

What the S in ESG means for Sovereign Wealth Funds



Executive Summary

Over the past three years, more and more sovereign wealth funds have been working to integrate environmental, social and governance (ESG) considerations into their investment processes. In 2021, 71% of sovereign wealth fund respondents said they had adopted an ESG approach compared to 24% in the previous year, according to the annual climate change survey administered by the International Forum of Sovereign Wealth Funds (IFSWF) and the One Planet Sovereign Wealth Funds network.¹

This study offers three contributions to the understanding of how sovereign wealth funds are thinking about the social dimension – the S pillar – of ESG:

1. An introduction to what the “S” of ESG means, and why it may matter to long-term investors;
2. An exploration of real-world practices across the global sovereign wealth fund community, focusing on measurement and reporting based on a 2022 survey of IFSWF members;
3. A description of best practices at various stages of integrating S pillar themes into the decision-making process.

Conceptually, the S pillar of ESG is the most challenging for many sovereign wealth funds to define and to integrate into their investment processes. Each sovereign wealth fund has a different position on the topic depending on their local culture, mandate, and maturity.

During our research, we observed that most sovereign wealth funds faced common challenges when implementing their S pillar approaches. The most prevalent are a lack of high-quality metrics, common standards and data for many of the S pillar issues. Additionally, many sovereign wealth funds struggle to quantify the financial materiality of S pillar issues. We also observed differences between the types and number of social issues prioritised by sovereign wealth funds with a pure financial return mandate and those that focus on domestic development, with some focusing on S pillar issues as an “outcome” of their investment, while others focus more on these issues as an “input” that drives their investment returns.

To navigate this complex and constantly evolving topic, sovereign wealth funds must consider multiple steps in its implementation, including defining its objectives, relevant S pillar topics, integration into risk and investment approaches, as well as reporting and monitoring. This report includes some observed practices from sovereign wealth funds across early, developing, and advanced stages of the implementation journey and could serve as a useful reference point for those who are preparing to do so.

The authors of this paper are **Victoria Barbary** and **Crystal Wan**. They would like to thank all the IFSWF members that contributed to the paper, both in completing the survey and giving up their time for interviews.

¹ [In Full Flow: Sovereign wealth funds mainstream climate change | International Forum of Sovereign Wealth Funds](#)

What Does the “S” in ESG Mean?

From the 1970s, orthodoxy was the idea that the social responsibility of a business was to increase its profits. Over the last 20 years, the understanding of the social responsibility of a corporation has expanded. Digital technology has transformed corporate transparency, and some studies show the “millennial generation”, those born between 1980 and 2000, are deeply concerned about the state of the world and are actively trying to balance the challenges of their everyday lives with a desire to drive societal change.²

In response to this shifting landscape, a wealth of terms related to the “social” characteristics of a company have emerged: corporate social responsibility (CSR), social sustainability (and inclusion), social impact and social value are just some of the terms used by institutions to describe how they interact with their employees, customers, suppliers, and the surrounding community.

Social issues encompass a whole host of topics, depending on the context in which they are considered. Myriad development agencies, regulators, standard setters and industry initiatives try to define the topics that communities and businesses should consider in their operations. To set the context for this study, we reference two frameworks that sovereign wealth funds commonly look to (as illustrated by survey responses later in this paper).

The first is the United Nations’ Sustainable Development Goals (SDGs), which the largest proportion of our survey respondents said they used as a general benchmark. 10 of the 17 SDGs directly address social issues:³

- No poverty
- Zero hunger
- Good health and well-being
- Quality education
- Gender equality
- Clean water and sanitation
- Affordable and clean energy
- Decent work and economic growth
- Reduced inequalities
- Sustainable cities and communities

² [The Deloitte Global 2022 Gen Z and Millennial Survey | Deloitte Global](#)

³ [THE 17 GOALS | Sustainable Development](#)

Another set of standards that many investors reference is the 10 principles of the UN Global Compact, which are derived from the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption. These are:⁴

- Businesses should support and respect the protection of internationally proclaimed human rights.
- Businesses should make sure that they are not complicit in human rights abuses.
- Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
- Businesses should uphold the elimination of all forms of forced and compulsory labour.
- Businesses should uphold the effective abolition of child labour.
- Businesses should uphold the elimination of discrimination in respect of employment and occupation.
- Businesses should support a precautionary approach to environmental challenges.
- Businesses should undertake initiatives to promote greater environmental responsibility.
- Businesses should encourage the development and diffusion of environmentally friendly technologies.
- Businesses should work against corruption in all its forms, including extortion and bribery.

Together, these two frameworks provide a good starting point for this study in listing the issues in the S pillar when conducting our survey.

4 [The Ten Principles | UN Global Compact](#)

Why does the “S pillar” Matter?

One of the key challenges for investors is to identify measurable risks and opportunities related to the personal and social interactions that may affect a company's business operations, reputation, and profitability. While some companies have long managed their S pillar risks for regulatory reasons, they are now facing increasing pressure from investors to go beyond regulation to address S issues that may be considered material to their long-term performance. For example, does a company have fair and transparent pay policies, good working conditions, safety procedures, a diversity and inclusion policy or contribute positively to the communities in which it operates? Considering the needs of key stakeholders is becoming essential for some businesses to have a “licence to operate” in their communities.

Indeed, many investors believe managing social matters well can lead to upside opportunities. For example, if a company treats employees well, it gets a happier and more productive workforce.

Actively considering business-relevant social issues is also a tool for managing risk for investors. Companies that do not take these criteria seriously may find themselves vulnerable to controversies, such as allegations of forced labour in supply chains or dealing with individuals or companies that are later subject to sanctions or criminal charges. To quote Becky Willan, CEO and Co-founder of Given, a brand purpose agency, “This isn’t about wokery or fluffy stuff, it’s about good business.”⁵

Stakeholder capitalism is on the rise. As long-term investors, the S pillar will become increasingly important for sovereign wealth funds as they adapt their investment processes to the changing world around them, including how they direct their stakeholder impact.

