



## Santiago Principles Self-Assessment

JSC Samruk-Kazyna

[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:**

Joint Stock Company Sovereign Wealth Fund Samruk-Kazyna (hereinafter – the Fund) is a non-governmental legal entity in the form of a joint-stock company, which has assets owned by it on the right of private property. Thus, in relations with the state, the Fund acts as a private enterprise entity. In this regard, the principles of conducting business as an independent commercial structure are defined.

Delineation of powers of the Government of the Republic of Kazakhstan (RoK) as the Sole Shareholder and in terms of state regulation relating to the Fund governance. The Government participates in the Fund governance solely through the exercise of the powers and interests of the Sole Shareholder.

The Government provides the Fund and organizations with full operational independence and does not allow interference from the Government and public authorities in operational (current) and investment activities. The functions and rights of the shareholder must be exercised through the Board of Directors and establishment of key performance indicators.

The role of the Board of Directors in the Fund governance is increasing on an ongoing basis, with a focus on the opinion of independent directors. The Fund will strive to maintain the share of independent directors in the portfolio companies (hereafter – PCs) at the level of 50% of the composition of the Boards of Directors.

The structure of the Board of Directors composition will be formed given the requirements to the formation of the full-fledged and effective committees that are key working bodies of the Board of Directors. The Fund will support the work with the succession of the composition of the PC Board of Directors. For this purpose, high-quality work will be ensured to maintain the Fund's talent pool for potential members of the PC Board of Directors, as well as to select and hire directors who meet the target profile.

The Fund participates in PC governance through the exercise of shareholder rights and interaction with the PC Boards of Directors, including through its representatives on the PC Boards of Directors. For all PCs, regardless of the plans and timing of the IPO, the goal is to significantly improve corporate governance practices to the level of listing requirements

of leading international exchanges in terms of compliance, disclosure, transparency, procurement and other aspects of corporate governance.

\*The Fund was founded in accordance with the Decree of President of the Republic of Kazakhstan dated October 13, 2008 No.669 “On some measures on competitiveness and sustainability of national economy” and with the Decree of the Government of the Republic of Kazakhstan dated October 17, 2008 No.962 “On measures on realization of the Decree of President of the Republic of Kazakhstan No.669” by merge of two joint stock companies Kazakhstan Holding for the Management of State Assets SAMRUK and Sustainable Development Fund KAZYNA.

The Fund performs its functions in compliance with the Law of the Republic of Kazakhstan “On Sovereign Wealth Fund” (hereinafter - Law on SWF), the Law of the Republic of Kazakhstan “On Joint Stock Companies” (hereinafter – Law on JSC), the Agreement on Interaction between the Government of the Republic of Kazakhstan and the Fund preliminary approved by the Decree of the Government of the Republic of Kazakhstan dated December 14, 2012 No.1599 (hereinafter - Agreement on Interaction), the Fund Charter, and other respective laws of Republic of Kazakhstan.

The Government of the Republic of Kazakhstan (hereinafter – the Government of the RoK) segregates its powers of the Sole Shareholder of the Fund from its powers related to state regulatory functions .

Legal relationships between the Fund and the Government are specified in the Law on SWF, the Fund Charter, Agreement on Interaction, the Fund Corporate Governance Code and relevant legal acts. The key features of the Fund's legal basis and structure are specified in the Law on SWF.

The Fund Charter, Law on SWF, Agreement on Interaction, Corporate Governance Code are publicly disclosed at:

<https://sk.kz/about-fund/regulatory-and-legal/> <sup>[4]</sup>

### **Principle 2 Description:**

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

### **Principle 2 Implementation:**

The Fund is a sovereign fund of the Republic of Kazakhstan, the sole shareholder of which is the Government, and operates as an independent commercial structure.

Considering the need to ensure sustainable growth and develop a business model resilient to global challenges, the vision of the Fund has been determined as becoming the leader of the national economy, implementing innovative development based on the principles of welfare of the people and environmental protection through responsible investments.

The mission of the Fund is ensuring sustainable development of the economy and creating long-term value through effective diversified portfolio management and business support in the interests of the people of the Republic of Kazakhstan.

