



# The Santiago Principles<sup>®</sup>

The International Forum of Sovereign Wealth Funds 2008 best practices

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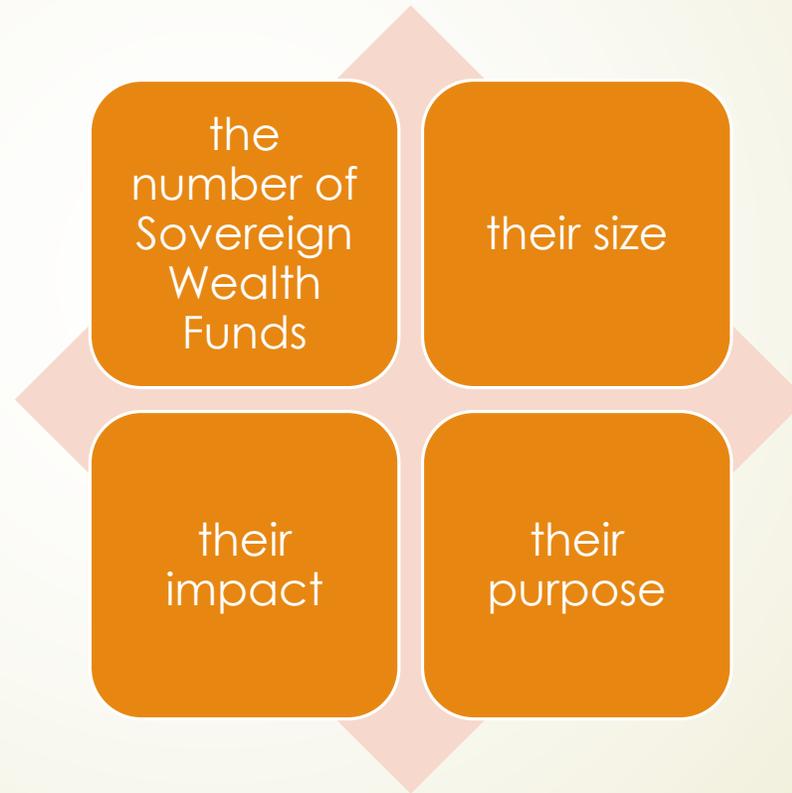


# The Santiago Principles

- I. Why they were developed, and why best practices are still needed.
- II. What are they?
- III. Post-implementation: Where are we now?
- IV. How Wyoming is doing?

# The Santiago Principles

Why they were developed and are still needed.





# The Santiago Principles

Why best practices are needed.

## The Number of Sovereign Wealth Funds

- ▶ In a study published in 2021, researchers studied the importance and perspective of sovereign wealth funds to the global economy
- ▶ There are 72 sovereign wealth funds
- ▶ Most have been established in relatively unstable parts of the world
- ▶ 19 in East Africa and the Pacific
- ▶ 18 in the Middle East and North Africa
- ▶ 13 in Europe and Central Asia
- ▶ 12 in North America
- ▶ 10 in Latin America

Cernohorsky & Tesnerova, 2021



# The Santiago Principles

Why best practices are needed.

## The Size of Sovereign Wealth Funds

- ▶ Globally, by 2020, assets under management of sovereign wealth funds: \$8.5 trillion
  - ▶ Up from \$3.4 trillion in 2008
- ▶ The rise due in part to increasing commodity prices and revenues, and large returns from large blocks of shares in global companies
- ▶ The global portfolio in 2017 included approximately \$75 trillion held by banks' deposits, \$41 trillion in pension funds, \$50 trillion in mutual funds, \$25 trillion in insurance companies, \$6 trillion in private equity, \$5 trillion in exchange traded funds (ETFs), and \$4 trillion held by hedge funds.
- ▶ Sovereign funds in 2017 had 3.9% of the total global institutional investor portfolios.
  - ▶ Sovereign wealth funds had a 2.5% share in 2008 of the global investor portfolio



# The Santiago Principles

Why best practices are needed.

## The Purpose of Sovereign Wealth Funds

- ▶ generate regular cash flows and long-term gains
- ▶ protect its wealth
- ▶ invest it for future use
- ▶ hold funds for future economic crises
- ▶ protect the state or nation's economy and budget from risk including from revenue or export fluctuations
- ▶ provide intergenerational wealth
- ▶ provide wealth post-resource depletion
- ▶ increase yields
- ▶ preserve the nation or state's autonomy and sovereignty through the power of finance

# The Santiago Principles

Why best practices are needed.

