governance and performance are published in PIF's annual report and PIF's website.

<http://www.pif.ps/glance/>

Principle 2

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

PIF's main objective is to promote sustainable economic growth and private sector development in Palestine. As a development-centric fund, PIF seeks to maximize impact through investing in strategic projects in under-developed sectors, all while achieving sustainable returns.

This objective has guided PIF's investment strategy, according to which PIF invests the majority of its assets domestically in strategic projects in vital sectors of the Palestinian economy including; renewable energy, agriculture and agrobusiness, infrastructure, real estate, technology, and entrepreneurship and the capital market in Palestine.

PIF's foreign asset portfolio is composed of highly liquid capital markets investments that are managed professionally with the goal of maximizing return while maintaining minimum risk.

PIF strategy is approved by the Board of Directors and is publicly disclosed in PIF's annual reports and website.

<http://www.pif.ps/annual-reports/>

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.

PIF plays a developmental role in the Palestinian economy focusing on strengthening the private sector and attracting regional and international investments.

PIF investments have contributed to job creation, stability of the local capital market, and the Palestinian GDP. However, due to the size and nature of these investments, they have no direct impact at the macroeconomic level.

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.

PIF was established through consolidation of commercial assets and investments held by the Palestinian Authority. PIF depends primarily on return on these investments to grow its assets base.

Upon request from Palestinian government, PIF Board of Directors recommends dividend distribution to the General Assembly. Once approved, dividends are transferred to the Palestinian Treasury. Dividends are reported in the audited financial statements and disclosed in PIF's annual report which is widely distributed and posted on PIF website.

<http://www.pif.ps/annual-reports/>

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.

Monthly reports are prepared for PIF's executive management. Quarterly detailed investment and financial reports are prepared for Board of Directors.

In addition, PIF's annual financial statements, which are audited by accredited international audit firm, are published in PIF's annual report. Copies of the annual report are submitted to the Palestinian President, Palestinian Government and are available for general public and posted on PIF website.

Finally, PIF website includes additional information about the financial and economic impact of PIF investments.

<http://www.pif.ps/our-impact/>

<http://www.pif.ps/wp-content/uploads/2019/08/pif-brochour-english.pdf>

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.

PIF's governance manual sets the overall governance structure for PIF and provides clear roles and responsibilities for each level. It also provides a strict authority matrix for decision making process.

PIF's governance structure is based on the following three pillars:

1. A General Assembly comprises of 30 independent members representing PIF's ultimate shareholder, the people of Palestine. General Assembly members are appointed by the President and representing the business community, academia, regulatory agencies and civil society. The General Assembly provides strategic guidance to the Board of Directors, approves annual reports and financial statements, appoints external auditor and approves the distribution of dividends to the Palestinian treasury.
2. A Board of Directors comprises of 11 independent members appointed by the President from leading business figures, economists and policy makers. The Board is responsible for setting PIF's goals and objectives, strategy, assets allocation, and overseeing PIF operations. The Board has the following committees; audit and governance committee, investment committee, and Human Resources committee.
3. An executive management team responsible for implementing PIF's strategy and overseeing daily operations. The management team reports to the Board of Directors.

<http://www.pif.ps/governance/>

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.

PIF 's articles of association/ bylaws and governance manual state the process of appointing the governance bodies, according to which, the Board of Directors and the General Assembly are appointed by the Palestinian President (see GAPPs 1 and 2).

PIF's annual reports, which include PIF's audited financial statements, are prepared and submitted to the President and the various governmental bodies and published on PIF's website.

In addition, PIF's operations are subject to audit by the state audit and administrative control bureau which reports to the president, government and the legislative council.

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 Board of Director is responsible for setting PIF's goals and objectives, strategy, assets allocation, and overseeing PIF operations. The Board has a clear mandate and adequate authority and competency to fulfil its functions. The roles and responsibilities of the Board are clearly defined in PIF's articles of association/ bylaws and governance manual. The Board Responsibilities include among other things:

- Establishing strategic goals, objectives and appropriate corporate policies;
- Reviewing and approving the strategic and business plans;
- Reviewing and evaluating PIF's initiatives, programs and subsidiaries on regular basis;
- Approving company-wide policies, including authority matrices, investment, procurement, human resources, code of conduct, corporate governance, and transparency and disclosure policies;
- Monitoring the performance of PIF executive management;
- Approving investment and procurement decisions in line with the approved Authority Matrix;
- Ensuring ethical behavior and compliance with laws and regulations;
- Ruling on any cases of conflict of interest at the Board or executive management levels;

The Board carries out its duties through number of active committees including; investment committee, audit and governance committee, and Human resources committee.

<http://www.pif.ps/governance/>

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.

PIF is an independent legal entity with an independent Board of Directors. The Board is the highest authority at PIF, it approves strategy and assets allocation, approves investment decisions, and oversees PIF operations.

An independent executive management team is responsible for executing the investment strategy and assets allocation, managing the daily operations, and making operational decisions. The executive management operates in accordance with the corporate law, PIF articles of association/ bylaws, governance manual and well-defined internal policies and procedures manuals and in line with a strict authority matrix.

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.

The accountability framework is clearly defined in PIF's articles of association/ bylaws and corporate governance manual.

Additional requirements are set in the Palestinian corporate law including the mandatory duties and responsibilities of the Board of Directors, General Assembly and management. It also includes the requirement to issue audited financial statements.