The role of the Fund:

- ensuring synergy between portfolio companies;
- making own investments especially in non-primary industries and new areas where the presence of the private sector is limited;
- developing of target industries through the provision of relevant expertise, competence and investments;
- attracting investments, including foreign investments, through strategic partnership;
- developing a progressive business culture based on the principles of protecting property and shareholders' rights and supporting domestic companies, including SMEs;
- developing international partnerships with global strategic investors and industry leaders, as well as other sovereign wealth funds.

In accordance with the mission of the Fund, 3 strategic directions have been identified:

- 1) Effective and active portfolio asset management. The goal is to double the net asset value. The Fund will ensure the optimization and improvement of the portfolio quality, introduction of advanced technologies, as well as improvement of the business model.
- 2) Business support. The goal is to develop fair competition. The fund is being transformed into an investor owning only a majority stake sufficient for key sectors of the economy
- 3) Sustainable development. The goal is to implement ESG principles. The key factors for the Fund should be the well-being of people, ecological balance and, at the same time, ensuring long-term financial stability based on best business practices and corporate governance principles. The introduction of ESG principles as an approach to doing business and developing corporate responsibility will contribute to increasing the long-term value of assets, increasing investment attractiveness.

In compliance with the Fund's Development Strategy, new approaches have been developed for a transition to a low-carbon business, whilst maintaining a reasonable balance between energy and environmental security. The Fund has set itself the goal of achieving carbon neutrality by 2060.

On a 10-year horizon, as part of the key priorities, the focus is on the introduction of ESG principles and the implementation of infrastructure and green investments in the Republic of Kazakhstan. Optimization and improvement of the efficiency of asset portfolio management has been approached via three channels – assets for strategic management, investment management and transfer to the competitive environment.

**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:**

In its activities, the Fund is strictly guided by its stated mandate: enhancing the national welfare of the Republic of Kazakhstan and ensuring long-term sustainability for future generations.

Coordination with domestic fiscal and monetary authorities is regulated through various mechanisms such as:

- 1) Dividend policy of the Fund;
- 2) Rules for channeling funds to the National Fund, a pool of assets held at the National Bank of the Republic of Kazakhstan, received through the sale of assets of the Fund's group;
- 3) The amount of funding received from the National Fund and the republican budget;
- 4) Agreement between the Government and the National Bank of the Republic of Kazakhstan, where the Fund is one of the executors.

**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 sources of funding for the SWF are:

- 1) Replenishment of the authorized capital of the Fund at the expense of the Republican Budget (RB);
- 2) Government loans at the expense of the RB and the National Fund;
- 3) Market loans.

The Government is the Sole Shareholder of the Fund and the Fund pays dividends to the Government in compliance with the Dividend Policy of the Fund approved by the Decree of

the Government of RoK dated May 29, 2013 No.543.

The Fund gets funding from the Government of RoK in accordance with the norms of the Budget Code for financing infrastructure projects under the state programs.

The sources of the Fund's funding are publicly disclosed in annual financial statements [5].

The Dividend Policy of the Fund is available at: <https://sk.kz/about-fund/regulatory-and-legal/?lang=en> [6]

#### **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:**

All the relevant statistical data pertaining to the Fund is regularly and timely disclosed to:

1) the Government of RoK as Sole Shareholder of the Fund in accordance with the Law on JSC, Charter of the Fund and Corporate Governance Code of the Fund, in the annual reports approved by the Board of Directors.

2) the Government of RoK and public authorities in a special portal according to the Decree of the Government of RoK dated October 31, 2012 No.1384. Data is disclosed within the following reports :

- quarterly information on debt structure and repayment schedule;
- quarterly statements on cash flow from National Fund tranches;
- monthly information on budget investments development;
- quarterly information on investment development and capacity on investment projects;
- monthly information on budget loans development;
- information on implementation of Development Plan of the Fund;
- and other reports.

3) the Government of RoK as regulator in accordance with the industry legal acts and regulations.

## **Pillar 2 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 Fund strives to comply with the highest standards of corporate governance, since it considers this to be one of the most important conditions for high efficiency and business sustainability.

The Fund operates an efficient and transparent corporate governance system that meets international standards. The Fund's corporate governance system is a set of processes that ensure the management and control over the Fund's activities, as well as a system of relationships between the Sole Shareholder, the Board of Directors, the Management Board and key stakeholders.