5 [The Bottom Line – Woke or Broke? – BBC Sounds](#)

Introduction to this Study

To date, sovereign wealth funds have primarily focused on the environmental aspect of ESG, particularly climate change. This position partly results from the broader investment community's focus on the transition to a low carbon economy in light of an increased understanding of the financial risks and opportunities associated with climate change and the associated changes in regulation, technology, and consumer sentiment. Similarly, sovereign wealth funds have focused on decarbonization to align their portfolios with their government owners' commitments to the Paris Agreement. While it is still a complex challenge, climate change has been more straightforward for sovereign wealth funds to address than other themes within ESG, thanks to more advanced and definable metrics, standards and targets. Consequently, the number and value of so-called "green" investments made by sovereign wealth funds have risen dramatically over the past three years from 18 investments with a value of \$3.4 billion to 40 investments worth \$7.9 billion, according to IFSWF proprietary data.⁶

Governance issues, representing the "G" in ESG, on the other hand, have regional and national variations around what constitutes "good" practices. When considering governance, investors tend to take a principles-based approach – as opposed to a rules-based approach – evaluating standards in a local context rather than by an absolute. An example of this is the 24 Generally Accepted Principles and Practices for sovereign wealth fund governance, known as the Santiago Principles.⁷ All members of the IFSWF voluntarily agree to implement these Principles and undertake a "regular review" of how they do so. The Santiago Principles are intentionally broad in order to enable an increasingly broad spectrum of sovereign wealth funds to implement them, with the goal of elevating governance standards and transparency across the sovereign wealth fund community as a whole.⁸

For the social aspects of ESG, the topics and metrics have similar regional and cultural variations. There is no single social goal or set of standards in our diverse world. Therefore, identifying and adopting international "best practices" in this area becomes more difficult than for environmental standards. The challenge for long-term investors such as sovereign wealth funds is compounded by social issues often being a moving target as societies continuously evolve. As a result, static measures and performance indicators can quickly become outdated; for example, one sovereign wealth fund shared that its policy on worker well-being practices once represented a best practice, but today it is commonly expected; another example is the extension of these practices beyond portfolio companies, to their supply chain.

6 IFSWF database includes the following sectors in "green" investments: agritech, electric vehicles, green/clean hydrogen, green/clean ammonia, new materials, renewable energy and water management solutions. The IFSWF database covers 82 sovereign wealth funds from across the globe. Details of methodology can be found here: [About our Data | IFSWF Annual Review 2021](#)

7 In 2008, the International Monetary Fund (IMF) and the United States Department of Treasury brought together 26 sovereign wealth funds from around the world to commit to meeting local recipient regulatory requirements and make specific public disclosures across a variety of areas; to invest based on economic and risk and return considerations; to instil transparent and sound governance structures; to limit political interference in their investment decisions; and to contribute to stable financial markets and the free flow of international capital. For more information: [The Origin of Santiago Principles. Experiences from the Past; Guidance for the Future | International Forum of Sovereign Wealth Funds](#). The Santiago Principles are available on the IFSWF website.

8 Edwin M Truman, "Sovereign Wealth Funds, Building on a Decade of Progress" in [The Origin of Santiago Principles. Experiences from the past; guidance for the future | International Forum of Sovereign Wealth Funds](#)

So far, many sovereign wealth funds have downplayed or overlooked these issues as they struggle to prove conviction in the investment case. However, in some cases incorporating social considerations into the investment process is becoming increasingly crucial for them to fulfil their mandates. More sovereign wealth funds are being established with a domestic development mandate to invest to spur the domestic economy and address local priorities, building on a trend that became even more prominent following the COVID-19 pandemic.⁹ Sovereign wealth funds are also increasingly leveraging co-investments and external capital. As a result, they are now also required by their partners and stakeholders to demonstrate and disclose sound practices in E and G pillars, and increasingly S pillar.

In this context, we wanted to better understand the degree to which sovereign wealth funds have taken a view on, and are considering, the S pillar in their investment processes, as well as how they may evolve their strategy and practices in the future. To do so, we surveyed sovereign wealth funds receiving a response of more than 50%. We also interviewed several sovereign wealth funds across varying stages of implementation to dig deeper into if and how they integrate social issues into their investment process. We also asked about the motivations and challenges behind their approaches. These enlightening conversations enabled us to contextualise the survey findings and more accurately describe where sovereign wealth funds currently are in their approach to the S pillar of ESG.

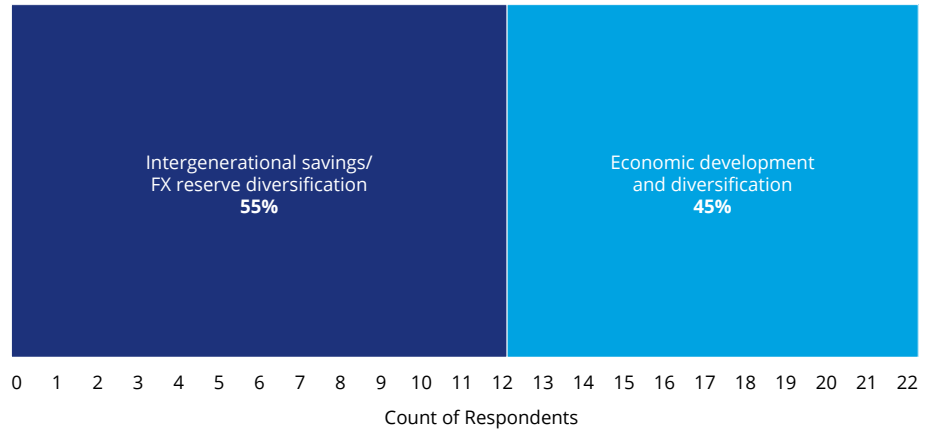
⁹ [Investing at home | IFSWF Annual Review 2019](#); [The COVID-19 Response | IFSWF Annual Review 2020](#)

About the Survey

This report is based on the first comprehensive survey aimed at understanding sovereign wealth funds' attitudes toward the social aspects of ESG and how they integrate these into their investment and governance processes. We asked for a description of their overall approach to ESG, their S pillar focus and their measurement and reporting practices. We believe that these results provide insight¹⁰ into the range of ways this investor group approaches this topic.