## The Impact of Sovereign Wealth Funds

impacts to local, domestic, and global companies	Impacts to communities
Impacts to commodities	Impacts to markets
Impacts to economies	can drive interest in companies
can raise company stock prices	can even make the market

Curtis, 2020

- When SWFs announce their investments, it can influence a company's value
- When SWFs announce divestments, it can decrease a company's returns
- Politics: the political nature of the sovereign fund's host country impacts the behavior of the market upon those announcements. More on this later

Cernohorsky & Tesnerova, 2021



# The Santiago Principles

Why best practices are needed.

## The Impact of Sovereign Wealth Funds

- ▶ Stabilize local, national, and global economies, and the financial system
- ▶ Provide direct investment during global crises
- ▶ During the global financial crisis of 2008-2009, many sovereign funds including the Government of Singapore Investment Corporation, Abu Dhabi Investment Authority, China Investments Corporation, Singapore's Temasek, and Kuwait Investment Authority invested \$53 billion in large financial companies including UBS, Barclays, Citigroup, Blackstone, Morgan Stanley, and Merrill Lynch
- ▶ Now in 2020 and 2021, sovereign funds have invested to lessen the impact of the global drop in oil prices, mass-produce medicine to treat Covid-19, and offer financial aid to countries affected by the virus. Sovereign funds in Russia and Singapore and elsewhere are working cooperatively with large financial institutions to seek to revive the economy worldwide

Cernohorsky & Tesnerova, 2021



# The Santiago Principles

Why best practices needed.

## The Impact of Sovereign Wealth Funds

- ▶ Mitigate the impacts of commodity volatility
- ▶ A 2017 study assessed the impact of sovereign wealth funds on the economic effect of commodity volatility.
- ▶ Commodities are volatile, and the economies of the producing countries or states can be hurt by the volatility through lower wealth and productivity when commodity prices fall.
- ▶ Countries with fiscal policies that proactively address the impact of the cyclical nature of commodity volatility by creating sovereign wealth funds or stabilization funds, that save when the commodity prices are high and spend the savings when prices are low, lessen the impact of commodity volatility on the economy

Mohaddes & Raissi, 2017



# The Santiago Principles

Why best practices needed.

## The Impact of Sovereign Wealth Funds

- ▶ Stabilize the global markets by exercising fiscal responsibility
- ▶ Invest for the long term, understanding that there will be ups and downs in the markets
- ▶ Stabilize during times of economic distress requiring expansion, when the funds draw on savings and provide loans
- ▶ Stabilize the global economy by acting as stepping stones for geopolitical relationship development between developed and developing countries



# The Santiago Principles

Why best practices needed.

## The Impact of Sovereign Wealth Funds

- ▶ SWFs can even affect company executive pay
- ▶ In a study published in 2020, researchers studied the impact of sovereign wealth funds on pay in target companies in Kuwait.
- ▶ SWFs with key rights to cash flow from the target company can result in diminished performance pay for executives at the company
- ▶ Consequences include the company being unsuccessful in attracting valuable executives to the company.
- ▶ In this way, the SWFs can potentially damage a company's value and even siphon value from other shareholders

Alhashel & Albader, 2020



# The Santiago Principles

## What are they?

- ▶ Key best practices by the International Forum of Sovereign Wealth Funds (IFSWF) in sovereign fund investment management and operations
- ▶ The IFSWF and principles seek
  - ▶ a stable global financial system
  - ▶ free flowing capital and investment
  - ▶ compliance with regulatory and transparency requirements in all investment countries
  - ▶ economic and financial risk and return-based investing, and
  - ▶ accountable, transparent funds with operational controls and managed risk

IFSWF, 2008

# The Santiago Principles

## What are they? Best practices of SWFs

clearly defined, disclosed policy purpose	domestic activities coordinated with fiscal and monetary authorities
clearly defined rules for drawdown transparency to the owner	clear division of roles
a sound legal framework	governing bodies appointed in a predetermined manner
governing bodies that act in the best interest of the sovereign wealth fund	the operational management of the fund should implement the fund's strategies in an independent manner and in accordance with clearly defined responsibilities
formal definition of accountability	annual reporting
independent auditors	ethics and professionalism
rules-based outsourcing	ability to abide by rules of foreign countries
operational independence from the owner	public transparency
clear investment policies	commercial orientation
shareholder rights policies	effective risk management
proper reporting of performance	regular reviews to ensure its compliance with the foregoing Santiago Principles



# The Santiago Principles

Where have they been they implemented?