The corporate governance system also includes the Committees of the Board of Directors, Management Board, Committees under the Management Board, Internal Audit Service, Ombudsman and the Corporate Secretary. The activities of all bodies are regulated by the legislation of the Republic of Kazakhstan, the Corporate Governance Code of the Fund, the Charter of the Fund and internal documents.

The Law on SWF sets up the following governance framework in the Fund:

Superior Body – Sole Shareholder

Governing Body – Board of Directors

Executive Body – Management Board

Each level of governance has clearly determined competences and responsibilities reflected in the Law on SWF.

According to the Law on SWF, one of the key principles of interaction between the Sole Shareholder of the Fund and the Fund is that interference by the public authorities to the operational activities of the Fund or its Portfolio Companies is prohibited except for cases provided by the laws of the Republic of Kazakhstan.

According to the provisions of the Corporate Governance Code, the Government of RoK participates in the management of the Fund and group of the Fund only through implementation of the power of the Sole Shareholder of the Fund provided for by the Law on SWF and the Fund Charter and representation in the Board of Directors of the Fund.

<https://sk.kz/about-fund/corporate-governance/> <sup>[7]</sup>

#### **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:**

In compliance with the Law on SWF, the Fund Charter the decisions on approval of the Charter of the Fund, Corporate Governance Code, long-term strategy, annual financial reports as well as appointment of members of the Board of Directors fall within the exclusive competence of the Sole Shareholder of the Fund – the Government of RoK. At the same time, according to the Law on SWF the Sole Shareholder of the Fund appoints the CEO of the Fund. Decisions on disposal of shares of companies on the list, determined by the Sole Shareholder of the Fund and transfer of these shares in trust management as well as decision on the liquidation, reorganization of companies on the list, determined by the Sole Shareholder of the Fund also fall within the exclusive competence of the Sole Shareholder of the Fund.

On April 15, 2015 the Government of RoK approved a new Corporate Governance Code aimed to ensure growth of the long-term value and sustainable development of the Fund. The Corporate Governance Code is disclosed on the Fund website and available at: <https://sk.kz/about-fund/regulatory-and-legal/> [8]

### **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:**

The list of key issues referred to the exclusive competence of the Board of Directors includes issues requiring decisions and approval in relation to:

- Medium and short-term planning, key performance indicators of the Fund;
- Determination of the audit organization, the maximum amount of payment for audit services;
- Policies for risk management, social responsibility, sponsorship and charitable assistance, disclosure of information;
- Credit and industrial and innovation policy;
- Committees of the Board of Directors;
- Quantitative composition, term of office of the Management Board, election and early termination of powers of members of the Management Board, except for the Chief Executive Officer;
- Quantitative composition, term of office of the Internal Audit Service, appointment and early termination of powers of its Head;



- Appointment of the Corporate Secretary and early termination of his/her powers, determination of the term of office of the Corporate Secretary;
- Acquisitions by the Fund of ten or more percent of shares of other legal entities;
- Consideration of reports on the results of assessment of corporate governance and performance evaluation of the Board of Directors of the Fund;
- Related-party transactions;
- Annual report of the Fund.

A complete list of issues referred to the exclusive competence of the Board of Directors is determined by the Law of the Republic of Kazakhstan “On Sovereign Wealth Fund” and is disclosed in the Charter of the Fund.

In the Board of Directors of the Fund, the share of independence is 50%, which is in line with international best practices. Moreover, the Chairman The Board of Directors of the Fund is an independent director. By the decision of the Board of Directors dated February 6, 2020, Jon Dudas was elected as a Chairman of the Board of Directors of the Fund.

The Board of Directors and its Committees ensure that the balance of skills, experience and knowledge is maintained, ensuring the adoption of independent, objective and effective decisions in the interests of shareholders and other key stakeholders.

Members of the Board of Directors have the necessary experience in the field of sustainable development, namely in environmental issues, social agenda and good corporate governance.

We constantly monitor the main changes in international corporate governance trends, in national legislation and introduce the best corporate governance practices.

The Fund applies the OECD Guiding Principles of Corporate Governance for State-owned Enterprises.

