

## International Forum of Sovereign Wealth Funds

7<sup>th</sup> Annual Meeting

Opening Address – From form to substance

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### 1. Introduction

Minister Padoan, ladies and gentlemen, *colleghi e amici*:

*Buongiorno.*

It is my privilege to announce the start of public proceedings for the 7<sup>th</sup> annual meeting of the International Forum of Sovereign Wealth Funds.

We have a lot to look forward to today. And none of it would be possible without the generosity and thought of our hosts, the *Fondo Strategico Italiano*. Chairman Costamagna and *Signor* Tamagnini: you have gone from joining the Forum to hosting its annual meeting inside a year! What an extraordinary testament of your commitment to the IFSWF purpose. On behalf of all here today, thank you for welcoming us with a grace and warmth that can only be Italian.

You will note the underlying themes of today's agenda are different from those of recent annual meetings. The Forum is independent, the Secretariat is established, our goals are agreed, and our policies and processes are codified. With this essential infrastructure built, we can set sights with confidence on considering and, more importantly, taking action on the questions that matter. That is what I wish to talk about today.

But if I am in any position to bring these matters to your attention, it is only due to the vision and dedication of the leaders that have guided IFSWF and the earlier Working Group in their formative years. Many are here today. Some, sadly, are not.

Mike Burns was elected to the IFSWF Board only last year. Illness made his time with us too brief. His passing is a big loss to the Forum. Mike led the Alaska Permanent Fund with clarity and fortitude and brought these same characteristics to his leadership of the Forum. Together with his many friends and admirers in this room, I will miss his wisdom and good cheer.

To our Alaskan colleagues: the Sovereign Wealth Fund community is small, but made of giants. Mike was one of them. We mourn with you.

Speaking of giants, I am humbled to acknowledge two other leaders who have just stepped down from the Board. First, Jin Liqun, the outgoing Honorary Chair and the President-designate of the Asian Infrastructure Investment Bank. Chairman Jin was instrumental in formulating the governance arrangements for IFSWF. That is a task where one can give lip service to tedious matters of governance. Or one can inflict onerous, dense process. Fortunately, we had Chairman Jin. And so IFSWF has a framework that is fair, transparent, efficient and practical. In my view, this happy coincidence is rare on the global stage. Sir, we wish you the best for the exciting challenge of leading the AIIB.

And second, Bader al Saad, the outgoing Chair of IFSWF and Managing Director of the Kuwait Investment Authority. Bader, you have been involved right from the start of this process. Let us remember that IFSWF was created in the Kuwait Declaration. Yours is the oldest sovereign wealth fund, established in 1953. That such a seasoned institution was so heavily involved in the creation of the Santiago Principles, and of the Forum, has been a major boost to the credibility of both. Sir, you have taken us all under your wing, and we thank you for it.

I also wish to thank the IMF. The IMF contributed hugely to the incubation of our group, and then to its smooth transition to independence. While we stand on our own now, our purpose is unchanged. We look forward to a continued association with the Fund in promoting the mutual goals of free capital flows and stable long-term investment.

And finally, the Secretariat has managed IFSWF activities with distinction over the past year. If you cast an eye over our new strategic plan, the Forum has much to accomplish in the years ahead. The rewards for doing so are real and relevant to the global community.

On that note, let's get started.

## **2. *The origins of IFSWF***

No institution can manage its future without acknowledging where it has come from.

It is important to recall that in the years leading up to the global financial crisis, the activities of sovereign wealth funds were viewed, on the whole, with some suspicion. Because sovereign funds did not create a credible, unified narrative about who we are and what we do; it was made up for us. Odd conclusions were inevitably made.

For example, SWFs were variously considered agents of the state executing 'checkbook' foreign policy strategies. Or we represented flighty and destabilising capital. 'Hot' money changing direction with the economic winds.