They have been implemented worldwide. Some examples:

- ▶ Australia, Azerbaijan,
- ▶ Bahrain, Botswana, Canada, Chile, China,
- ▶ Equatorial Guinea, Islamic Republic of Iran,
- ▶ Ireland, Kazakhstan, Korea, Kuwait, Libya, Mexico,
- ▶ Morocco, New Zealand, Norway, Qatar, Russia, Singapore,
- ▶ Timor-Leste, Trinidad and Tobago,
- ▶ The United Arab Emirates, and the United States including Alaska.

IFSWF, 2008, 2014, 2016



# The Santiago Principles

Where are we now?

## Post-Implementation Considerations

- ▶ Studies have been conducted on implementation of the principles and on how the sovereign wealth funds have changed the global markets and global economy
- ▶ This results in additional best practice considerations for sovereign wealth funds.
- ▶ These best practices include recommended actions in the area of
  - ▶ political influence
  - ▶ regulation
  - ▶ transparency
  - ▶ governance and organization, and
  - ▶ the fund as a shareholder

IFSWF, 2008; Cernohorsky & Tesnerova, 2021

# The Santiago Principles

## Post-Implementation: Political influence

- ▶ The greatest perceived threat posed by sovereign wealth funds is exertion of political influence, in particular when the fund is acting as a shareholder
- ▶ But according to Chernohorsky & Tesnerova, 2021, there have been no documented cases of abuse of power.
  - ▶ This may relate to the varying levels of transparency
  - ▶ lower transparency is associated with higher political influence levels
- ▶ A variety of factors attenuate this threat including:
  - ▶ transparency
  - ▶ sovereign wealth fund goals of increasing portfolio returns and not advancing a political agenda
  - ▶ having regulations sufficient to resolve any potential threats
- ▶ The threat of governmental control over companies can be addressed
  - ▶ by transparency and regulations, and
  - ▶ during investment fund setup or contract negotiation by reasonable restrictions on limited partner rights



# The Santiago Principles

## Post-Implementation: Regulation

- ▶ Some level of sovereign fund regulation is crucial in order to:
- ▶ prevent political influence by the sovereign wealth fund including due to their corporate investments
- ▶ exercise some level of control over the enormous capital of the sovereign fund
- ▶ control the use of the internal corporate information to which sovereign funds get access due to their fund size
- ▶ ensure transparency of the fund's structure and goals
- ▶ control market volatility because the funds can own a substantial percentage of the companies in which they invest
- ▶ But greater regulatory controls lead to decreased effectiveness and lower levels of investment.



# The Santiago Principles

## Post-Implementation: More Active Investing

- ▶ Sovereign wealth funds are moving away from passive investing to active investing
- ▶ Traditionally sovereign wealth funds bought a minority share of businesses
- ▶ Now we are seeing an increasing number of sovereign wealth funds becoming active investors to increase returns, not advance any political agenda
- ▶ A concern over sovereign funds has been that they exert political influence on companies in which they invest, and the funds' lack of transparency and regulation made this influence hard to detect and prevent
- ▶ Currently, however, more funds are moving to active investing and sovereign funds' goals to increase revenue from active investing seems to be ultimately trumping desire to exert political influence



# The Santiago Principles

## Post-Implementation: Public Active Investing

- ▶ The stock price of an investment of a sovereign fund can rise or fall based on the fund's announcement of its investment

Cernohorsky & Tesnerova, 2021

- ▶ Funds in democratic countries which announce that they will be an active investor favorably impacts the target company, which will have better performance and increased valuations
- ▶ Conversely, autocratic country sovereign funds that announced an active investor strategy tends to negatively impact the target's stock price

Bortolotti et al (2019)