We distributed the survey to IFSWF members, and three non-member sovereign wealth funds, in March 2022. Twenty-two institutions responded across different mandate types and regions. Most of those that responded with a primary mandate for economic development and diversification invest with a domestic focus, whereas those with future savings mandates invest internationally.

Figure 1: IFSWF ESG Survey Respondents



Source: IFSWF ESG Survey, March-April 2022

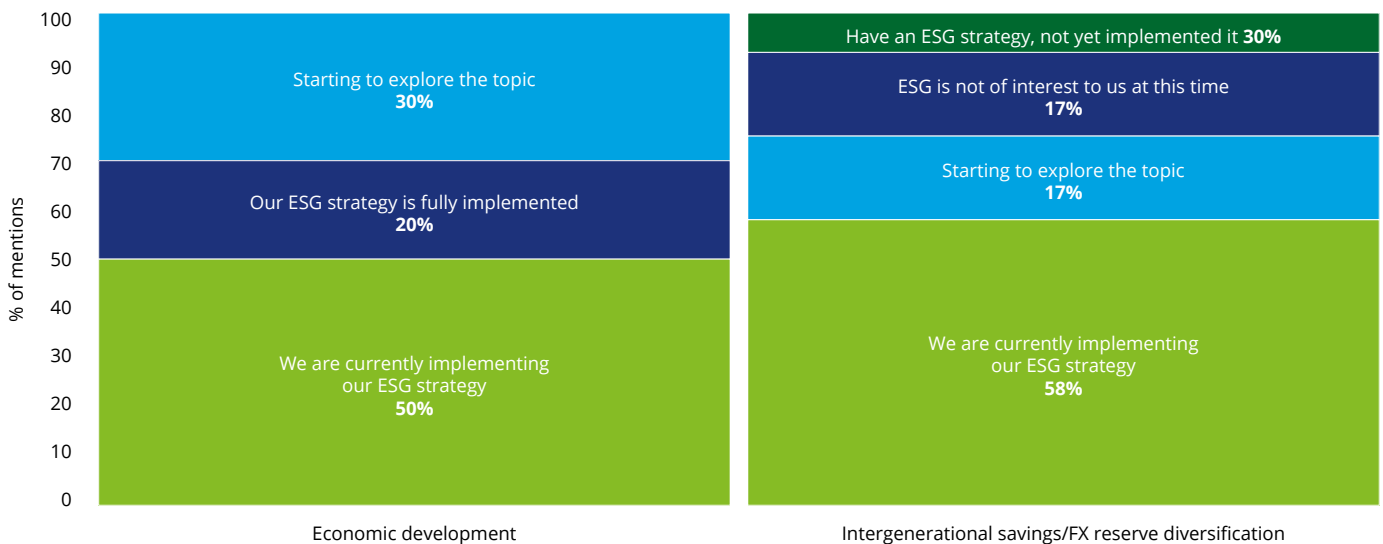
¹⁰ As with all primary research, methodologies used in the questionnaires have limitations and might result in bias in some answers. For instance, Likert scales are subject to distortion from several causes: Avoidance of using extreme response categories (central tendency bias); Agreeing with statements as presented (acquiescence bias); Attempt to portray the respondent's organisation in a more favourable light (social desirability bias).

How Sovereign Wealth Funds Approach ESG

Our survey findings suggest there are no universal standards or a one-size-fits-all approach to the S pillar of ESG among sovereign wealth funds. However, we have identified commonalities that inform practical guidance throughout their journey.

In our survey, only two respondents indicated they did not consider ESG in their investment processes. 55% per cent of total respondents revealed they were currently implementing their ESG strategy, while 23% had started exploring the topic. Our survey results highlighted emerging differences between the sovereign wealth funds with an intergenerational savings mandate and those with economic development or diversification mandate. No savings funds indicated they had fully implemented a dedicated ESG strategy, though 58% of this group responded to be in the process of doing so. However, 20% of development funds said they had fully implemented their ESG strategy, and a further 50% said they were in the process of doing so.

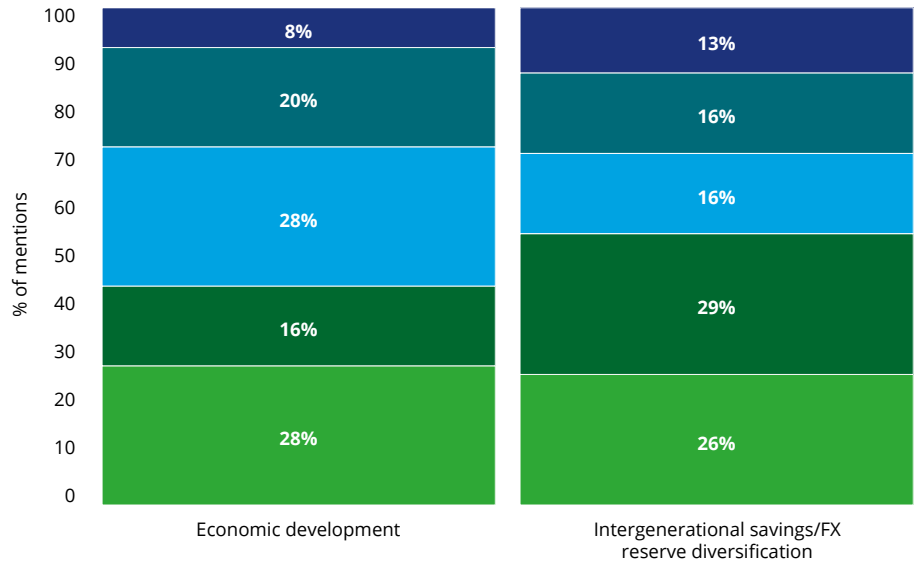
Figure 2: Where are you in the journey of ESG implementation? (% of mentions by type of fund)



Source: IFSWF ESG Survey, March-April 2022

Unsurprisingly, this divide is reflected in the sovereign wealth funds’ motivation for implementing ESG. For development-orientated respondents, one of the most common reason for adopting an ESG strategy was “capturing specific investment convictions on ESG themes”. In contrast, for savings funds, “reputational risk management” was more commonly observed. However, “improving risk-adjusted returns and investment processes” was deemed an important motivation for both types of funds.