In 2022, we plan to strengthen provisions of the Corporate Governance Code of the Fund in order to

further improve the efficiency of decision making processes. The new provisions will include

increase the percentage of independence of the compositions boards of directors (50% and more), strengthening the management system

risks, internal audit systems and compliance,

board succession planning, integration of ESG goals, gender balance.

Annual report of the Fund can be found [here](#) [5].

### **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 Management Board is the collegial executive body of the Fund, which manages its current activities and is responsible for implementing the development plan, as well as decisions taken by the Board of Directors and the Sole Shareholder of the Fund.

The Management Board of the Fund carries out its activities in accordance with the legislation of the Republic of Kazakhstan, the Charter of the Fund, decisions of the Sole Shareholder and the Board of Directors of the Fund, the Regulations on the Management Board and other internal documents of the Fund.

The Chief Executive Officer is appointed by the decision of the Sole Shareholder. Members of the Management Board are elected by the decision of the Board of Directors of the Fund.

In their activities, the Management Board and the Chief Executive Officer are accountable to the Sole Shareholder and the Board of Directors of the Fund. The competence of the Management Board includes, inter alia, the following:

- Taking prompt actions in respect of companies to prevent disruptions in the completeness and deadline of the implementation of investment decisions and investment projects;
- Formation of a unified (including by industry sectors of companies) financial, investment, production and economic, scientific and technical, money management, HR, social and other policies in relation to companies;
- Approval of the rules for the development, approval, adjustment, execution and monitoring of the implementation of companies' development plans;
- Approval of the staff size, staff schedule and organizational structure of the Fund;
- reporting on the results of companies' activities to the Board of Directors of the Fund;
- Taking decisions on issues of the Fund's internal activities.

In order to improve the efficiency of the decisions taken by the Management Board, there are five committees: Investment and Strategy Committee; HR Committee; HSE Committee; Academic Council and Modernization Council.

The objective of the Investment and Strategy Committee is to assist in increasing efficiency

in decision-making when managing the Fund's Asset Portfolio to achieve the Fund's strategic KPIs by presenting a platform for discussion, developing recommendations and proposals on the following issues (including ensuring taking risk-based decisions):

- Strategic Development of the Fund and Portfolio Companies;
- Management of the Fund's portfolio of assets and the portfolio of investment projects of the Fund and Portfolio Companies;
- Risk management (financial, investment and operational);
- Implementation of the Investment Policy, Credit Policy, Debt Management and Financial Sustainability Policy;
- Implementation of Corporate Standards for investment activities, strategic and business planning, management of large capital projects.

In compliance with the Law on SWF, Government of the RoK – the Sole Shareholder of the Fund does not interfere in the operational activities of the Fund, except as required by laws and acts of the President of the Republic of Kazakhstan. The Government of the RoK administers the Fund solely through the exercise of the powers of the Sole Shareholder provided for by the Law on SWF and the Charter of the Fund, as well as by representing the members of the Government of the RoK on the Board of Directors of the Fund. At the same time, according to the Corporate Governance Code of the Fund, no state/government representative is allowed to sit on the PCs' Boards.

The Fund's Development strategy for 2018-2028 was preliminary approved by the Fund's Management Council (Minutes No.18-01-7.5 dated April 19, 2018) and was finally approved by the Decree of the Government of RoK No.656 dated October 17, 2018. The Sole Shareholder of the Fund, the Government of the RoK, finally approves the Fund's Development Strategy and makes changes and additions to it. The Fund's Board of Directors performs the control for implementation of Fund's Development Strategy and executes its monitoring. According to Corporate Governance Code, the Fund's Management Board is also in charge of the implementation of the Development Strategy, holds in-person meetings and discusses the issues on its implementation.

**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 accountability framework of the Fund operations is defined by the Law on SWF, Charter of the Fund and Corporate Governance Code.

The Law on SWF, Charter of the Fund and Corporate Governance Code are available [here](#) [6].

**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 Fund issues Annual Report according to the Corporate Governance Code, Kazakhstan Stock Exchange Listing Rules and GRI standards, among others.

Consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and in timing set by the Law on JSC.

Annual report and consolidated financial statements are available [here](#) <sup>[5]</sup>.