# The Santiago Principles

## Post-Implementation: Transparency

- ▶ Transparency is key
    - ▶ in best practice sovereign wealth management
    - ▶ to demonstrating a lack of exertion of political influence over fund management
  - ▶ Of the ten largest sovereign wealth funds, three are in China and three are Arabic
    - ▶ The transparency index (on a scale of 1-10 with 10 maximum transparency) rated these six between 4 and 7 which demonstrated some security and political risk.
  - ▶ Sovereign wealth funds in the less developed countries had low transparency, ranking between 1 and 4
- Cernohorsky & Tesnerova, 2021
- ▶ The IFSWF asks members to conduct self-assessments on how they are doing at fulfilling the Santiago Principles
  - ▶ Tufts University and the IFSWF in 2018 reviewed the assessments and found increased transparency and accountability by both members of IFSWF and non-members



# The Santiago Principles

## Post-Implementation: Governance and Organization

- ▶ Governance and organization varies based on the sovereign fund.
- ▶ Sovereign wealth can be organized in a variety of ways, including a sovereign wealth fund, a ministry of finance, or a government-owned business.
- ▶ The sovereign wealth fund structure, as opposed to having a minister of finance or a government owned business, is recommended.
- ▶ A SWF needs to
- ▶ establish processes
- ▶ ensure the processes are not influenced by politicians' positions
- ▶ require the fund be managed by investment specialists
- ▶ ensure the fund take a long-term investment perspective for the goal of long-term yields



# The Santiago Principles

## Post-Implementation: SWF-Owned Companies

- ▶ Some sovereign funds own companies
- ▶ when this has occurred: the best relationship between the sovereign and the company is ownership of the company within the fund
- ▶ a nonlinear relationship exists between government ownership and company performance
- ▶ the level of influence depends on the type of state ownership and the role of the controlling shareholders in governance
- ▶ Sovereigns owning or considering creating corporations should analyze these factors, and more

Cernohorsky & Tesnerova, 2021; Kubo & Phan, 2019



# The Santiago Principles

## Post-Implementation: SWF-Investing

- Sovereign funds invest in the global markets in a variety of ways
- exchange traded fund shareholder
- mutual fund shareholders
- individual company shareholders or bondholders,
- private equity limited partners, or
- other shareholders or unitholders in companies or limited liability partnerships
- As shareholders, unitholders, or partners, sovereign funds can have a big impact on the market which is positive, but also which raises some concerns



# The Santiago Principles

## Post-Implementation: Benefits of SWF-Investing

When the fund invests, many benefits accrue:

- ▶ It provides liquidity, revenue, or wealth to many actors
- ▶ Cash to domestic companies and industry
- ▶ Intergenerational wealth: as long as is not spent by governments and politicians now
- ▶ Cash to emerging markets: The fund's purchase of global equity and fixed income securities provides cash to those foreign markets and companies, not as grants, but as investments in emerging markets
- ▶ Stabilizes markets: Finally, the funds stabilize markets because such funds generally have a long-term investment view and can support companies in financial need because of the long-term investment view

Cernohorsky & Tesnerova, 2021



# The Santiago Principles

## How is Wyoming doing?

- ▶ Wyoming legislators and executive officials over the years have ensured that most of the Santiago principles are embodied in the structure and implementation of Wyoming's investment portfolio.
  - ▶ The following “Wyoming Principles” cite our constitution, statutes, and policy
  - ▶ They demonstrate ways Wyoming follows these Santiago Principles and show where the State has room for improvement.
- 



# The Santiago Principles

## How is Wyoming SWF doing?

**PRINCIPLE 1. “A sound legal framework that supports effective operation and achievement of its stated objectives.”**

- ▶ Constitutionally:
  - ▶ Wyo. Const. Art. 15, § 19: creation of Permanent Mineral Trust Fund
  - ▶ Wyo. Const. Art. 7, § 2: creation of Common School fund
  - ▶ Wyo. Const. Art. 7, § 6: school trust funds
  - ▶ Wyo. Const. Art. 15, § 20: Higher Education Endowment fund
  - ▶ Wyo. Const. Art. 18 §§ 1, 2, 4, 6: public lands and donations
- ▶ Statutorily:
  - ▶ W.S. §§ 9-1-409, 9-4-714 et seq. (and see 4. Below)
- ▶ Investment Policy Statement (informed by the Investment Funds Committee and adopted by the Wyoming State Loan and Investment Board).  
<https://statetreasurer.wyo.gov/investments/>.



