



## Implementation of the Santiago Principles

The Santiago Principles are a voluntary set of principles and practices developed by the International Working Group of Sovereign Wealth Funds during 2008. The Principles identify a framework of generally accepted principles and practices that properly reflect appropriate governance and accountability arrangements as well as the conduct of investment practices by Sovereign Wealth Funds (SWFs) on a prudent and sound basis.

The International Forum of Sovereign Wealth Funds (IFSWF) has subsequently been formed as a voluntary group of SWFs, which will meet, exchange views on issues of common interest, and facilitate an understanding of the Santiago Principles and SWF activities. The Chair of the Future Fund, Mr David Murray is also Chair of the IFSWF. This document focuses primarily on the implementation of the Santiago Principles in the context of the Future Fund. This reflects the fact that the Nation-building Funds draw on the legal, institutional and investment and risk management framework of the Future Fund and that their principle distinguishing characteristic is their shorter-term focus.

Principle	Implementation and reference material
<p>1 The legal framework should be sound and support the SWF’s effective operation and the achievement of its stated objectives</p> <p>1.1 The legal framework should ensure the legal soundness of the SWF and its transactions</p> <p>1.2 The key features of the SWF’s legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.</p>	<p>The legal framework for the Board of Guardians and the Agency, together with arrangements for the governance and operation of the public asset funds for which the Board of Guardians is responsible, are detailed in the <i>Future Fund Act 2006</i> and <i>Nation-Building Funds Act 2008</i>. The framework is designed specifically to establish the sound and effective operation of the Fund and achievement of its objectives.</p> <p>The legal basis and structure and the legal relationships between the Board, Agency and Government is detailed in the legislation which is publicly available.</p> <p>Additional detail and discussion of the basis and operation of the Board, Agency and the Funds themselves is available from the Board’s annual report and website.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a>  <a href="http://www.futurefund.gov.au/investment/investment_mandate">www.futurefund.gov.au/investment/investment_mandate</a></p>

<b>Principle</b>	<b>Implementation and reference material</b>
<p>2 The SWF's policy purpose should be being clearly defined and publicly disclosed</p>	<p>The Future Fund was established to meet unfunded superannuation liabilities that will become payable during a period when an ageing population is likely to place significant pressure on Commonwealth finances. The Nation-building Funds were established to provide financing resources to meet the Australian Government's commitment to Australia's future through investment in critical areas of infrastructure such as transport, communications, energy, water, education, research and health.</p> <p>Detail on the policy purpose for each of the Funds is provided in the relevant legislation, annual reports and the organisation's website.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a>  <a href="http://www.futurefund.gov.au/investment/investment_mandate">www.futurefund.gov.au/investment/investment_mandate</a>  <a href="http://www.futurefund.gov.au/annual_reports">www.futurefund.gov.au/annual_reports</a></p>

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<p>3 here the SWF has significant direct domestic macroeconomic implications, those activities should be closely coordinated with domestic fiscal and monetary authorities so as to ensure consistency with the overall macroeconomic policies</p>	<p>The Australian Government is responsible for determining the timing and extent of withdrawals from the Future Fund and Nation-building Funds, subject to legislative constraints. The Australian Government is not permitted to access the Future Fund until the earlier of 2020 or when the investments exceed the target asset level, at which time any withdrawals will assist the Australian Government Budgetary position. Coordination with all relevant fiscal and monetary authorities will be undertaken at this time.</p> <p>In establishing the Nation-building Funds the Australian Government made a commitment that spending proposals would be delivered in line with prevailing macroeconomic conditions. Spending from the Nation-building Funds is undertaken consistent with the legislated process and as part of the usual Budget process within the limits of the legislated General Drawing Rights Limit. Coordination with all relevant fiscal and monetary authorities, and relevant departments, is undertaken as part of this process.</p> <p>The investment of the assets of the Funds is undertaken by the Board in accordance with the risk and return requirements of the Investment Mandates and has no macroeconomic implications.  <a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a></p>
<p>4 There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's approach to funding, withdrawal and spending operations.</p> <p>4.1 The source of SWF funding should be publicly disclosed</p> <p>4.2 The general approach to withdrawals from the SWF and spending on behalf of the government should be disclosed.</p>	<p>The legislation publicly sets out the funding, withdrawal and spending arrangements and procedures for the Funds, including arrangements for Parliamentary oversight and public disclosure of funding, withdrawals and spending. The source of funding is publicly disclosed together with the approach to withdrawals and spending of monies</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a>  <a href="http://www.finance.gov.au/investment-funds/future-fund/transfers.html">www.finance.gov.au/investment-funds/future-fund/transfers.html</a>  <a href="http://www.finance.gov.au/investment-funds/NBF/NBF_transfers.html">www.finance.gov.au/investment-funds/NBF/NBF_transfers.html</a></p>