Figure 3: Why did you adopt your ESG policy?



Responses

- Elevate profile of the fund
- To achieve impact targets
- Capturing specific investment convictions on ESG themes
- Reputational risk management
- Improve risk/return and investment process

Source: IFSWF ESG Survey, March-April 2022

For decades, many savings-focused sovereign wealth funds have strictly followed their mandate of investing solely on financial grounds – as enshrined in the Santiago Principle – while distancing themselves from the politics or position of their government stakeholders. Traditionally, these sovereign wealth funds considered many ESG issues to be non-financial, and, therefore, the preserve of public policy rather than relevant to their investment mandate. But the world is changing. Increasingly, some savings sovereign wealth funds are aligning with the view of the broader market that ESG is financially material and that incorporating ESG considerations into investment and risk management processes is necessary to fulfil their mandates.

As a result, some savings sovereign wealth funds have created dedicated teams to form a view on how to interpret ESG issues in the context of their investment beliefs. Others have restructured their whole institutions as the incorporation of ESG changed their broader investment approach.¹¹ Our interviews revealed that sovereign wealth funds find dedicating resources towards ESG integration challenging, especially those at the beginning of the integration process, because they often have limited internal capacity and expertise to repurpose to ESG. “We need to work within our current resources,” one savings fund told us, “We need to understand the costs and benefits of each aspect of ESG.” And these are not always easy to quantify.

¹¹ [In Full Flow: Sovereign wealth funds mainstream climate change | International Forum of Sovereign Wealth Funds](#)

Figure 4a: Where are you on the journey of ESG integration (Savings Funds)



Source: IFSWF ESG Survey, March-April 2022

Figure 4b: Where are you on the journey of ESG integration (Development Funds)



Source: IFSWF ESG Survey, March-April 2022

In contrast to savings funds, where none responded to have fully implemented their ESG strategies, 20% development funds have done so, with a further 50% that indicated they were in the process of implementation. For development funds, the very nature of their mandate and portfolios means that the need for a view on ESG – particularly S pillar – is immediately apparent, with sometimes explicit ESG target outcomes in their mandates or investment policies. Additionally, development funds’ more advanced implementation of ESG may reflect that they are often newer institutions established as ESG became mainstream. Consequently, from their inception, these issues had been a part of how they approach investing. As a result, they have been able to adapt and adopt new ESG approaches more quickly than their longer-established counterparts who have had to implement these as changes into an established investment process and beliefs.

How Sovereign Wealth Funds Approach the S Pillar

Sovereign wealth funds are at varying stages of broader ESG implementation. But most, except those that have explicit social development targets embedded in the mandates, are still in the early stages of incorporating the S pillar into their investment considerations. Anecdotally, two major sovereign wealth funds we approached for interviews told us they would rather not participate because they had not yet developed sufficient understanding of the S pillar.

We did speak with institutions at the beginning of their ESG journey, who shared that the relevance of social issues to financial returns was the most challenging of the three pillars to understand. They found the complexity lay in the breadth of issues covered by the S pillar and the degree of varying standards and metrics available across them. One savings fund told us, “Social issues are a moving target because society changes continually. What may have been best practice five years ago may be standard practice today. Our views on S pillar topics and how we measure them must continue to keep up.” Indeed, as society’s standards and expectations evolve, what may be material to financial return also changes. From an outcome perspective, a development fund in an emerging market made a similar point. “We have to think of the long-term implications for society. If we look to invest in education to increase literacy rates and drive job creation, what will be the new demands and needs of a more educated workforce in the future?” The S pillar’s multifaceted and interlinked nature can, therefore, be daunting for sovereign wealth funds approaching these issues for the first time. One interviewee told us that their institution did not yet have a specific approach to S pillar “not because we don’t think the risks are there, but they’re harder to assess and define.”

For the sovereign wealth funds that do have S pillar approaches, our interviews revealed the complexities of prioritising different social topics. For some sovereign wealth funds, sustainability, responsible investment themes or criteria are engrained into the fund’s mandate, which commits them to consider clear priorities in their investment process. For example, some of our interviewees’ mandates prohibit them from investing in assets that deviate from their institutional values, such as tobacco or coal mining. Others may align to explicit targets, such as the number of jobs created or the proportion of women on the boards of their portfolio companies. Financial materiality of S pillar topics can sometimes be an additional, or secondary consideration for these funds keeping to explicit values-based targets and restrictions. For sovereign wealth funds that do not have such clear objectives, prioritising between various social outcomes is a more demanding task, because they need to consider a broad range of inputs such as relevance to their mandate, alignment to institutional values, as well as financial materiality.