# The Santiago Principles

## How is Wyoming doing?

**PRINCIPLE 2. A well-defined mission. “The policy purpose of the SWF should be clearly defined and publicly disclosed.”**

- ▶ The State Treasurer’s mission: To serve the people of Wyoming by receiving, safeguarding, and investing all funds in the possession of the State for purposes of safekeeping or investment in a prudent manner while complying with directives of Wyoming’s Constitution and Statutes.  
<https://statetreasurer.wyo.gov/>
- ▶ Investment Policy Statement: It is the policy of the Board to invest public funds of the State in a manner that strives for the highest possible risk-adjusted total return consistent with an appropriate level of safety, liquidity, and consideration of the unique circumstances for each fund.



# The Santiago Principles

## How is Wyoming SWF doing?

**PRINCIPLE 3. If the SWF impacts domestic activities, SWF should coordinate with fiscal and monetary authorities.**

- ▶ “Where the sovereign wealth fund 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.”
- ▶ By statute and policy, Wyoming's SWF coordinates with the Executive Branch, Legislature and CREG.

# The Santiago Principles

## How is Wyoming doing?

**PRINCIPLE 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.”**

- ▶ *GAPP 4.1. Subprinciple.* The source of SWF funding should be publicly disclosed.
- ▶ *GAPP 4.2. Subprinciple.* The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.
- ▶ Wyoming Constitution Article 7 § 2, 6; Article 15 §§ 19, 20; Article 18 §§ 1, 2, 4, 6
- ▶ Wyoming Investment Policy Statement, Sections 4, 7, 8, 9, 10, 12

### Wyoming Statutes and Session Laws

W.S. 9-1-401; 9-1-409 through 9-1-418	W.S. 9-1-507(j)(i)
W.S. 9-4-217	W.S. 9-4-305
W.S. 9-4-401	W.S. 9-4-501 through 9-4-503
W.S. 9-4-601 and 9-4-602	W.S. 9-4-607
W.S. 9-4-714 through 9-4-719	W.S. 9-4-831
W.S. 9-4-833	W.S. 9-4-1203
W.S. 9-15-103	W.S. 9-17-111
W.S. 11-34-129	W.S. 14-8-106
W.S. 16-1-111	W.S. 18-7-201 through 18-7-205
W.S. 21-13-303(c) and 21-13-304	W.S. 21-13-316
W.S. 21-16-714	W.S. 21-16-1201 through 21-16-1203
W.S. 21-16-1302	W.S. 21-18-319
W.S. 21-22-101 and 21-22-102	W.S. 27-14-701
W.S. 41-2-124	2019 Ch. 156, Section 5
2020 Ch. 116, Section 2	2020 Ch. 116, Section 303(g)



# The Santiago Principles

## How is Wyoming doing?

### **PRINCIPLE 5. Transparency to the owner.**

**“The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner for inclusion where appropriate in macroeconomic data sets.”**

- ▶ Statutory: W.S. §§ 9-4-716 & -718: Quarterly reporting required of investment managers to investment consultant, which reports quarterly to State Loan and Investment Board (SLIB). Reporting to Legislature.
- ▶ Investment Policy: Reporting by Treasurer and Consultant to SLIB.
- ▶ Reporting posted to Treasurer's website.



# The Santiago Principles

## How is Wyoming doing?

**PRINCIPLE 6. Clear division of roles. “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.”**

- ▶ **Constitution:** Creation of some of the funds
- ▶ **Legislature:** Sets risk profile, W.S. 9-4-718(e), creates fund statutes.
- ▶ **State Loan and Investment Board (SLIB):**
  - ▶ Sets the Investment Policy Statement as directed by W.S. 9-4-716(a). Requires SLIB approval of alternative investment terms W.S. 9-4-715(c).
  - ▶ Reviews and approves investment managers W.S. 9-4-718.
  - ▶ Reviews and approves asset allocations W.S. 9-4-715(d).
- ▶ **STO:** Constitutional officer (Wyo. Const. Article 4 §12); has myriad statutory and policy duties including to employ chief investment officer W.S. 9-4-715(a).
- ▶ **IFC:** establish benchmarks; monitor investment in alternatives; review state policies and procedures; recommend statutory, rule and policy modifications; consult with STO regarding policy. W.S. 9-4-720
- ▶ **Operational independence of SWF to pursue objectives:** limited by lack of HR and budget authority



# The Santiago Principles

## How is Wyoming doing?

**PRINCIPLE 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.”**

State of Wyoming via Constitution, statutes (W.S. 9-4-715(r)), and officers sets objectives.

