

Benchmarking Series  
January 2014

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## The Santiago Compliance Index 2013

Rating governance standards of  
sovereign wealth funds

Santiago Compliance Assessments covering  
sovereign wealth funds rated in this report can be  
obtained directly from GeoEconomica or from  
Thomson Reuters and S&P Capital IQ distribution  
platforms.

GeoEconomica

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## The Santiago Principles

In 2008, 26 sovereign wealth funds (SWFs) from 23 countries, representing roughly US\$3.2 billion in assets under management, agreed on the Generally Accepted Principles and Practices (GAPP) for SWFs, known as the “Santiago Principles”.

The Santiago Principles comprise 24 individual principles and subprinciples, ranging from broad policy issues, such as mandates, investment policies, accountability arrangements; the roles and relationships between owners, supervisors and operational management; financial information such as the disclosure of rates of return, asset allocations, benchmarks, funding and withdrawal arrangements; to aspects of a more technical nature, such as accounting standards, audit arrangements, risk management and rules of engagement with service providers. Each of the principles is accompanied by a commentary, providing further guidance for the interpretation of its intended meaning.

The Principles commit their signatories to basic and consistent standards of good governance, transparency and accountability, while allowing room to reconcile the diverging mandates and regulatory traditions of their signatories. They constitute a voluntary code of principles and as such are not legally binding under national or international law. They are rather part of a growing international body of “soft norms” around which the expectations of financial market participants and regulators converge.

## The Santiago Compliance Index 2013

GeoEconomica’s Santiago Compliance Index rates SWFs against the standards set by each of the 24 principles. The Index is the most accurate independent assessment of the application of the Santiago Principles, and as such represents a robust reference point for judging a SWF’s overall commitment to good governance, transparency and accountability practices. The 2013 version of the Santiago Compliance Index updates previous ratings.

The Santiago Principles leave substantial room for interpretation. Our assessments are therefore informed by the Principles’ overall ambition to increase the transparency standards of the SWF industry at large. They are also informed by industry best practices with regard to reporting and disclosure policies. The appendix provides an overview of how we transformed the standards of the Santiago Principles into performance indicators to base our assessment.

The information on which the individual assessments have been based is limited to accessible official documentation provided by SWFs as of 30 September 2013. They do not take into account information that is not in the public sphere.

The individual assessments apply the “comply or explain” approach, a trademark of corporate governance in the United Kingdom. It is based on the assumption that a specific principle may not apply to the operating realities of a signatory of a code. In line with the “comply or explain” approach, we have sought to identify and assess a fund’s explanation of why that standard does or should not apply.

Published in its third edition, the Santiago Compliance Index has become an essential instrument for financial market participants, regulators and policymakers to develop a more nuanced and granular perspective on the transparency, accountability and good governance arrangements of SWFs.

## The Santiago Compliance Index 2013: Mixed performance across signatories

The Santiago Compliance Index 2013 documents that the Principles’ core mission to commit each signatory to uniformly high governance and transparency standards has not yet been accomplished, although important progress has been made. The overall compliance ratio across all SWFs rated is around 70 percent. Five years after the Principles’ adoption, a number of SWFs must still effect a profound policy shift to elevate overall compliance levels.

The Index provides evidence that a fund’s association to the Principles does not necessarily indicate

sufficient commitment to good governance and transparency. Funds still need to be assessed on a case-by-case basis to obtain an accurate indication of their commitment to the standards the Principles seek to promote.

**Top performers: Consistently convincing governance and disclosure practices**

We note that a group of six SWFs achieve a Santiago Compliance Rating of at least 80/100, and as such are considered compliant with the Principles. This group comprises the Norwegian Government Pension Fund Global; the New Zealand Superannuation Fund; the Australian Future Fund; the Economic and Social Stabilization Fund of Chile and the country's Pension Reserve Fund; the Alaska Permanent Fund; and the