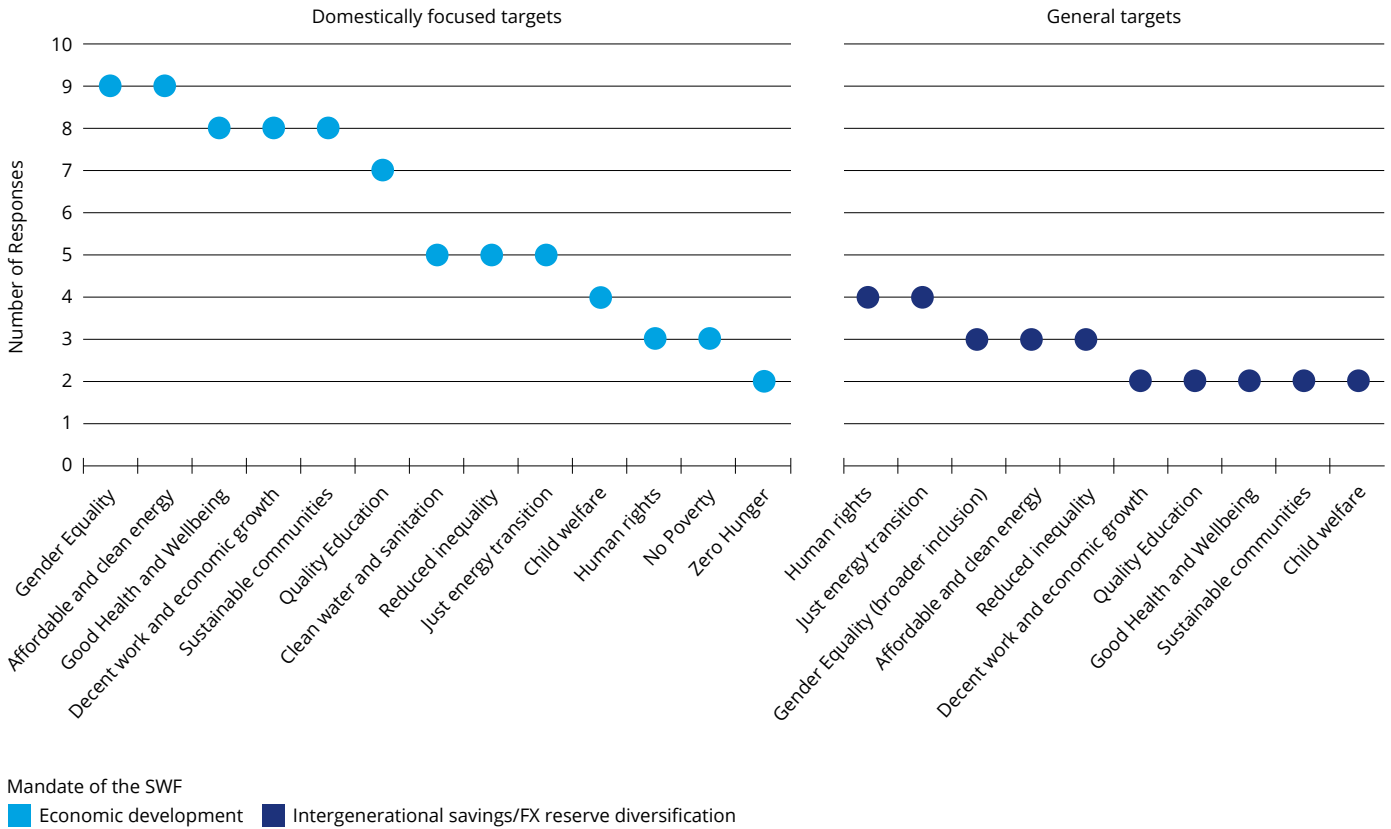
With this situation in mind, our research also revealed differences in the social factors that savings funds and development funds focus on.¹² Development funds, which made up half of our respondents to this section of the survey, focus on a broader group of topics than their savings counterparts. The most common social issues prioritised by this group are “gender equality”, which enables more women to work and thus increases economic activity, and “affordable and clean energy”, which has knock-on health and educational benefits in many developing countries.¹³ The second group of priorities for development funds were “decent work and good health”, which enhance workforce participation, as well as “sustainable cities”, which is an essential part of sustainable economic development in the context of rapidly urbanising populations in the developing world, where many development funds are based.¹⁴

¹² We have focused on domestic targets for development funds and general targets for savings funds, as these aligned with the investment universes of each group.

¹³ [Investing for Growth and Prosperity: In Africa sovereign wealth funds focus on G, S and E | International Forum of Sovereign Wealth Funds](#)

¹⁴ [“68% of the world population projected to live in urban areas by 2050, says UN” | United Nations Department of Economic and Social Affairs](#)

Figure 5: What are the most important S pillar themes for your institution?



Source: IFSWF ESG Survey, March-April 2022

Savings funds’ S pillar priorities focus on “human rights” and the “just energy transition”, followed by “reducing inequality” and “affordable and clean energy”. These issues align with the accepted priorities of the international financial markets where many savings funds invest, although these expectations and standards may differ from culture norms in their home markets. Additionally, savings funds’ focus on the energy transition and clean energy suggests that their views on the S pillar appear to be influenced by their more advanced understanding of environmental issues.