**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:**

The Fund's [consolidated financial statements](#) <sup>[5]</sup> are audited annually by the external independent auditor, currently EY, as well as financial statements of Portfolio Companies included to the consolidation. Audit is conducted in accordance with IFRS. Selection of the external auditor is carried out in accordance with the Procedure for Auditor Selection, approved by the Board of Directors of the Fund.

**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:**

As it is fixed in the Corporate Governance Code and the Code of Conduct, the Fund should comply with the highest ethical standards and implement appropriate procedures to ensure that all employees and partners of the Fund comply with these standards.

The Fund established professional and ethical standards and made it known to the governing board, management and employees.

In the course of operations and transformation of the Fund, in 2017 corporate values in form of five fundamental principles – PRIME (P – Partnership, R – Respect, I – Integrity, M – Meritocracy, E – Excellence) were defined.

The anti-corruption culture is an integral part of the corporate culture of the Fund Group, as well as the requirement provided for in Article 9 of the Law of the Republic of Kazakhstan “On Combating Corruption” (hereinafter - the Law).

Thus, in order to implement coordinated actions as part of the anti-corruption policy of the Fund and its Portfolio Companies, on February 16, 2021, the Memorandum of Cooperation was signed between the Fund and the Anti-Corruption Agency of the Republic of Kazakhstan (hereinafter - the Anti-Corruption Service) and the joint project office, was opened in the Fund’s building.

In compliance with the requirements of Article 16 of the Law, as of December 31, 2021, 77 independent Compliance Services and 44 subdivisions were created in the Fund Group of companies, which have been assigned to perform the functions of anti-corruption compliance services.

The Audit Committee considered and approved the introduction of a third-party managed hotline (administered by KPMG) for anonymous reporting of compliance violations and unethical behavior.

In 2021 the following documents were developed in order to establish high ethical standards: the Anti-Corruption Policy, the Rules for Verifying the Reliability of Counterparties, the Policy on Settlement of the Conflict of Interests, the Internal Control Rules for Distinguishing the Rights of Access to Insider Information and Preventing the Possibility of Illegal Use of Such Information by Insiders.

The Code of Conduct is available at: <https://sk.kz/about-fund/regulatory-and-legal/> <sup>[8]</sup>

#### **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:**

In 2021, the Public Council of the Fund was formed as an advisory body to represent the interests of civil society and take into account the opinion of the public in the discussion and decision-making, increasing accountability and transparency of activities of the Fund and Portfolio Companies.

Tasks of the Public Council:

? Representing the interests of civil society

- ? Developing constructive interaction with civil society
- ? Monitoring the implementation of the Fund's development strategies and plans
- ? Submitting recommendations on improving the Fund's activities

The Fund continues to work on the development of the procurement model. In March 2022, the Board of Directors of the Fund approved a new Procurement Procedure aimed at increasing the transparency of procurement of the Fund's organizations, removing barriers to business and supporting domestic entrepreneurs without violating the principles of membership of the Republic of Kazakhstan in international organizations.

As part of ensuring the digitalization of the procurement process in order to simplify and streamline procurement procedures, work is carried out to increase systematically the share of procurement of goods and materials through an electronic store.

There is also an electronic procurement information system, which is a single portal for companies belonging to the Fund group, in which a full cycle is performed from planning the need for goods, works and services, further procurement, conclusion and execution of contracts, ending with the delivery of goods to the warehouse.

The procurement system of the Fund's Group guarantees transparency of procedures, equal conditions of competition, fair partnership, reliability of suppliers and full compliance by all parties with relevant standards.

Prequalification is the process of evaluating potential suppliers with qualification requirements for acquired goods, works, and services.

Prequalification contributes to the development of the procurement system, development of quality and raising the level of competitiveness of domestic entrepreneurs and production in general.

Since the beginning of 2021, the Fund has put into effect a new model of prequalification (PKO – 2.0), which was developed in accordance with the global principles of qualification selection of potential suppliers.

The new PKO – 2.0 model serves to assess objectively the level of potential suppliers before procurement, both in terms of their level of financial stability, production capabilities, and existing experience as a supplier. The PKO procedure makes it possible to increase not only the efficiency of procurement, but also transparency, as well as optimize the timing of procurement for both customers and suppliers.

