



## Santiago Principles Self-Assessment

### JSC National Investment Corporation of the National Bank of Kazakhstan

Fund Details <sup>[1]</sup> Fund Website <sup>[2]</sup> Search Assessments <sup>[3]</sup>

#### Pillar 1

#### **Legal framework, objectives, and coordination with macroeconomic policies**

##### **Principle 1 Description:**

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.

##### **Principle 1 Implementation:**

The legal status of the Company is written in the Charter and states the following:

1. The Company is a legal entity under the legislation of Kazakhstan and the Charter;
2. The Company is a profit organization;
3. The Company has a separate balance sheet, bank accounts and a stamp with the full corporate name in the state and Russian languages on it;
4. The period of activity of the Company is not limited.

The Company adheres to the regulations and standards written in the internal documentation. These documents, including, but not limited to, the Charter and the Investment Strategy on the management of alternative instruments portfolio of foreign exchange reserves (hereinafter - The Investment Strategy), provide a legal basis for the Company to implement its activity to the full extent.

According to the rights and liabilities are written in the Charter, the Company:

- keeps accounting, taxation and statistical records;
- prepares and submits financial and other reports covering all of the Company's activities to the Shareholder and the authorized governmental bodies within a specified timeframe.
- The Company is responsible for the completeness and adequacy of information submitted to the Shareholder.

The legal documentation of the Company (such as the Certificate of State Registration and the Charter) are all publicly disclosed and available on the Company's website <http://nicnbk.kz/documents/licences> [4]

In relation to any undertaken activity, the Company acts in accordance with the legislation of Kazakhstan.

### **Principle 2 Description:**

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

### **Principle 2 Implementation:**

The objectives of the Company are clearly stated in the Charter and are as follows:

1. To conduct asset management of the National Fund of the Republic of Kazakhstan (hereinafter – National Fund), foreign exchange reserves of the National Bank of Kazakhstan (hereinafter – FX reserves), pension funds and all other assets in the manner prescribed by the legislation of Kazakhstan;
2. To improve the efficiency of the asset management of the National Fund, FX reserves, pension funds and all other assets under management of the Company;
3. To apply global best practices to alternative investments;
4. To gain profit from, including but not limited to, any activity permitted by the legislation of Kazakhstan.

### **Principle 3 Description:**

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.

### **Principle 3 Implementation:**

By acknowledging the significance of the trust management of the part of international reserves of Kazakhstan along with the importance of its objectives, the Company certifies the coordination of its activities with the domestic fiscal and monetary authorities to ensure consistency with the overall macroeconomic policies, if applicable.

However, at the time of this application, the Company does not pursue any activity which in any way impacts the current domestic macroeconomic policy.

**Principle 4 Description:**

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.

**Principle 4 Implementation:**

The Investment Strategy describes the Company's approach to funding, withdrawal, and spending operations. The disclosure of the Investment strategy is subject to the NBK's decision and can be provided upon request (given the NBK's agreement to do so).

The Company is obliged to publish its audited financial statements on an annual basis. The audited financial statement for the year 2018 is available at <https://www.nicnbk.kz/press-center/financial-reports> <sup>[5]</sup>

The audited financial statement for the year 2019 will be available after March 31, 2020. The publication date is in accordance with the requirements specified in the legislation of Kazakhstan.

The Company manages a part of the FX reserves. The schedule of transfers of the assets under the trust management of the Company, as well as conditions under which the assets can be withdrawn from the trust management of the Company, are determined by the Investment Strategy, which is approved by the Executive Board of the National Bank of Kazakhstan.

Please also note that the Company does not pursue any spending on behalf of the government, as it currently manages a part of the foreign exchange reserves only.

**Principle 5 Description:**

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.

**Principle 5 Implementation:**

The reporting process which covers the frequency and the types of required reports for submission to the Shareholder is outlined in the Charter, the Investment Strategy and other internal documentation.

The Company ensures the timely submission of all necessary reports. The data which the Company submits to the National Bank of Kazakhstan (hereinafter - NBK) as part of its reporting process is used for the formation of the balance of payments, as well as in the analysis of the structural changes in foreign exchange reserves.

## **Institutional Framework and Governance Structure**

### **Principle 6 Description:**

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.

### **Principle 6 Implementation:**

The Company maintains a clear and effective division of roles and responsibilities of each member of the Management Board, which is regulated by the Order on the distribution of duties among the members.

The Company believes in facilitating a high degree of accountability and operational independence as part of its management process.

### **Principle 7 Description:**

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.

### **Principle 7 Implementation:**

The aspects addressed in the question are covered in the Charter under the Shareholder's reserved matters and are outlined below:

- to determine the composition and the term of office of the Board of Directors, the election of its members and the early termination of their office;
- to make decisions on the size and terms of remuneration and reimbursement of expenses to the members of the Board of Directors for the office execution;
- to determine the number of members of the Management Board of the Company, term of office of the Management Board, election of the Chairman and members of the Management Board and early termination of office;
- to hold a financial audit of the Company;
- to determine the process of reporting on the performance of the Company to the Shareholder and select the mass media.