- ▶ Governor, Secretary of State, Auditor, Treasurer, Superintendent are constitutional officers. Wyo. Const. Article 4 §§ 1, 12
- ▶ Legislative creation of the State Loan and Investment Office (SLIB) which include those five constitutional officers. W.S. 11-34-102(b), 9-4-714(a)(iii) SLIB has statutory duties. Legislative requirement of creation of SLIB’s Investment Policy
- ▶ Investment Policy further defines SLIB’s role, and the roles of the Treasurer and Auditor.
- ▶ Statutory creation of Investment Funds Committee, with double-arms length appointment of members. (W.S. 9-4-720 & -721)



# The Santiago Principles

## How is Wyoming doing?

**PRINCIPLE 8. Governing bodies that act in the best interest of the SWF. “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”**

### Best Interests:

- ▶ Statutes: including reasonably prudent investor. W.S. § 9-4-715(d);
- ▶ Investment Policy: SLIB, STO as fiduciaries, required to act as reasonable prudent investor, act ethically, avoid conflicts of interest.

### Clear mandate, adequate authority, competency

- ▶ SLIB has clear mandate and authority. 9-4-715 et seq. STO & IFC by statute and policy seek to ensure SLIB has enough information to competently carry out its functions.



# The Santiago Principles

## How is Wyoming doing?

**PRINCIPLE 9. Independence.** “The operational management of the sovereign wealth fund should implement the sovereign wealth fund’s strategies in an independent manner and in accordance with clearly defined responsibilities.”

- ▶ “The management of the sovereign wealth fund responsible for its day-to-day operations should have the authority to make individual investment decisions,”
- ▶ “The management of the sovereign wealth fund responsible for its day-to-day operations should have the authority to make operational decisions relating to staffing and financial management (subject to strategic direction from and accountability to the owner or the governing body(ies)).”
- ▶ “The remaining authority required to satisfy this recommendation is that of independence related to staffing and financial management, i.e. budgeting.”

Wyoming’s SWF does not have independence related to staffing and budgeting.



# The Santiago Principles

## How is Wyoming doing?

- ▶ **PRINCIPLE 10. Formal definition of accountability.** “The accountability framework for the SWF’s operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.”
- ▶ Constitutionally, statutorily: “the board shall seek to preserve the balance of each account in a manner that strives for the highest possible risk-adjusted total return consistent with an appropriate level of safety and liquidity” W.S. 9-4-715(r). The board chooses investment managers. The board approves material terms of alternatives. The SLIB chooses investment consultant.
- ▶ Statutorily and by policy, SLIB is fiduciary; STO, IFC, any other fiduciary must exercise reasonably prudent investor standard. W.S. 9-4-715(d), investment policy statement
- ▶ 9-4-716(f): Investments made in accordance with this section and W.S. 9-4-715 and policies adopted pursuant to this section shall be deemed to satisfy provisions of law which require funds to be invested in a manner to obtain the highest net return consistent with preservation of principal or the corpus of a fund.



# The Santiago Principles

## How is Wyoming doing?

### **PRINCIPLE 11. Annual reporting.**

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.

- ▶ Wyoming Statutes and the Investment Policy Statement requires reporting.
  - ▶ W.S. 9-1-409(f)
  - ▶ W.S. 9-4-715(a),(b),(n),(q) W.S. 9-4-719(p)
  - ▶ W.S. 9-4-720(f)
- ▶ Investment Policy Statement Sections 4.6, 4.7, 4.10, 19.4, 19.



# The Santiago Principles

## How is Wyoming doing?

### **PRINCIPLE 12. Independent auditors.**

The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.

- ▶ Statutorily: 9-1-403, etc.
- ▶ Investment policy: section 4.



# The Santiago Principles

## How is Wyoming doing?

### **PRINCIPLE 13. Ethics and professionalism.**

Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.

- ▶ Statutorily (Ethics Act) W.S. §§ 9-13-101 et seq.
- ▶ Wyoming Executive Order on Ethics, 1997-004.
- ▶ Investment policy: Section 3.2



# The Santiago Principles

## How is Wyoming doing?

### **PRINCIPLE 14. Rules-based outsourcing.**

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.

