Implementation of Santiago Principles

September 2015

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Palestine Investment Fund ("PIF") was established in 2002 and registered in 2003 as a public shareholding company owned by the Palestinian People.

PIF’s mission is to actively contribute to the building of a strong Palestinian economy independent of donor handouts and supported by a strong, dynamic and innovative private sector.

PIF’s originates and invests in economically feasible, socially responsible and developmentally sound strategic projects in vital and viable economic sectors in Palestine, in partnership with the private sector.

The majority of PIF investments are in Palestine, international investments are limited to capital market investments.
Palestine Investment Fund – Palestinian Economy

Palestine Main Economic Indicators (2014)

Source: IMF

- 2013: GDP 1.9%, Unemployment 25.0%, Inflation 2.7%
- 2014: GDP 2.7%, Unemployment 30.0%, Inflation 2.8%
- 2015: GDP 4%, Unemployment 29.0%, Inflation 2.7%
Palestine Investment Fund - Organization Structure

General Assembly (30 members)

Board of Directors (11 Members)

Chief Executive Officer (CEO)

Executive Committee

Risk Management

Board Governance Committee
Board Investment Committee
Board HR committee
Board Audit Committee
Internal Auditor

Investment - Large CAPs
Investment - Infrastructure
Investment - Capital Markets
Investment - SMEs
Finance and Admin
Legal Unit
Palestine Investment Fund – 12 years Performance

- Average return on capital USD 12%
- Average return on equity 10.8%
- Average return on assets 9%
Palestine Investment Fund – Investment Portfolio

Investment Portfolio

Allocation by Investment Class

Private Equity $281M
Public Equity $278M
Others $91M
Fixed Income $80M
Bonds & Loans $26M

Allocation by Investment Sector

Real Estate and Hospitality $167M
Infrastructure $78M
MSMEs $13M
Capital Market $234M
Large Caps $133M
Treasury $80M
Others $51M
Since inception, PIF has been very committed to building a strong governance system and adhering to best practices focusing on:

- **Maintaining financial and administrative independence**
- **Maintaining business orientation**
- **Building strong governance structure**
- **Maintaining transparency and disclosure**
- The self assessment was completed as part of the membership application earlier this year

- First time full assessment of PIF

- PIF was in compliance with most principles prior to joining the IFSWF
Santiago Principles: Pillar 1

- Legal framework

- Objectives

- Coordination with macroeconomic policies
Santiago Principles: Pillar 1

1. Legal framework supporting effective operation and achievement of objectives

   - *Registered as a public shareholding company*
   - *Subject to Palestinian corporate law*
   - *Independent Board of directors*
   - *Independent General Assembly*

2. Clearly defined and disclosed policy purpose

   - *Promote sustainable economic growth and private sector development in Palestine*
   - *This objective is publicly disclosed in PIF’s annual reports and website*
3. Coordinate activities with macroeconomic implications with related authorities

- No direct impact at the macroeconomic level
- Work in partnership with private sector
- Attract regional and international investors

4. Clear and disclosed policies related to funding, withdrawal, and spending operations

- Established thought consolidation of PA’s commercial assets and investments
- No additional contributions from owner and assets grow through reinvestment of return
- Dividends are based on BoD recommendation and GA approval
Santiago Principles: Pillar 1

5. Relevant statistical data is reported on a timely basis

- *Multiple level of reporting*
- *Monthly reports to executive management*
- *Quarterly reports to the Board*
- *Annual reporting including audited financial statements are available for general public through annual report and PIF’s website*
Santiago Principles: Pillar 2

- *Institutional arrangements*

- *Governance structure*
Santiago Principles: Pillar 2

6, 7 & 8. Sound governance framework, owners responsibilities, and governing bodies mandate

- **Governance manual and bylaw** set the overall governance structure, authority matrix, the appointment and responsibilities of governance bodies

- **Additional requirement** are set by the Palestinian Companies law

- **Independent General Assembly** selected from; business community, academia, regulatory agencies and civil society

- **Independent Board of Directors** comprises of reputable businessmen and experts in finance, management and governance

- **Active Board committees; governance, audit, investment, and Human Resources**
Santiago Principles: Pillar 2

9 & 10. Management implement strategies independently in accordance with clearly defined responsibilities, with clearly defined accountability framework

- The Board approves strategy, annual business plan, assets allocation, and significant investment decisions
- The Board approves internal policies and procedures manuals and authority matrix
- Executive management team execute the investment strategy, manage the daily operations, in accordance with the approved policies and procedures
- Governance manual, bylaw and Companies law set the accountability framework
11&12. Timely preparation of annual reports and audited financial statements

- A full set of financial statements is issued within 90 days of year end
- Financial statements are prepared in accordance with IFRS
- Financial statements are included in the annual report and posted on the website
- Financial statements are audited by an international audit firm
- PIFs operations, activities and accounts are subject to internal audit by the internal audit unit and an international audit firm with reporting to the audit committee.
- PIF is subject to audit by the state auditor
13. Professional and ethical standards are clearly defined and made known

- *Governance manual set the general professional and ethical standards*
- *Operational policies and procedures manuals set function specific standards*
- *CFA Institute Code of Ethics and Standards of Professional Conduct apply to the investment team*
14. Dealing with third parties is based on economic and financial grounds, and clear rules and procedures

- PIF has clear rules to guarantee that transactions are based on economic and financial grounds when dealing with third parties

- Investment manual provides detailed requirements and process for selection of external fund managers

- The procurement policies and procedures manual sets criteria for fair and transparent tendering procedures

15. Compliance with regulatory and disclosure requirements of host countries

- Investments in international capital markets are made through reputable fund managers to ensure compliance with requirements
16 & 17 Public disclosure of governance framework, objectives, management independence, and relevant financial information

- *PIF governance framework, objectives, investment and financial and other information are fully disclosed*

- *PIF uses a number of venues to disclose relevant information including;*
  - Annual report
  - Website
  - Press releases
Santiago Principles: Pillar 3

- Investment policy framework
- Risk management framework
18. & 19. Clear investment policy, and investment decisions that based on economic and financial grounds

Investment framework that is consistent with PIF objectives. Highlights of the framework include:

- Originating and investing in strategic projects
- Feasible investments with developmental impact
- Partnership with private sector
- Highly liquid investments in foreign capital markets
- Limit the use of derivatives to hedging currency positions
- Limit the use of external fund managers to international capital markets
- Subject investment opportunities to detailed analysis and assessment
20. Should not take advantage of privileged information and compete with private entities

- A separate legal entity with independent BoD and GA
- Partnership with private sector
- Subject to the Palestinian companies law and tax laws

21. View shareholder ownership rights as a fundamental element of equity investments

- No documented policy on shareholder ownership rights
- Ownership rights are exercised only in local investments with the primary objective of protecting the financial interests of PIF and the general shareholders
- Passive approach for international investments
22. Risk management framework

- Risk Management is an integral part of operations
- Embedded in all functional activities via policies, processes and system controls
- Financial risks are managed at the portfolio level
- Operational risks are managed at the unit level
- Legal and reputational risks are managed at the executive level
23. Clearly defined assets and investment performance measurement and reporting

- Monthly internal reporting
- Quarterly reports to the Board of Directors
- The annual reports, including audited financial statements

24. A process of regular review of the implementation of the GAPP

- Our first self-assessment will be completed by end of 2015
- A self assessment review will completed annually
As a result of the assessment the following areas have potential for improvement:

- Performance measurement and reporting
- An entity level risk management framework
- A comprehensive code of conduct
Thank You

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