To date, the prequalification is carried out only for goods, works and services that are of high importance for the business lines of the Fund's Subsidiaries in terms of use in key production processes.

By the end of 2021, 23 categories were developed jointly with the Fund's PC, while 71 potential suppliers were included in the Register of Qualified potential Suppliers. At the same time, the new PKO-2.0 model allowed to achieve the following indicators:

- single-source procurement has been reduced within the framework of the prequalification, the share of failed procurement has decreased to 1%;
- the level of satisfaction with the prequalification process among potential suppliers was 98.3%.
- as part of the PKO 2.0 process, goods, works and services worth over USD 360 mln were purchased from domestic entrepreneurs in 2021.

During 2021, a number of amendments were introduced to the Fund's Procurement Standard (it details the Procurement Procedure, hereinafter - the Standard), which were approved by the Management Board and aimed at improving the procurement process of the Fund companies and supporting domestic commodity producers.

Key amendments:

- extension of the validity period of the standard for making payments to domestic producers within 5 working days before December 31, 2021;
- optimization of the procedure for forming the Register of Commodity Producers of the Fund and providing the opportunity to participate in the procurement of commodity producers of goods similar to those purchased;
- simplification of the process of forming and maintaining the register of goods producers of the Fund. There is no need for potential suppliers to provide a number of constituent documents;
- optimization of dumping thresholds for construction and assembly works and goods (8 and 15 percent, respectively).

#### **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 Fund conducts activities in other countries in compliance with all applicable regulatory and disclosure requirements of those countries.

#### **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 Fund's Corporate Governance Code states "The Government governs the Fund and the Organisations solely through exercising its powers of the Sole Shareholder of the Fund, as provided by the Law "On the Sovereign Wealth Fund" and the Fund's Charter, and through its representation on the Fund's Board of Directors.

The main principles and issues of interaction between the Government and the Fund are regulated by the Agreement on Cooperation Between the Government of the Republic of Kazakhstan and the Fund, approved by the Republic of Kazakhstan Government Decree as of 14 December 2012 No. 1599 (Agreement on Cooperation).

The Government provides the Fund and the Organisations with full operational autonomy. The Government and state bodies shall not interfere with daily operational activities of the Fund and the Organisations, except for cases provided by laws, acts and orders of the President of the Republic of Kazakhstan. The Fund's Management Board, the Chairman of the Management Board, and bodies of the Fund are fully autonomous and independent in their decisions and any actions within their competence.

Cooperation (interaction) of the Government with the Fund and the Organisations shall be conducted solely through the Fund's Board of Directors, in accordance with the principles of good corporate governance. The role and functions of the Chairman of the Board of Directors and the Chairman of the Management Board of the Fund are clearly segregated and set out in the Fund's internal documents.

The governance framework and objectives are defined and publicly disclosed in the Law on SWF, Agreement on Interaction and Corporate Governance Code. The Law on SWF states that "no interference allowed by public authorities in the operational activities of the Fund and its Portfolio Companies, except for cases stipulated by laws of the Republic of Kazakhstan".

Members of the Government and other state officials (representatives of state bodies) shall not be members of the portfolio companies' Boards of Directors, as indicated in the CG Code.

<https://sk.kz/about-fund/regulatory-and-legal/> <sup>[8]</sup>

**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 Fund's audited consolidated and separate financial statements complemented by required analysis are publicly disclosed and available on the Fund's website and Financial Statement Depository of the Ministry of Finance of the Republic of Kazakhstan.

The [Fund audited consolidated financial statements](#) <sup>[5]</sup> are also available on Kazakhstan Stock Exchange (KASE).

## **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 Investment Policy was approved by the Board of Directors of the Fund in 2019.

The Investment Policy establishes the uniform requirements for investment operations of the Fund and has a clear objective: the investment operations of the Fund are aimed at increasing the value of the Portfolio Companies in the long term in compliance with the Law on the SWF. The Fund has implemented appropriate risk management regulated by internal documents. The Investment Policy does not give the detailed investment strategy per se, but provides the key approaches in the implementation of investment activities that takes into account the following activities: strategic planning, corporate governance, the medium-term planning, risk management, investor relations, and process monitoring.