That narrative has changed dramatically. Mostly, that is because it became based on what we actually did, not what others thought we would do. Sovereigns – our own members standing

tall among them – played a stabilising role in deeply uncomfortable times, investing counter-cyclically during (and since) the financial crisis.

The Santiago Principles highlight this. First as the **idea** that enduring stability and commercial purpose are the twin defining features of sovereign capital. And second as 24 items of **practical guidance** on the institutional governance and risk management frameworks necessary for sound long-term investment practice.

The Forum exists in the service of these principles. We exist to facilitate improvements in global understanding of what sovereign investors do and why. To allow all members—old, new and prospective—to learn from each other’s experiences. To inform our members’ governance, accountability, and operational methods, from which all interested parties can take courage and comfort.

So, the principles conceived as a defensive reaction to wariness about sovereign capital have matured in both perception and reality. They now signal the positive impact of long-term investment and the serious commercial intent of the sovereign investor.

### **3. *Recent accomplishments***

IFSWF now has 29 members, representing about a third of the global SWF community by number and 70 per cent by total sovereign assets under management. Four new members have joined this year and I welcome Kazakhstan, Morocco, Palestine and Oman to the collective. IFSWF is stronger with your participation. We are in good contact with more than a dozen other SWFs and anticipate an even larger collective at our Annual Meeting in Auckland, New Zealand next year.

With the incorporation of the Forum and the establishment of the Secretariat, we have progressed from working ‘on’ the institution to working ‘in’ the institution. By working ‘in’ the institution I mean the activities that are underway now within the Secretariat. They are working on comparison, co-operation and perhaps in-time, co-investment. All activities that benefit each member, and the global financial community, if we get it right.

We have already achieved much to be proud of. This year, more than 80 per cent of the membership has completed a voluntary self-assessment against the Santiago Principles, and the majority of these are publicly available. We have published well-received case studies on 15 members’ implementation of the principles. A new set of publications, the “Member Experiences”, will be launched in Auckland.

These resources have proved invaluable to academia, media, new SWFs, government owners and the interested observer. They have permitted greater scrutiny and more informed opinion.

For some members this third-party insight has brought independent endorsement of approach and greater legitimacy of action. These endorsements are extremely helpful in marking this sovereign capital as 'high quality' from a long-term perspective and distinguishing it from other capital sources. To put it bluntly, the scrutiny brings financial reward.

On the co-operative front, guided by the collected insights of the various sub-committees and member advisory groups, we have made submissions to the OECD and others on matters that impact us all, such as tax policy. We have also introduced other initiatives, like Inclusive Capitalism, to the membership for their consideration.

In terms of co-investment, IFSWF has not, to date, had a formal role in organising investment opportunities. Nor does this goal sit formally on the Secretariat's work agenda. I do very much hope, however, that in time this will be a bonus of knowing each other better and sovereigns as a group being better understood on the global stage.

Surely, standing on the shoulders of giants provides better sight of investments around the world!

#### **4. *The road***

The new strategic plan gives us a lot to do:

- Promote the Santiago Principles by publishing case studies that support operational excellence;
- Exchange views on topics of common interest to the membership;
- Engage governments and international institutions;
- Develop online platforms for year-round information exchange; and
- Encourage collaborative research with global academia when relevant.

The successful execution of these activities will help complete the mandate that we agreed in 2009: the maintenance of an open and stable investment environment and financial system, and the free flow of capital.

The Board has previously agreed that IFSWF is better-served by the year-round exchange of knowledge and opinion, rather than it all being compressed into an annual meeting.

With this in mind, a new digital communications strategy is also in place. We will have a new website shortly. It is very cool. And I encourage you to use it when it is available later this year. Let's make this the library of record for the materials and conversations that we can each use to become better investors.

Of course, as part of our everyday activity, we are each also independently engaged with the UNPRI or the Coalition for Inclusive Capitalism or the Sustainability Accounting Standards Board amongst many, many, others. There is no monopoly on good ideas. Please use the new

digital platforms to document your experiences with these initiatives. The most useful things we can learn will come from each other.