Finally, external accountability is ensured as PIF's operations and accounts are subject to audit by the state audit and administrative control bureau, which reports to the Palestinian President, Palestinian Government and the Legislative Council.

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.

PIF issues a full set of annual audited financial statements including notes to the financial statements and disclosure of accounting policies within 90 days of year end. The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and audited by an international audit firm.

The financial statements form a part of PIF's annual report which also provides additional information about the performance of PIF's investments. The annual report is widely distributed and posted on PIF's website.

<http://www.pif.ps/annual-reports/>

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.

PIF's full set of annual financial statements are audited by an international audit firm (currently Ernst & Young) in accordance with International Standards on Auditing ("ISA"). The audited financial statements and the auditors' report are published in PIF's annual report and posted on PIF's website.

In addition, PIF's accounts and operations are subject to audit by the internal audit department, which reports directly to the audit committee of the Board. The internal audit department works in cooperation with an international audit firm (currently Deloitte).

Finally, PIF accounts and operations are subject to audit by state audit and administrative control bureau, which reports to the President, Government and the Legislative Council.

<http://www.pif.ps/annual-reports/>

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 articles of association/ bylaws and governance manual set the detailed requirements and qualifications for Board Membership.

The human resources manual sets the detailed education and professional experience requirements for each level at PIF.

PIF's governance manual sets the guidelines for ethical practices at PIF including conflict of interest.

In addition, all employees who are involved in capital markets investments including those; conducting research, writing research reports, making investment recommendations, taking investment action, or come in contact with investment recommendations or decisions during the decision-making process, adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct.

Finally, PIF's human resources manual, employment contracts and the operational policies and procedures manuals that govern the various operations of PIF set the acceptable ethical practices to be adhered to by PIF staff.

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.

PIF uses its internal portfolio managers to manage most of the investments. The use of external fund managers is limited to investments in international capital markets. External fund managers are chosen for their experience and ability to exploit investment opportunities in these markets. External fund managers selection is made based on professional and commercial criteria.

PIF's procurement of goods and services are governed by the procurement policies and procedures manual which requires fair and transparent tendering procedures.

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 majority of PIF investments are in the local market. International investments are limited to investments in capital markets through external fund managers, who ensure compliance with all applicable regulatory and disclosure requirements of the related host countries.

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.

The governance framework and its operational independence are disclosed in PIF's annual reports and website.

Information disclosed include, among other things; the organization structure, executive management composition, the role of the Board and General Assembly, and the role of internal and external auditors.

<http://www.pif.ps/governance/>

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.

Annual reports including the audited annual financial statements are published regularly, and publicly disclosed on PIF's website.

In addition to financial statements the annual report includes, among other things, information about assets allocations, key investments, return on investments, and dividend distribution. This information is also posted on PIF's website.

The size of PIF's investments in international markets poses no risk to financial stability of these markets.

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.

PIF's investment strategy is derived from PIF's main objective of promoting sustainable economic growth and private sector development in Palestine.

PIF's three years investment strategy is reviewed and approved by the Board of Directors. This strategy is reflected in the annual business plan which sets the priority for assets allocation as follows:

1. Originating and investing in strategic projects in underdeveloped and vital sectors in Palestine, in partnership with the Palestinian private sector and international investors.
2. Maintaining a foreign assets portfolio that composed of highly liquid capital markets investments, with the goal of maximizing return while minimizing risk, until adequate opportunities arise for deploying these funds in Palestine.

The use of leverage is limited to investments in private equity, mainly in the real estate sector.

PIF use of derivatives (Swaps and forwards) is limited for hedging currency positions.

PIF depends mainly on internal fund managers to manage its portfolios, the use of external fund managers is limited to investments in international capital markets. Fund managers activities, authorities and selection are governed by PIF's Capital Markets Policies and Procedures manual.

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.

PIF investment decisions are made on economic and financial bases and in line with PIF's strategy.

PIF is focusing on investments that have developmental impact on the Palestinian economy;

- create quality jobs and support female employment,
- assert economic rights and reduce market captivity;
- crowd in investment capital;
- spur growth in marginalized communities; and,
- promote innovation.

While achieving an acceptable financial return that ensures PIF's sustainability and organizational health

All investment activities are executed in line with the highest standards for asset management and guided by a clear governance structure that regulates investment decision making process. According to this structure all investment decisions are reviewed by PIF's executive committee and approved either by the Board investment committee or the Board of Directors based on a clear authority matrix.

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.

PIF is a separate legal entity governed by an independent Board of Directors. PIF is subject to the Palestinian corporate law and pay taxes like any other private entity.

Further, one of the key objectives of PIF is private sector development in Palestine. In doing so, the majority of PIF projects in the local market are performed in partnership/ cooperation with the private sector.

<http://www.pif.ps/partnership/>

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.

A policy on shareholder ownership rights has not been established yet. However, the current practice is that PIF exercises its ownership rights only in its investments in the domestic market and where PIF holds a significant share, with the primary objective of protecting the financial interests of PIF and the general shareholders.

For international investments, PIF follows a passive investment approach.

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.

Quarterly reports on investment performance are prepared for the Board of Directors.

The annual reports, including audited financial statements, are distributed to the President, the Government and available to the general public.

In addition, PIF website includes detailed information about the economic impact of PIF investments. For more details refer to PIF website:

<http://www.pif.ps/wp-content/uploads/2019/08/pif-brochour-english.pdf>

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 implementation of GAAP is reviewed annually. The review is performed as part of the internal audit department annual plan.