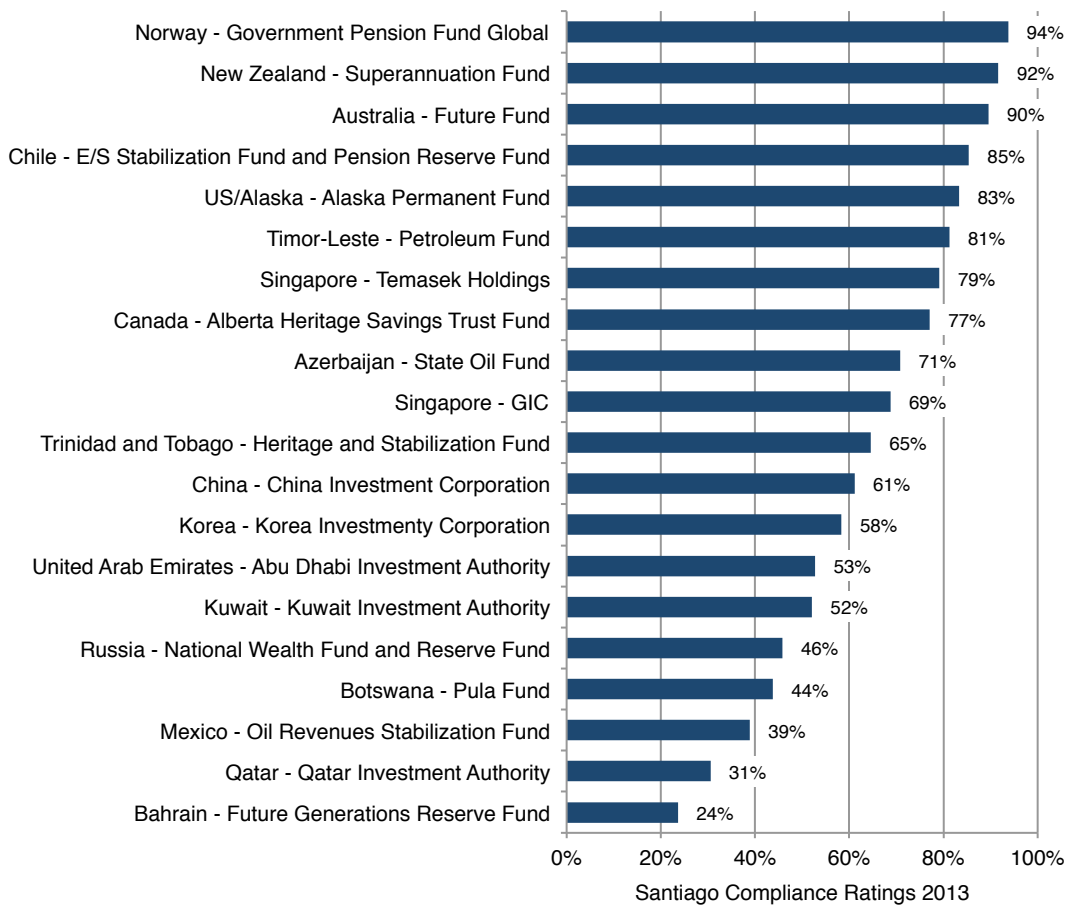
Petroleum Fund of Timor-Leste.

Some deficits include inconclusive information about the consequences of a fund's operations on the domestic economy (Principle 3); minor inconsistencies with regard to governance arrangements as outlined by the Principles (Principles 6 to 9); and inadequate attention to the quality of self-assessments of compliance with the Principles (Principle 24).

**The midfield: Inconclusive representation of governance standards and/or financial disclosure policies**

The nine funds in the midfield, scoring from 50/100 to 79/100 in the compliance ratings, show a fragmented commitment to the Principles. They are rated as

**Exhibit 1  
Santiago Compliance Index 2013**



partially compliant.

The main features preventing their higher rating include inconclusive representation of governance arrangements and competing lines of accountability; inconclusive discussion of the role of the owner (the government) in setting a fund's objective; limited competencies for supervisory boards; and/or the compromised independence of operational management. We also note fragmented financial disclosure policies. Some partially compliant funds fail to discuss their financial performance on an annual basis and, most importantly, fail to discuss that performance conclusively in reference to benchmarks. Some report on spending and withdrawal arrangements but remain silent on cash flow on an annual basis.

#### Underperformers: Lacking consistent commitment

We conclude that the five funds scoring below 50/100 are not compliant with the benchmarks set by the Santiago Principles. They display a limited commitment to the Principles' public disclosure and governance standards.

We note that the Ministry of Finance of the Russian Federation, who supervises the Russian National Wealth Fund and the Reserve Fund, provides substantial and timely information about the Funds' asset values and cash flows. But it fails to provide consistent information about a range of technical aspects of fund management, as required by the Principles.

The Qatar Investment Authority (QIA) is one of the fastest growing SWF amongst its peers. It is also one of the most activist and extrovert funds, with major positions in prime assets. But it fails to provide conclusive information about its mandate, finances, accountability and governance arrangements. QIA could substantially enhance its position as an established financial market participant if it made a bold move towards embracing and implementing substantial parts of the Principles.