### **Principle 8 Description:**

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.

### **Principle 8 Implementation:**

According to the Charter, the Executive Officers of the Company (members of the Board of Directors, members of the Executive Board of the Company) ensure the following:

1. fulfil their responsibilities fairly and use ways which serve the interests of the Company and the Shareholder in the best possible way;

2. must not use or allow using the Company's property contrary to the Charter of the Company, decisions of the Shareholder and the Board of Directors of the Company, and also for personal purposes and must not abuse their authority when making transactions with affiliates;
3. must ensure the integrity of the accounting and financial reporting systems, including conducting an independent audit;
4. control disclosure and provision of information about the activity of the Company in accordance with requirements of the Law of Kazakhstan;
5. must keep information about the Company's activities confidential.

**Principle 9 Description:**

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

**Principle 9 Implementation:**

The Company is managed by a collective executive body - the Management Board, which makes decisions regarding the operational matters of the Company.

The duties and obligations of the Management Board are given in the Charter and in the Provision of the Management Board.

The Management Board acts in the interests of the Shareholder and reports to the Shareholder and the Board of Directors of the Company. The Management Board must exercise decisions of the Shareholder and the Board of Directors of the Company. In their activity, members of the Management Board are guided by principles of professionalism, integrity, honesty, common sense, and discretion.

**Principle 10 Description:**

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

**Principle 10 Implementation:**

The financial year of the Company is a calendar year (from January 1 to December 31).

The financial reporting of the Company includes a balance sheet, income statement, cash flow statement, statement of changes in capital and an explanatory memorandum.

The Law of Kazakhstan on Accounting and Reporting prescribes the Company's accounting and reporting procedures.

**Principle 11 Description:**

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.

**Principle 11 Implementation:**

The Management Board annually submits an audited financial report for the reported financial year to the Shareholder for discussion and approval in accordance with the Audit Law of Kazakhstan.

Besides the financial report, the Management Board submits an auditor's opinion including auditor's advice (letter to the management) to the Shareholder.

The Company annually publishes financial reports in the manner and within the timeframe set by the Law of Kazakhstan.

**Principle 12 Description:**

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.

**Principle 12 Implementation:**

In accordance with the Charter, the Company must implement an annual audit of its financial statement by a recognised international auditor. The Company ensures compliance with this stated rule.

**Principle 13 Description:**

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.

**Principle 13 Implementation:**

The work arrangements, as well as the workplace relations, which touch upon professional and ethical standards, are regulated by internal documentation. In the process of job placement to any position, it is obligatory that the candidate gets acquainted with these standards.

**Principle 14 Description:**

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.

**Principle 14 Implementation:**

The Company adheres to the opinion that any engagement with third parties with respect to operational management should be considered thoroughly. Thus, a separate agreement comprising the terms and conditions based on economic, financial and social grounds are signed for each case individually.

**Principle 15 Description:**

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.

**Principle 15 Implementation:**

The Company respects the regulatory and disclosure requirements of the countries in which it implements its activities and operations. The Company takes all possible measures to comply with relevant legal and regulatory requirements of any host country concerned.

**Principle 16 Description:**

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.

**Principle 16 Implementation:**

The aspects in which the Company is independent of the Shareholder are written in the Charter and are as follows:

- the Company has a property separated from that of the Shareholder, and it is not liable for his/her obligations. The Company is liable for its obligations to the extent of its property;
- the Company can enter into transactions (contracts), acquire property and personal non-property rights, sue in court and act as a defendant before the court, and take other actions in accordance with the legislation of Kazakhstan;
- the Company can acquire and grant rights to own and use the ownership documents, technologies, "know-how," and other information;
- the Company can open accounts with banks and other financial institutions in and beyond the territory of Kazakhstan both in national and foreign currency in the prescribed manner;
- the Company develops and approves the internal documentation;
- the Company has a right to establish subsidiaries and affiliates and to take part in the equity capital and activity of other legal entities both in the territory of Kazakhstan and abroad in the manner specified by the Charter and the legislation of Kazakhstan.

In accordance with the procedure specified by the legislation of Kazakhstan and the Charter, the Company may establish branches and representative offices both in Kazakhstan and abroad to act for and on behalf of the Company based on the Regulations thereon. The Company may allocate to them main assets and working capital from its own assets and define their operating procedures in accordance with the legislation of Kazakhstan. The property of a branch or representative office shall be stated on its own balance sheet and the balance sheet of the Company as a whole;

The persons appointed by the Management Board of the Company hold the guidance of branches and the representative offices. Directors of branches and representative offices shall act under the power of attorney issued by the Company.

**Principle 17 Description:**

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.

**Principle 17 Implementation:**

The Company publishes financial reports annually in the manner and within the timeframe stated by the Law of Kazakhstan.

**Pillar 3**

**Investment and Risk Management Framework**

**Principle 18 Description:**

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.

