# 2022 IFSWF Member Self-Assessment Review

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When the Santiago Principles were originally agreed upon and voluntarily adopted by IFSWF's founding members in October 2008, global investment flows were threatened by heightened protectionist sentiments, particularly among developed market economies. The Principles were intended to allay the concerns of recipient countries that sovereign investors were motivated by other than financial interests. IFSWF members expected that their adoption of professional governance standards, as set out in the Principles, would reduce tensions with "recipient countries" and keep markets open to foreign investment. The apparently mundane Principle 24, which commits signatories to undertake a regular review of their implementation, takes on added consequence today for sovereign funds investing overseas as geopolitical tensions once again threaten market access. For a new generation of sovereign wealth funds that invest at home to spur economic growth and diversification, regular review of Santiago Principle self-assessments is similarly consequential as it demonstrates to domestic stakeholders their adherence to international standards and practices of good governance.

Beyond simply reviewing governance practices, the Santiago Principles also specified that sovereign wealth fund owners might opt to publicly disclose such assessments to the extent that they "may contribute to stability in international financial markets and enhance trust in recipient countries". The first board meeting of the independent IFSWF was held in November 2013 and reiterated that members might "potentially make [their self-assessments] public on their websites." This process of disclosure has since been institutionalized by the IFSWF and elevates the relevance of the Principles in promoting an open international investment regime.

In 2014, the membership of the IFSWF first established that completion of a self-assessment was a key requirement in its membership application process. Self-assessments submitted as part of a membership application are reviewed by the IFSWF Board, which determines whether it believes that the applicant fund implements the Santiago Principles. In 2016, the IFSWF instituted a formal triennial review of self-assessments with the support of the Secretariat. Founding members had begun to share case studies of their implementation of the GAPP as early as 2014 and again in 2016.

In February 2017, in the first triennial review, 26 IFSWF members prepared and published their self-assessments on the IFSWF's website. Our Fletcher School team conducted an independent review of these submissions. This was followed by a recommendation to the IFSWF Board that guidelines be prepared to assist founding members and applicants when interpreting the GAPP. Working with the IFSWF, we proposed draft guidelines and consulted with the Board members until approved by the membership. These were in place for the second triennial review in 2019. In that cycle, all full IFSWF members reviewed their self-assessments, with most (in fact, 85% of members submitting in both 2016 and 2019) enhancing their submission to increase the scope of their disclosures or to improve the clarity and details of their implementation of the GAPP.

The current, i.e. the third triennial review of GAPP implementations, was initiated by the IFSWF Secretariat in 2022. Since 2019, the IFSWF has expanded to 38 full members, including the admission of the Investment Corporation of Dubai to full membership in February 2023. All eligible full members submitted self-assessments. Of these, nine were from new members who did not participate in the 2019 cycle. Thus, 27 submissions from existing members were available for comparative analysis.

**Approach**

To prepare our analysis, each submission was paired with its 2019 counterpart and then evaluated for changes in content and accessibility. Based upon a screening approach designed for the 2019 cycle, we examined each submission, identifying significant and material changes from a member's previous submission. These are defined as the addition or removal of content in individual GAPP with an analytic focus centred in particular on issues pertaining to ownership, governance structures, investment mandate, funding protocols, investment policies and practices, risk management, and, more broadly, the scope of reporting. These included specifically expanded disclosures that sometimes drew extensively from available documentation to add detail and depth to descriptions of investment, risk management, and operational policies and procedures. We similarly examined the documents for minor changes in scope and materiality. These, for example, incorporated improvements in the clarity and completeness of disclosures, including removing redundancies, streamlining and reformatting text, and refreshing and expanding weblinks.