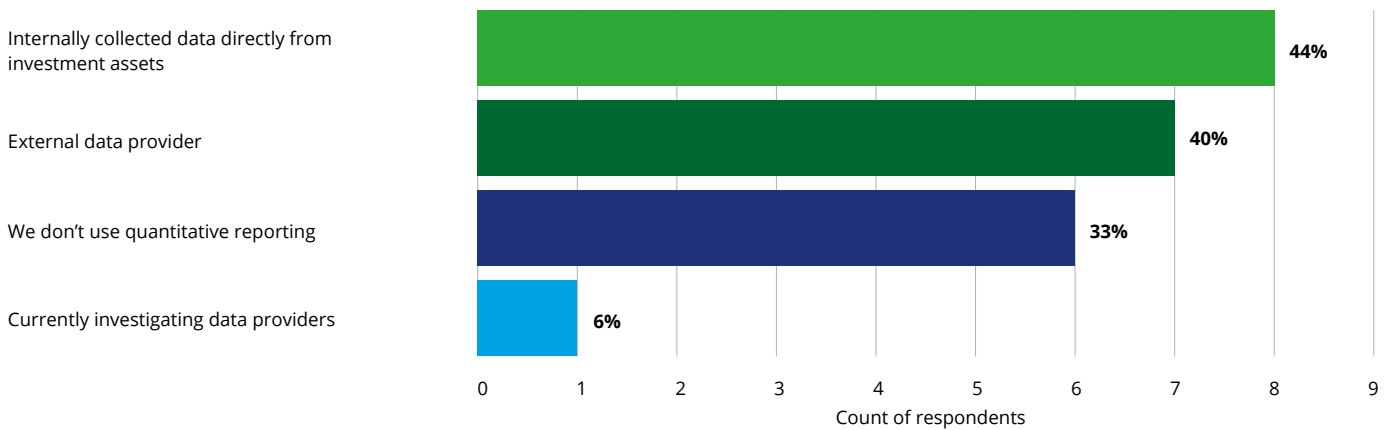
Our interviews also provided useful context. Interviewees universally agreed that assessing the financial impact of social issues was challenging for two reasons: First, the economic effect of different social issues varies across sectors and geographies. Second, as one of our interviewees pointed out, while some social issues, such as good employment practices, may directly affect a company’s valuation, others may be secondary. For example, uncovering inadequate practices may cause controversies that dent a company’s reputation, resulting in loss of customers and, in severe cases, investor boycotting. Consequently, having a framework that helps evaluate the financial materiality of different aspects of the S pillar, rather than looking at it holistically, could be helpful.

Measuring and Reporting on the S Pillar

All respondents to our survey found that data availability and quality on social issues were the most significant hurdles to establishing and implementing S-pillar approaches. However, development and savings funds face different challenges.

Development-focused sovereign wealth funds tend to have relatively small portfolios and be more intimately involved with their portfolio companies. Consequently, as shown in figure five below, they tend to have a greater ability to collect data directly from their portfolio companies. While this approach can be time- and resource-intensive, it enables these funds to collect comparable data consistent with their risks and targets, enabling them to understand the social impact of their investments across their portfolios.

Figure 6: What data sources do you use to measure and report S pillar impact and related risks in your investments?



Source: IFSWF ESG Survey, March-April 2022

In comparison, savings funds tend to have larger (in terms of the number of investments), and more diversified global portfolios, which makes it less feasible for them to rely on collecting data directly from their investee companies, shared by those interviewed. However, the assets in which they invest, such as large cap listed companies, are better covered by data providers so they tend to rely more heavily on third parties for their data collection. It was shared in the interviews that this approach does have drawbacks though; data providers often have discrepancies in coverage and approaches, which makes it challenging for sovereign wealth funds to compare data and standards across providers, asset classes and geographies.

Even when (reliable) data is available, context is critical. One savings fund interviewee highlighted the challenges of analysing data without being able to contextualise the information; “If the number of grievances at a company has risen, is that really a sign that things are going wrong? Or is it because it has improved its grievance reporting procedure and – rather than going through informal channels – more employees are using it to solve their problems?” The larger and more diversified the fund’s portfolio, the more demanding the contextual analysis becomes.

In addition to challenges explored in the previous section, the lack of quality data is another sticking point in analysing social issues' financial materiality. As one interviewee noted, "social integration is at the stage climate change integration was in 2016," indicating that increased attention to the S pillar space could lead to the development of tools and analytics that could improve financial impact analysis. Another agreed, telling us that while the tools had come a long way over the past five years to analyse ESG, S pillar was the least developed of the three pillars. However, they said that "the COVID pandemic has increased the awareness of social issues and how they might affect returns... this will mean there is more demand for data and, hopefully, that will improve its quality."

Figure 7a: What industry standards do you consider for S pillar? (Development funds)