The main purpose of the policy is to define (1) the investment principles of the Fund, as well as the main provisions, (2) the management of the investment portfolio of the Fund.

The investment policy establishes uniform principles for the investment activities of the Fund: the principle of commercial expediency, the principle of "yellow pages" when investing in the Republic of Kazakhstan, the principle of responsible investment and a long-term investment horizon.

The Fund carries out proper management of the portfolio of assets and projects, which is regulated by internal documents. The goal of portfolio management is to increase returns and reduce portfolio risk by diversifying and balancing the portfolio. This goal is achieved through the following approaches:

- formation of a holistic view of the portfolio of assets and/or investment projects for the implementation of strategic goals, subject to limited resources;
- careful selection, prioritization, reallocation of available resources in order to select investments that are most suitable for the needs of the portfolio, as well as exit from investments, in accordance with the Fund's strategic goals and priorities and market opportunities;
- Formation of an optimal portfolio of assets/projects, taking into account prioritization, availability of funding sources and level of profitability, as well as achieving a balance between short-term and long-term projects, between project risks and possible income from their implementation;
- Analysis of portfolio efficiency and search for ways to improve it.

#### Fund's asset portfolio management tools

The Fund adheres to a conservative approach to risk management and conducts analysis and proper management of investment risks within the framework of the Corporate Risk Management System (CRMS) in order to use potential opportunities and mitigate events or circumstances that may adversely affect the Fund's portfolio.

The Fund carries out its investment activities within the limits of the Risk appetite established by the Board of Directors of the Fund in accordance with the internal documents of the Fund regulating risk management.

In accordance with the Corporate Governance Code, the Fund's corporate governance system ensures proper management and control over the activities of portfolio companies and is aimed at long-term value growth and sustainable development.

The Fund is aware of its responsibility and seeks to contribute to the development of society by supporting national economic development programs that include elements of environmental, social and governance principles (ESG principles), as well as sustainable development plans.

The investment policy of the Fund is not a public document. However, the main principles and guidelines of the Investment Policy are disclosed in the Fund's Development Strategy,

and the mechanisms for direct, financial and strategic investments are reflected on the Fund's website.

Portfolio diversification and entry into new redistributions will allow creating a stable dynamics of productivity growth. In this regard, the Fund will conduct an analysis to find the most promising markets on an ongoing basis.

The Fund intends to participate in the creation of new industries with a multiplicative economic effect and high added value. A diversified portfolio structure will reduce income volatility and minimize risks.

#### **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:**

In accordance with the Investment Policy and Development Plan, the investments of the Fund and portfolio companies must be carried out in accordance with the principle that the internal rate of return of investments should be higher than the cost of capital. This indicator is approved by the decision of the Board of the Fund on an annual basis. Each portfolio company has its own cost of capital based on the Cost of Capital Model (CAPM).

In accordance with the Investment Policy, the Fund and its portfolio companies will not invest in low-margin projects. In exceptional cases, in pursuance of the decisions of the Government of the Republic of Kazakhstan, adopted on behalf of the President of the Republic of Kazakhstan, the Fund, together with the Government of the Republic of Kazakhstan, determines the pool of projects and their cost, which will subsequently be financed from the Fund's resources, taking into account the state of financial stability of the Fund and its portfolio companies, by recognition of expenses as other distributions to the shareholder in accordance with the requirements of international financial reporting standards.

In accordance with the Corporate Governance Code, low-margin and social projects are subject to public disclosure in the annual reports of the Fund's companies and portfolio companies. The Corporate Governance Code is based on the laws of the Republic of Kazakhstan, the Organization for Economic Co-operation and Development (OECD) guidelines for state-owned enterprises, the UK Corporate Governance Code and international best practice.

**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 Fund does not seek to use confidential information or inappropriate influence in competing with private entities. One of the principles by which the Fund is governed in seeking promising investment projects is observations of the rules of Yellow Pages, according to which the Fund should not compete with private entities. This principle is stated in the internal documents of the Fund regulating investment activities. Firstly, the Fund invests in the projects that may contribute to the development of related industry and private business.

**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 Fund exercises its ownership rights in portfolio companies through the segregation of duties set in the Fund Charter, Law on SWF, Corporate Governance Code and Charters of portfolio companies.