**Findings and Analysis**

As noted in our 2019 report, 85% of participating members exhibited material updates when implementing the GAPP between 2017 and 2019. Sixty per cent of those reporting were found to have instituted significant and material changes in their submissions. In 2022, all reporting members exhibited material updates when benchmarked against their 2019 submissions. Nearly 50% of those were significant and material. Perhaps most notable among the 2022 submissions was that 15 – i.e. 56% - of submitting members formally referenced sustainable investment goals and practices, including being a signatory of the UN Principles of Responsible Investment, integrating ESG data into investment and risk management decisions, carbon foot-printing investment portfolios, and adopting formal climate disclosure policies, such as those recommended by the Task Force on Climate-related Financial Disclosures (TCFD). Such references resulted in updates to the implementation of several GAPP, but most importantly, GAPP 18, 19, and 21, i.e. those Principles directly related to investment policy, risk management, and the exercise of shareholder rights. This finding is interesting for several reasons. First, it highlights the increasing relevance of environmental, social, and governance (ESG) risks to long-term investors. In addition, it firmly establishes a link between ESG and broader issues of sustainability in the governance of global investment institutions. Finally, the concentration of updates to GAPP governing investment and risk policies supports the view of ESG and sustainability as critical financial exposures to be factored into investment decision-making.

With regard to the depth of disclosures more broadly, across all submissions, the integration of the self-assessments with other reporting and disclosures by owners continued to grow. This is evident from the expansion in scope and scale of online links to external government sources embedded in the submissions. First identified in 2019, the practical significance of this development should not be understated. Increased online disclosures suggest that IFSWF members, and their owners, to varying degrees, are making greater use of online tools to share relevant information and documentation with their domestic and international stakeholders. Extending disclosures related to processes and procedures that underpin sovereign wealth funds' organisation and governance, investment, risk, and operational policies, and investment performance can reduce ambiguity between funds and stakeholders while creating opportunities for cooperation and collaboration.

Lastly, new members' submissions were also examined for clarity and completeness and found to be of similar scope and quality. As previously noted, self-assessments are required to be submitted to the IFSWF Board as part of the membership application process. Thus, new members will benefit from feedback from the Secretariat in preparing their self-assessments. This level of active engagement by the Secretariat is part of a broader initiative on the part of the IFSWF to administer and monitor submissions under the self-assessment process and is suggestive of a continued deepening and institutionalisation of the review process under GAPP 24 to encourage greater disclosure by its member institutions.

**The Santiago Principles and the Rise of Sovereign Development and Strategic Investment Funds**

A review of all 38 current members of the IFSWF indicates that fully half have mandates that are strategic or development in orientation and/or deploy capital in whole or in part domestically. This includes most of the newest members of the IFSWF, including especially funds domiciled in Africa and Southeast Asia. When the Santiago Principles were negotiated in 2008, most working group member mandates overwhelmingly targeted fiscal stabilisation or long-term savings with assets predominantly held in foreign currencies. In the intervening period, the number of development and strategic funds has increased worldwide, and their engagement with the IFSWF continues to expand. The original intent of the Principles was, and remains, to strengthen sovereign wealth fund governance to facilitate the global flow of capital by reducing barriers to investments by recipient countries. However, as sovereign wealth funds with strategic mandates seek to mobilise inward flows of foreign capital for investment in domestic development, the role of the Santiago Principles in reducing fund-to-stakeholder ambiguity and signalling a commitment to global standards of governance take on additional significance. This is particularly relevant in cases where investors view institutional gaps in local markets – including legal and regulatory abstruseness – as material risks to investment. Thus, the pursuit of IFSWF membership by funds with strategic and development mandates and their continuing commitment to the self-assessment process brings an added dimension to the relevance and resilience of the Santiago Principles as a benchmark for institutional governance.

**Takeaways**

The 2022 IFSWF Santiago Principle self-assessments include submissions from all eligible full IFSWF members. Overall, our review of the 2022 submissions suggests a continued improvement in the scope and quality of disclosure by IFSWF members, which we attribute in part to a concerted effort on the part of the IFSWF and its Secretariat to administer and monitor the self-assessment process, coupled with increasing member willingness to disclose details of their governance structures and investment and risk management processes. We further note that as the overall quality and completeness of submissions continue to improve, the scale of significant and material changes to the self-assessments declined marginally and anticipate this to continue. In this respect, it is important to properly appreciate the role and intent of the GAPP as accepted practices and governance principles for the professional management of global investment organisations. The changes and enhancements reflected in the self-assessments are indeed professional in nature, i.e. they are largely procedural and policy-centric and focus on investment, risk, and operational processes. It is in this regard that the Santiago Principles represent an appropriate and meaningful benchmark for operational and institutional governance.

**Read the 2019 Analysis**