- ▶ Statutory, investment policy, and in contracts.
  - ▶ Follow procurement law and policy for outsourcing.
  - ▶ Follow Enterprise Technology Service law and policy for IT contracts.
  - ▶ Standardized AG contracting, conflict of interest provisions, provisions prohibiting placement fees/kickbacks



# The Santiago Principles

## How is Wyoming doing?

### **PRINCIPLE 15. Ability to abide by rules of foreign countries.**

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.

Wyoming's SWF abides rules of foreign countries where it or its managers operate

- ▶ International tax treaties, tax relief at source, tax reclaims
- ▶ Contractual provisions address situations involving foreign countries.
- ▶ Abides anti-money laundering standards in the US and abroad
- ▶ Managers required to abide law of foreign jurisdictions where involved in investing



# The Santiago Principles

## How is Wyoming doing?

**PRINCIPLE 16. Governance framework, objectives, manner of operational independence from the owner should be disclosed.**

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.

- ▶ It's disclosed by statute. W.S. 9-4-714 et seq.
- ▶ SLIB Board Matters regarding investment management and policies are publicly disclosed.
- ▶ Framework disclosed on the Treasurer's website.



# The Santiago Principles

## How is Wyoming doing?

### **PRINCIPLE 17. Public transparency.**

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.

- ▶ Statutorily: Reporting requirements to legislative committees and SLIB
- ▶ Posting of annual, quarterly, monthly reports to Treasurer's website
- ▶ Wyoming Public Records Act, W.S. §§ 16-4-201 et seq



# The Santiago Principles

## How is Wyoming doing?

### **PRINCIPLE 18. Clear investment policies**

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. 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.

- ▶ Statutorily SLIB is required to create investment policy statements. W.S. 9-4-716(a). They do so every year, with adjustments based on recommendations from the Treasurer, IFC, and Investment Consultant.



# The Santiago Principles

## How is Wyoming doing?

- ▶ **PRINCIPLE 19. Commercial orientation.**

The SWF's investment decisions should seek to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.

- ▶ Statutes: W.S. §§ 9-4-715(r), 9-4-720(f)(i) – maximize total net returns while protecting principal in a manner that strives for the highest possible risk adjusted total return consistent with an appropriate level of safety, liquidity and consideration of the unique circumstances for each fund;
- ▶ Investment Policy: Section 2 – contains the statutory language



# The Santiago Principles

## How is Wyoming doing?

### **PRINCIPLE 20. Restrictions against using privileged information**

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

- ▶ Statutory: Wyoming Public Records Act, W.S. §§ 16-4-201 et seq – cannot disclose privileged or confidential financial, trade secret information.
- ▶ Policy: Confidentiality provisions, Section 3.2(d)
- ▶ Contractual: standard confidentiality provisions in contracts with investment managers and others



# The Santiago Principles

## How is Wyoming doing?

### **PRINCIPLE 21. Shareholder rights policies.**

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.

- ▶ Statutory: W.S. § 9-4-718 – investment manager duties to the State
- ▶ Investment Policy Statement: Section 4 – Investment manager duties; Section 14 -- Proxy voting; other rights throughout policy
- ▶ Contractual – establish shareholder rights in contracts

# The Santiago Principles

## How is Wyoming doing?

### **PRINCIPLE 22. Effective risk management.**

**The SWF should have a framework that identifies, assesses, and manages the risks of its operations.**

- ▶ Constitutional: inviolate funds
- ▶ Statutorily:
  - ▶ Legislature sets risk: W.S. §§ 9-4-716(e): risk profile – risk cannot exceed 70-30 reference portfolio;
  - ▶ W.S. 9-4-715(r): invest up to 75% of PMTF and CS reserve accts in equity;
  - ▶ IFC: 9-4-720(f) (i): maximize total net returns, protect principal, strive for the highest possible risk adjusted total return consistent with an appropriate safety and liquidity in light of each fund
  - ▶ W.S. § 9-4-715(a): Treasurer – in consult with IFC -- must employ significantly qualified CIO.
  - ▶ W.S. § 9-4-715(d): IFC, Treasurer, fiduciaries: prudent investor standard, evaluate the risk of investments using generally accepted principles, capital market theory followed by long-term institutional investors, mitigate risks through diversification of asset classes securities, and investment approaches, while understanding prudent risk taking is a necessary element of long-term investing and needed to achieve the fund's long-term objectives
- ▶ Policy:
  - ▶ Treasurer must ensure Internal Controls, Section 4.3(c);
  - ▶ Fiduciaries must be reasonably prudent investors, Section 3.1.