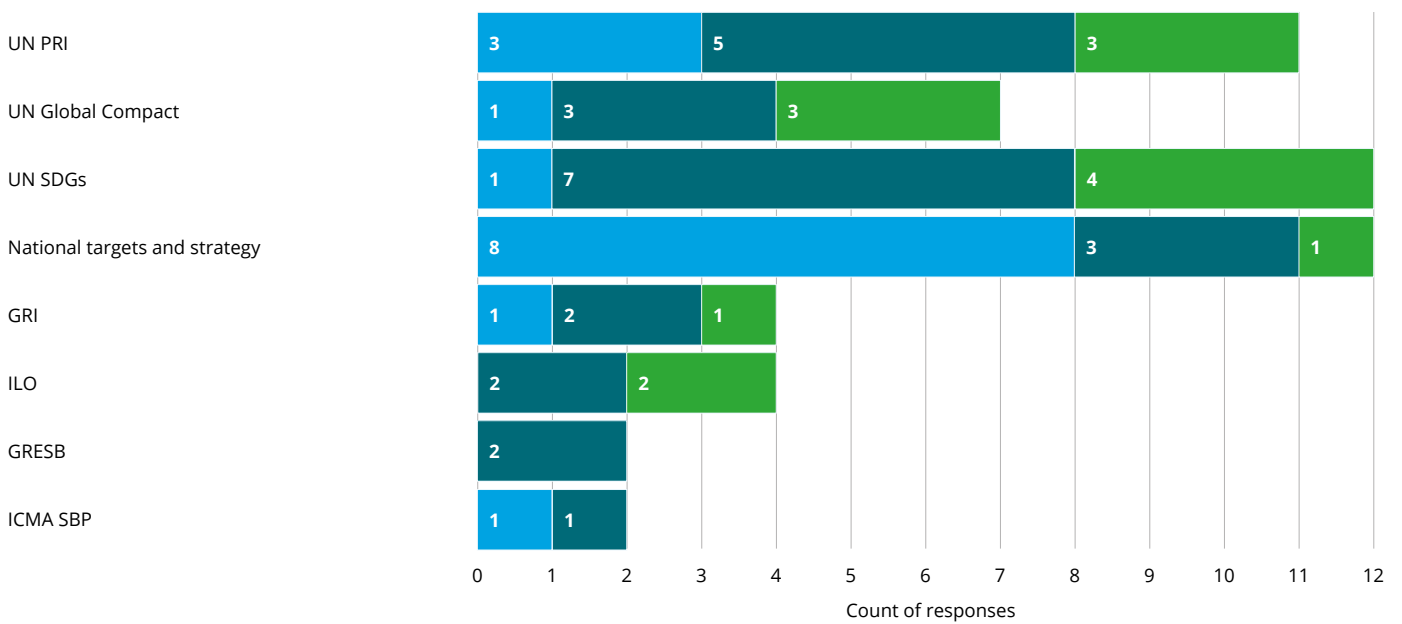
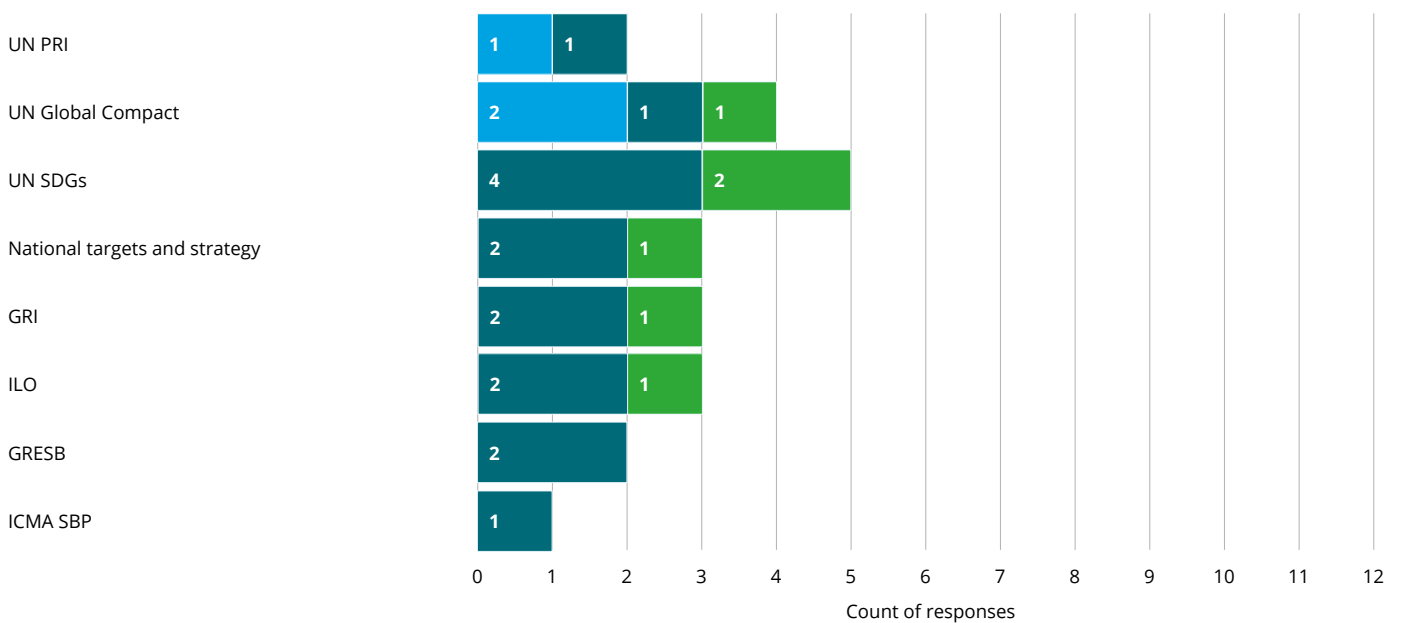


Figure 7b: What industry standards do you consider for S pillar? (Savings funds)



Responses
■ Aligned ■ General reference ■ Considering future alignment

Source: IFSWF ESG Survey, March-April 2022

Sovereign wealth funds also struggled to identify which standards should be considered best practice. The United Nations' Sustainable Development Goals are the most used standard of general reference for both types of sovereign wealth funds. However, development funds potentially have an easier choice as they can – and do – assess their performance against explicit national targets. They have also been keener to align to the United Nations' Principles for Responsible Investment (UNPRI) than savings funds. We expect this may be reflecting that the development funds in our survey sample are often younger ones than savings funds in the cohort, and may have used UNPRI as a reference of international best practices while establishing their investment processes. For older institutions, it is more onerous to retrofit new procedures into established ways of working, resulting in less enthusiasm. The UNPRI's disclosure requirements also make many sovereign wealth funds hesitant to sign up officially even if they may align their investment process to its guidance.