## **5. *The destination***

As you can see, we have an ambitious agenda. It will take the efforts of each member institution to deliver against it. But why bother? What makes these efforts worthwhile?

Because done diligently and well our work will, in time, result in:

- Better global understanding of the purposes of SWFs and increased trust in their activities;
- Improved investment opportunities for sovereign and non-sovereign investment funds working collaboratively;
- Increased investment capital being mobilized towards activities that are desperately short of funding, such as infrastructure;
- Increased capital being mobilized towards emerging and frontier markets, where expert, local, assistance is needed to support patient capital;
- Better knowledge amongst recipient countries as to the characteristics of investable opportunities that appeal to the long-term investor; and
- A greater emphasis on the environmental, social and governance factors that are increasingly considered fundamental to long-term value, and thereby achieve better outcomes on these fronts.

These outcomes are highly desirable and of universal benefit. And yes, though the activities that target these outcomes are aspirational, they are easily achievable within the IFSWF framework.

Opportunities for action abound. For example, we can collectively discuss issues that too often fall into the 'curse of the commons' bucket, whereby no one actor is incentivised to take responsibility for the outcome of their actions. Working together over time, with private integrity and mutual trust, the incentives change. For SWFs, climate change is one example right now where collective discussion is necessary and collective action meaningful.

We can work with our home governments and regulators to ensure good investment practices and sensible rules. For example, the wave of post-GFC banking regulation imposes new capital adequacy requirements on banks. An under-appreciated consequence of this is the greater demand it places on the liquidity of institutional investors. It is up to us to speak more clearly (and, whenever appropriate, with one voice) on such matters.

As managers of patient capital, we can do more to outline the governance practices that support sound stewardship and become more engaged owners as feasible. Again, it is early days but many SWFs are actively engaged in their own regions – and collectively with the likes of the UNPRI – to improve engagement and governance outcomes.

We can also naturally be contrarian capital. Our horizon, liquidity, location, and operationally independent governance means we tend to 'sell' rather than 'buy' insurance – and in doing so provide liquidity - during difficult times.

We have some duty of care to improve investment knowledge and understanding in our home countries. Far too little of the popular literature explains the methods required for success over the long-term. The more widely these are appreciated, the stronger the support we receive for our own activities—support that is invaluable when markets turn and the investment climate is grim.

Investing for decades and centuries is boring. It requires deferred gratification with benefit transferred to future generations. Hence it is often not voted for or acted on. By leading through example, we can raise financial literacy and importantly put pressure on the transaction costs that permeate all levels of the modern financial system.

Lastly, understanding how much we pay to invest, to whom, for what, is very hard. The days of opaque fee structures – enabled by asymmetric information and as a shield for the supply of ill-defined skill – must be curtailed. IFSWF can help lift the lid on practices that have led to super-profits for a few and significantly reduced net-of-fee returns for the majority. Data and intellectual property can be shared amongst long-term investors for the betterment of all.

As sovereign investors and with the weight of considerable capital, we are in an extremely fortunate position to debate these matters and take action on them. We can talk openly. Our Forum is free of the conflicts of interest and multiple objectives that often result in misallocated time and resource for many collectives. We have the ability to shape a better market and not just take part in the flawed versions that exist today.

We are not a political organisation. We share knowledge but do not speak as a single group. We simply have a practical and important job to do, and we can speak in our respective countries as trusted 'insider-outsiders' on the policies, rules, and practices that work for more sustainable economic growth.

So let's do it.

## **6. *The roadblocks***

I have spent some time picturing, in very practical terms, the better investment environment that IFSWF members can help achieve. I have also spoken about what the Forum itself will aim for over the next few years, consistent with our strategic plan. Now I wish to speak with humility about the obstacles we face. It is important that we do not gloss over these.