The audited consolidated and separate financial statements of the Fund are also available on the website of the Kazakhstan Stock Exchange (KASE).

Respect for the rights of Shareholders is a key condition for attracting investment to the Fund and the PCs. An Organisation should ensure that its Shareholders are able to exercise their rights. An Organisation with more than one Shareholder should ensure that each Shareholder is treated fairly.

The Organisation with more than one Shareholder, including minority Shareholders, should ensure that its corporate governance system provides for fair treatment of all Shareholders and the opportunities for them to exercise their rights.

**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 risk management system is designed to provide reasonable assurance about the achievement of strategic, operational goals, goals in the field of preparing reliable reporting and compliance objectives with applicable laws and internal requirements. Internal control is focused on achieving operational goals, goals in the field of preparing reliable reporting, compliance with applicable laws, internal requirements of the Fund and its Portfolio Companies.

The Fund has Corporate Governance Code that includes the section on risk management, internal control and audit, and sets guiding principles for all group of the Fund in relation to actions on identification, assessment and mitigation of the risks.

The tasks of the Corporate Risk Management and Internal Control System are:

- improving risk culture and integrating risk management and internal control into all aspects of the Fund's activities;
- reducing the volatility of performance results by increasing the Fund's ability to prevent situations that threaten goals, effectively respond to negative "surprises" and reduce the consequences of such situations, if they occur, to an acceptable level;
- ensuring usage of opportunities to increase the value of assets and profitability of the Fund in the long term.

The key principles and approaches to the organization of risk management and internal control in the Fund Group are reflected in the Fund's Risk Management and Internal Control Policy. This Policy was compiled taking into account "Conceptual framework for risk management of organizations: integration with strategy and performance indicators" COSO recommendations and is designed to strengthen the responsibility of risk owners for risk management at all levels of the Fund, to increase the integration of risk management into all processes of the Fund.

According to the Policy, the Board of Directors and the Management Board of the Fund, in performing their functions, rely on the "Three lines of defense" model, where the first line of defense (business functions) is represented by structural subdivisions represented by each employee, who, within their competence, directly identify, manage risks and perform control procedures. The second line of defense (monitoring functions) is represented, inter alia, by the Risk Management and Internal Control Department and Compliance Service of the Fund, which are responsible for monitoring the introduction by business functions of effective risk management and internal control practices, compliance with legislation and

internal regulatory documents of the Fund. The third line of defense (independent assurance) is provided by the Fund's Internal Audit Service, conducts an independent assessment of the effectiveness of the risk management and internal control system and contributes to their improvement.

In the Fund and in Portfolio Companies of the Fund, the risk appetite, risk register and risk map are approved on an annual basis; management reporting on significant areas of activity is provided for consideration of the Boards of Directors / Supervisory Boards of Portfolio Companies and the Fund on a regular basis.

The Fund's Risk Management Policy is published on the Fund's website:  
<https://sk.kz/about-fund/regulatory-and-legal/> [9]

The key risks for the Fund are regularly reported as part of the annual report. The annual report of the Fund is available on the [website](#) [5].

#### **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:**

As part of the regular reporting, the Fund's Board of Directors is provided with information regarding the performance of portfolio companies and the Fund's investments (Net Income, ROACE, ROI, NAV, etc) for the year/interim and in comparison with previous periods.

#### **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:**

This Self-Assessment Report of the Fund on compliance with Santiago Principles is the fifth self-assessment made after 2014, 2016, 2018 and 2020. The Fund plans to review self-assessment on a regular basis every two years.

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**Source URL (modified on 2023-09-19 18:22):**<https://www.ifswf.org/assessment/sk-2022>

#### **Links**

[1] <https://www.ifswf.org/node/437> [2] <http://sk.kz/?lang=en> [3] <https://www.ifswf.org/assessments>

[4] <https://sk.kz/about-fund/regulatory-and-legal/>

[5] <https://sk.kz/investors/financial-performance/?lang=en> [6] <https://sk.kz/about-fund/regulatory-and-legal/?lang=en> [7] <https://sk.kz/about-fund/corporate-governance/> [8] <https://sk.kz/about-fund/regulatory-and-legal/> [9] <https://sk.kz/about-fund/regulatory-and-legal/>