**Principle 18 Implementation:**

The Company's primary goal is to improve asset management efficiency as well as to increase assets yield in the long-term by maximizing risk-adjusted returns through asset diversification in a manner consistent with the Investment Strategy.

To achieve its goal, the Company invests in traditional and alternative assets in the international financial markets with the investment horizon of 10-20 years, and other types of activities involving trust asset management.

The Investment Strategy covers the classes of investments in which the assets are to be invested; overall risk appetite for the portfolio; sets limitations on allocation between classes of investment; sets reporting and monitoring requirements. The Investment Strategy then requires to establish target returns and risk limitations, as well as minimum diversification requirements for the classes of investments; to define the purpose of using leverage; specific reporting and monitoring requirements for the classes of investments.

The Company actively implements risk management by monitoring possible risks, including credit risk, market risk, liquidity risk and operational risk.

The Investment Strategy covers the classes of investments in which the assets are to be invested; the balance between risk and return in the overall portfolio; determination of the



benchmark against which the performance of the portfolio as a whole will be assessed; sets limitations on allocation between classes of investment as well as an amount of capital that can be managed by external managers; sets reporting and monitoring requirements.

The general outline of the Company's process for external investment manager selection is outlined below:

- the Company uses external sources to create a list of investment managers that satisfy its selection criteria and
- conducts a quantitative evaluation process to create a Long list of managers;
- the Company conducts due diligence on managers in the Long list of managers, on the basis of which it forms a shortlist of managers;
- the Company performs further due diligence on managers in the shortlist of managers, on the basis of which a List of approved managers is formed;
- the List of approved managers is presented to the Board of Directors for approval.

Agreements, where all terms and conditions, as well as the responsibilities (including the reporting procedures) of the manager, are identified, are signed with each of the selected managers.

The Company monitors the investment managers and the investment performance on a regular basis and reports the results to the Investment Committee in accordance with internal procedures.

As was previously explained in the response to Question 4, the disclosure of the Investment strategy is subject to the NBK's decision and can be provided upon request (given the NBK's agreement to do so).

**Principle 19 Description:**

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.

**Principle 19 Implementation:**

Please refer to Question 18.

Not applicable, as the Company does not invest other than for economic and financial considerations.

The Company manages the entrusted assets in accordance with the Legislation of Kazakhstan

**Principle 20 Description:**

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

**Principle 20 Implementation:**

The Company fully understands its governmental status that may bring privileges such as special tax treatments and immunity; however, the Company does not have and does not seek access to privileged information or inappropriate influence by the Government. The Government does not direct or interfere with the investment decision process.

The Company's internal policies provide a further framework for staff to prevent access to and use of privileged information.

**Principle 21 Description:**

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.

**Principle 21 Implementation:**

The Company understands the need to alleviate concerns about noncommercial investment objectives and national security in recipient countries.

The Company's investment decisions aim to maximize risk-adjusted financial returns and achieve targets set in its investment policy.

The Company will exercise ownership rights in its investments, where appropriate, to protect the financial interests of the assets under management. The Company's general approach to voting securities is guided by financial considerations.

**Principle 22 Description:**

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 22 Implementation:**

The Company implements the risk management policy which defines the overall risk management framework, including all steps of identifying, assessing and managing risk. Managing operational risk is an integral part of management at all levels. Each division of the Company is specifically charged with the task of identifying, analysing, monitoring, reporting and managing operational risks.

The Company's dedicated risk management team reports on the risk parameters of the total portfolio to the Investment Committee, Executive Board and Board of Directors on a consolidated and timely basis. The Company uses an external risk system for its risk identification and assessment, as well as scenario analysis.

The relevant documents of the Company cover the core business processes, as well as non-investment risks, map to ensure the proper control of operations and business continuity.

The Company's operations and financial statements are audited annually by an independent third-party auditor. Internal independent (reports directly to the Board of Directors) audit function is also in place. The business continuity policy is set by the Executive Board.

The information about the Company's risk management framework will be publicly disclosed on the Company's website [www.nicnbk.kz](http://www.nicnbk.kz) [6]. The English version is available upon request.

**Principle 23 Description:**

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.

**Principle 23 Implementation:**

According to the standards defined in the Charter and in the Investment Strategy, the Company submits the reports, including the report on the assets and investment performance with a detailed explanation on the performance of each asset class to the NBK. The reporting frequency is defined for each report type separately in the Investment Strategy.

**Principle 24 Description:**

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

**Principle 24 Implementation:**

he Company confirms its strong intention of complying with the GAPP, i.e. to properly reflect appropriate governance and accountability arrangements as well as to conduct its investment practices on a prudent and sound basis. This will be delivered through a regular review of its implementation.

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#### **Links**

[1] <https://www.ifswf.org/node/460>

[2] <http://www.nicnbk.kz/en>

[3] <https://www.ifswf.org/assessments>

[4] <http://nicnbk.kz/documents/licences>

[5] <https://www.nicnbk.kz/press-center/financial-reports>

[6] <http://www.nicnbk.kz>