Not rated: Profoundly deficient disclosure policies and/or fundamentally challenged policy orientation

We excluded a number of signatories from our rating. Some face fundamental policy challenges that prohibit them from constructively and regularly interacting with financial markets or caused their investment mandate to be substantially revised. Others make too little information accessible to allow a credible rating.

The Irish National Pension Reserve Fund was transformed into the Ireland Strategic Investment Fund in the summer of 2013 with a focus on Irish domestic assets. The Libya Investment Authority remains subjected to an international asset freeze programme regime, based on UN Security Council resolutions. Equatorial Guinea's Fund for Future Generations and the Iranian Oil Stabilization Fund provide little to no publicly accessible information.

We will provide ratings for these and other entities once they return to the markets or make information more publicly accessible.

Appendix: Standards of the Generally Accepted Principles and Practices (GAPP) also known as the “Santiago Principles” and related performance indicators

<b>GAPP</b>	<b>Standard</b>	<b>Indicator</b>
GAPP 1	Legal framework	Legal basis and/or founding charter are disclosed.
GAPP 2	Policy purpose	The policy purpose of the fund is disclosed. Inconsistent policy purposes may receive a non-compliant rating as a consequence.
GAPP 3	Coordination with domestic fiscal and monetary authorities	Disclosure of processes that ensure coordination with domestic fiscal and monetary authorities. Alternatively, an explanation of why the fund’s activities do not have significant direct domestic macroeconomic implications is required.
GAPP 4	Source of funding/ withdrawal and spending	Policies, rules, procedures or arrangements for the fund’s funding, withdrawal and spending operations on behalf of the government should be clearly set out and consistent with the fund’s policy purpose. Industry best practice also includes the annual reporting of the amount of inflows and withdrawals, if applicable.
GAPP 5	Statistical data reported to the owner	Description of procedures that ensure statistical data pertaining to the fund are reported on a timely basis to the owner.
GAPP 6	Governance framework	Holistic description of the fund’s governance framework and identification of entities within that framework. Compliance with Principle 6 needs to be assessed in the context of Principles 7 to 9.
GAPP 7	Role of the owner	Disclosure of regulations that ensure the fund’s owner sets the objectives, appoints the members of its governing body(ies) in accordance with clearly defined procedures, and exercises oversight over the SWF’s operations.
GAPP 8	Role of the governing body(ies)	Disclosure of regulations that ensure the fund’s governing body(ies) has(have) a clear mandate and adequate authority and competency to carry out its functions, including setting the fund’s strategy and accountability arrangements.
GAPP 9	Operational management	Disclosure of regulations that provide the mandate for operational management, including reference to responsibilities and accountability arrangements.

GAPP 10	Accountability	Disclosure of accountability arrangements linking the fund to its political constituency and institutions.
GAPP 11	Annual report and accounting	Publication of annual reports and commitment to an international or national accounting standard.
GAPP 12	Auditing	Disclosure of audited financial statements.
GAPP 13	Professional and ethical standards	Disclosure of professional and ethical standards.
GAPP 14	Third parties	Disclosure of rules and procedures for dealing with third parties.
GAPP 15	Regulatory and disclosure requirements in host countries	Description of arrangements that ensure regulatory and disclosure requirements in host countries are complied with.
GAPP 16	Operational management independence	Disclosure of processes and policies that ensure operational management is independent from the owner of the fund.
GAPP 17	Disclosure of relevant financial information	Disclosure of asset allocation, benchmarks where relevant, rates of return over appropriate historical periods.
GAPP 18	Investment policy	Description of a conclusive investment policy.
GAPP 19	Disclosure of non-financial and economic considerations	Disclosure and discussion of factors beyond economic and financial considerations that drive investment decisions.
GAPP 20	Privileged information or inappropriate government influence	Disclosure of rules and regulations that prevent the fund from benefitting from privileged information or inappropriate government influence.
GAPP 21	Ownership rights	Adequate description of the approach to executing shareholder rights.
GAPP 22	Risk management framework	Description of the risk management framework.
GAPP 23	Investment performance and benchmarks	Disclosure of investment performance and performance benchmarks.
GAPP 24	Implementation of Santiago Principles	Description of the process to regularly review compliance with the Santiago Principles by or on behalf of the SWF. Disclosure of a Santiago compliance self-assessment.

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Source: GeoEconomica

## About

GeoEconomica is an independent macro-trend and political risk rating and research firm.

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