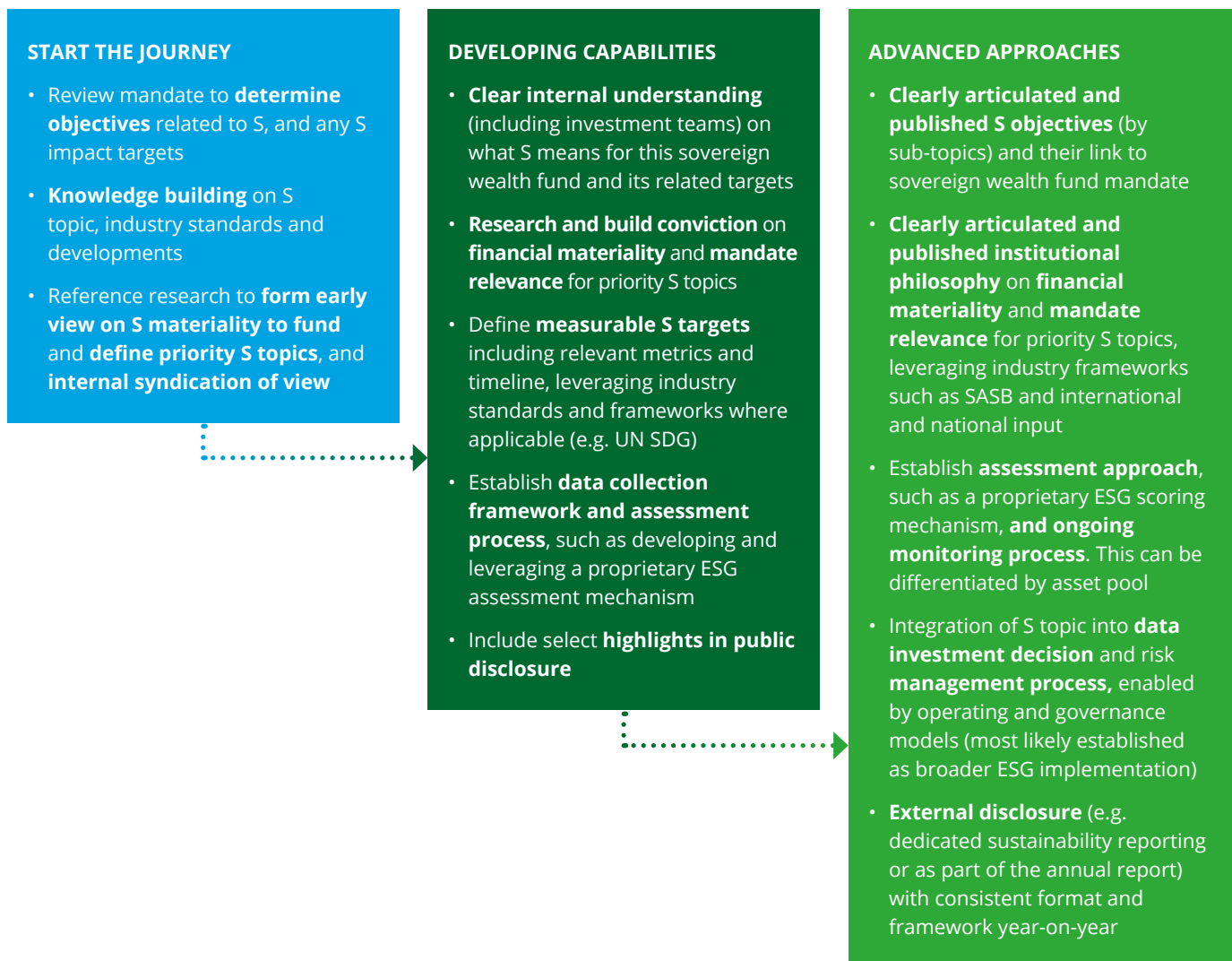
We observed from survey responses that development funds are more confident in reporting on the S pillar. Three of the ten respondent development funds reported on social issues internally and publicly, with an additional five reporting just to stakeholders. This compares to 63% of savings fund respondents that did not report specifically on the S pillar at all. The main reason for this disparity may be that savings funds primarily focus on financial results, and, therefore, their reporting tends to focus on the financial materiality of any ESG aspects rather than on social issues and their impact specifically. We have observed that S pillar specific disclosures tend to focus on the impact of investments on society, rather than the financial implications.

How Can Sovereign Wealth Funds Approach the S Pillar?

Integrating social issues into the investment process is a journey that requires regular review and updating of sovereign wealth funds' approaches. As society evolves and acceptable norms change from country to country, community to community, year by year, for sovereign wealth funds, social issues are typically the most complex piece of the ESG puzzle. We don't underestimate this challenge for many sovereign wealth funds, particularly those with limited resources.

However, we do believe that – even within those constraints – there is a thought process that can guide sovereign wealth funds during their ESG integration process and enable them to consider these issues on their own terms. By performing this stocktake, we observed best practices and approaches across sovereign wealth funds that are at different stages of this journey, as summarised in the following illustration.

While there is no single standard, we hope these observations will assist sovereign wealth funds in understanding the most pertinent issues to them, their financial materiality and, where necessary, their real-world impact.



To the Future

As a group, sovereign wealth funds, like many other investors, find the S pillar complex and challenging to understand and measure. It is also the pillar most closely associated with the political position of their government owners, from which many savings funds have sought to maintain independence over the decades. Where they and their portfolio companies face pressure from stakeholders and partners in the international investor community to address social-related risks and opportunities, they often have the difficult task of balancing Western financial institutions' normative judgments about "good" social policies with local cultural and political norms, in addition to evaluating financial materiality of these issues.

Recently, the same has been true for development funds looking to attract foreign direct investments and partner with international institutions. In addition, development funds, which have a more direct link with social topics, find the S pillar less problematic to define. They usually have some form of social impact mandate and are aligned with national economic development targets, so they are more comfortable reporting on this topic. This advantage is amplified as they have smaller portfolios in fewer markets, making gathering data on their investee companies easier than for savings funds with globally diversified holdings.

Investors' increasing focus on ESG has resulted in the creation and development of new tools and data sets, which has enabled them to deepen their existing integration of ESG or responsible investing criteria. This focus is significant for social issues, which have not previously received as much attention as that of the environment and governance pillars and suggests, as one of our interviewees pointed out, that S pillar data and analysis may rapidly evolve over the next few years.

Sovereign wealth funds' partners and counterparties are increasingly expecting them to articulate their philosophy and approach. Given the diversity of the sovereign wealth fund landscape, and a lack of common standards for incorporating the S pillar, sovereign wealth funds should consider taking a principles-based approach rather than a rules-based approach to social issues, much like they do for governance. They also need to be flexible to align with changing cultural norms and those of the international financial community. Perhaps most importantly, sovereign wealth funds need to understand that their appraisal of social issues is a journey of continuous evolution rather than waiting for the perfect, single step.

We look forward to returning to another stocktake in the future, to see how our funds have evolved.