It will forever remain a challenge to earn and maintain the integrity and relevance of our Forum.

Integrity comes from setting deliberate and meaningful goals, and then accomplishing them. It comes from doing what we say we are going to do.

The first step to running a marathon is to tell everyone of your intention. Integrity then comes from doing it, or at least making a genuine attempt. Through the establishment of the Santiago Principles and the Forum we have told the world we're running a marathon.

We have told them that IFSWF is a forum for voluntary benchmarking against best practice. We have told them that the Santiago Principles comprise a global standard, a yardstick, for the governance and behavior of institutional investors. The good news is that observers around the world have found this yardstick useful. The challenge for us is that we do not fall short of making it meaningful.

We recognise that each member is different. We are all a product of our own circumstance, purpose, legal and operational structure, and capacity. So each member's journey towards the implementation of the principles will be different. That is why our framework is couched in terms of self-assessments and voluntary disclosures. One size, one approach, cannot and should not be expected to suit all.

But this 'voluntarism' is not an outcome. It is not a license to stand still. And it is not a shield. Achieving acceptance for our definition of what it means to be a good sovereign investor obliges us to show how we have attempted to be one. Not doing so bankrupts the principles, leaving them worthless for all.

And then someone else will come up with another standard which we will not own and may be ill-equipped to meet. The conventional wisdom about what we are, and why we do what we do, will slip away from us.

With transparency, we retain the initiative and own the narrative about ourselves. Let us show the world how we are progressing. Let us be honest about the challenges we face in implementing the principles. Let's tell the world if something does not work for us.

In this sunlight, IFSWF's foundational self-evaluation is not the weak 'get-out' clause that some might imagine. Instead, it's a powerful tool for self-actualisation, for understanding ourselves better. It provides the world with a credible signal of our intent within the constraints of our individual circumstance.

## 7. *Conclusion*

Look around this room and see what we, as IFSWF members, have in common.

We are all managers of others peoples' money – a fiendishly difficult task. Others rely on us to provide for their future pensions. Or to stabilise the macro environment when conditions sour, so that jobs are preserved or taxes need not rise. Or to transfer a wealth to future generations that is rightfully theirs. Whatever the purpose, we are each charged with succeeding over the long-term.

The time that we have before us creates both opportunity and obstacle. As long-term investors we have 'captured capital' and can do with it what we wish to best achieve our goals. It opens new investment options to us that may not be available to other investors.

Long-termism can allow us to forge deep relationships with the companies that we invest in, with our sponsors, and indeed each other. These 'repeated games' allow for a different, enduring, and better aligned class of investment relationships than is typical for the financial markets today. In such circumstances, transactions are certainly not zero-sum.

In pursuit of these advantages, we combat several perils, not least ourselves. Long-term investing is unnatural. It is difficult for a current population to put wealth aside collectively for future generations. Time inconsistency, myopia, asymmetry of information, and principal-agent risks are all well understood economic concepts that drive inappropriate risk taking and rent seeking. It is human nature to defer cost and prefer short-term gain over long-term value. In short, inter-generational fairness and long-term investing are difficult concepts to hard wire into the political economy of a society.

Meanwhile, on the other side of any financial transaction, there is a party with different interests and incentives to our own. With our size and patience, we pose credible pressure on the established investment model.

Making the most of the opportunity while avoiding the obstacles of long-term investment requires good governance, accountability and transparency. The Santiago Principles go a long way to describing the 'necessary' but not 'sufficient' tools to achieve these. The rest is up to us individually, and collectively through the IFSWF to develop and share.

IFSWF is not an acronym for poor practice to hide behind. It is a moniker to be earned and respected over time by operating with investment integrity. I believe IFSWF can greatly assist the provision of superior risk-adjusted returns to our owners, and in doing so provide increased stability to global financial markets.

I end by repeating myself from twenty minutes ago. It's time for us to get started.

Thank you, and welcome to IFSWF 2015.