# The Santiago Principles

## How is Wyoming doing?

### **PRINCIPLE 22. Effective risk management, continued.** Internal Controls. IPS § 4.3(c)

- The State Treasurer must set and monitor internal controls.
- designed to prevent losses of funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by staff.

i. Separation of transaction authority;	ii. Appropriate segregation of other related duties;
iii. Custodial safekeeping of securities;	iv. Clear delegation of investment authority;
v. Frequent reconciliation of investment and accounting records;	vi. Written confirmation of transactions;
vii. Supervisory controls;	viii. Securities trading controls;
ix. Control of collusion;	x. Development of electronic fund transfer agreements with lead banks and/or third party custodians;
xi. Conduct background checks on staff, interns, and applicants;	xii. Conducting regular staff training to help assure and support internal controls;
xiii. Implementation of internet and electronic security protocols;	xiv. Bonding as required by State law; and
xv. Guidelines for employee security and professional qualifications.	



# The Santiago Principles

## How is Wyoming doing?

### **PRINCIPLE 23. Proper reporting of performance.**

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.

The Treasurer, IFC, and Investment Managers have performance reporting requirements.

Wyoming Statutes

- ▶ W.S. 9-1-409(f): Treasurer annually reports to Capital Financing Legislative Committee (CapFin) about performance pay program
- ▶ W.S. 9-4-715(a), (b), (n), (q): Treasurer must prepare annual report, and must report to legislative committees about risk evaluation, public purpose investing, spending policy, and performance of the legislative stabilization reserve account
- ▶ W.S. 9-4-720(f): The Investment Funds Committee must report as requested to CapFin
- ▶ W.S. 9-4-718(a)(viii): Investment managers for the State must report quarterly to the Treasurer on performance relative to benchmarks and fees

Investment Policy Statement Sections 4.6, 4.7, 4.10, 19.4, 19.5



# The Santiago Principles

## How is Wyoming doing?

### **PRINCIPLE 24.**

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

- ▶ Regular reviews to ensure its compliance with the foregoing Santiago Principles
- ▶ Most of the principles have been embodied in Wyoming's SWF model, and are regularly reviewed as a matter of law and policy.



# The Santiago Principles

Where do we go from here?

**Where are potential places for best practice changes in Wyoming's SWF?**

Three places for potential operational improvements to SWF to achieve best practices:

- (1) making investment decisions;
- (2) making staffing decisions;
- (3) making financial management/budgeting decisions

These suggestions for improvement stem from Principles 1, 6 & 9

# The Santiago Principles

## Where do we go from here?

**PRINCIPLE 6. Clear division of roles.** *“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.”*

- ▶ Does the SWF have sufficient operational independence to pursue its objectives?

**PRINCIPLE 9. Independence.** *“The operational management of the sovereign wealth fund should implement the sovereign wealth fund’s strategies in an independent manner and in accordance with clearly defined responsibilities.”*

- ▶ “The management of the sovereign wealth fund responsible for its day-to-day operations should have the authority to make individual investment decisions,”

**Does the SWF have sufficient ability day-to-day to make individual investment decisions?** Compare authority of STO to select managers to that of WRS.

- ▶ “The management of the sovereign wealth fund responsible for its day-to-day operations should have the authority to make operational decisions relating to staffing and financial management (subject to strategic direction from and accountability to the owner or the governing body(ies)).”

**For Wyoming’s SWF, all staffing decisions must go through Department of Administration and Information.** SWF has limited ability to make timely, necessary staffing decisions needed in order to be responsive to the needs of the SWF and the market.

- ▶ “The remaining authority required to satisfy this recommendation is that of independence related to staffing and financial management, i.e. budgeting.”

**Budgeting for operation of the SWF goes through the State process.** Limited budgeted authority.



# The Santiago Principles

Where do we go from here?

**PRINCIPLE 1. “A sound legal framework that supports effective operation and achievement of its stated objectives.”**

**What legal and policy changes are needed to better support operation and achievement of the SWF’s objectives?**

**What do you think?**



# The Santiago Principles

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