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<p>5 The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or otherwise as required, for inclusion where appropriate in macroeconomic data sets.</p>	<p>Statistical data is consolidated in national financial accounts, government financial statistics, the balance of payments and international investment position by the Australian Bureau of Statistics in accordance with its regular data collection and reporting arrangements. Data is also incorporated into the Government's budget statements.</p> <p>Audited annual financial statements are tabled in Parliament and quarterly updates on the portfolio are released publicly.</p> <p><a href="http://www.abs.gov.au">www.abs.gov.au</a>  <a href="http://www.futurefund.gov.au/investment/portfolio_updates">http://www.futurefund.gov.au/investment/portfolio_updates</a></p>
<p>6 The governance framework for the SWF should be sound and establish 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.</p>	<p>The roles and responsibilities of the Government, as asset owner, and the Board (supported by the Agency), as asset manager are detailed in the legislation.</p> <p>Further detail is provided by the Investment Mandates and the Statement of Expectations and Statement of Intent exchanged between the Government and the Board and the Agency.</p> <p>Internal policies, procedures and protocols have been established to further delineate roles and responsibilities at the operational level.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a>  <a href="http://www.futurefund.gov.au/data/assets/pdf_file/0016/3571/SoE_-_Final.pdf">www.futurefund.gov.au/data/assets/pdf_file/0016/3571/SoE_-_Final.pdf</a>  <a href="http://www.futurefund.gov.au/data/assets/pdf_file/0017/3572/SoI_Final_300909.pdf">www.futurefund.gov.au/data/assets/pdf_file/0017/3572/SoI_Final_300909.pdf</a></p>
<p>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.</p>	<p>The objective for each Fund, the procedures for the appointment of the Board of Guardians by Government and arrangements for the exercise of oversight are detailed in the legislation.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a></p>

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<p>8 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.</p>	<p>The Board is bound by the legislation and Investment Mandates set by Government to pursue the investment objectives detailed in the legislation and to act in good faith. The legislation also provides the Board with the necessary powers to undertake its mandated activities and sets out the experience, expertise and credibility required of appointees to the Board.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a>  <a href="http://www.futurefund.gov.au/investment/investment_mandate">www.futurefund.gov.au/investment/investment_mandate</a></p>
<p>9 The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.</p>	<p>The Board is responsible for investing the assets of the Funds in accordance with the legislation and makes decisions independently of Government. The legislation establishes the Agency to provide support and advice to the Board and to assist in giving effect to the Board's decisions.</p> <p>Clear internal policies, procedures and protocols have been established to further delineate roles and responsibilities at the operational level.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a></p>
<p>10 The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.</p>	<p>Accountability arrangements, including the requirement for publication of an annual report and arrangements for the provision of reports and information to the responsible Minister, are detailed in the legislation.</p> <p>Further accountability is also provided through the operation of the <i>Financial Management and Accountability Act 1997</i> governing the establishment and operation of Special Accounts for each Fund.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a></p>

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<p>11 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 recognised internal or national accounting standards in a consistent manner.</p>	<p>The annual report and financial statements, prepared in accordance with the Finance Minister's Orders made under the <i>Financial Management and Accountability Act 1997</i> including the Australian Accounting Standards of the Fund.</p> <p>The legislation requires that the annual report and audited financial statements are presented to the responsible Minister as soon as practicable after the end of each financial year and tabled in Parliament within 15 sitting days of each House of Parliament.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a>  <a href="http://www.futurefund.gov.au/annual_reports">www.futurefund.gov.au/annual_reports</a></p>
<p>12 The SWF's operations and financial statements should be audited annually in accordance with recognised international or national auditing standards in a consistent manner.</p>	<p>Internal audit services are provided by an external firm reporting to the Board's Audit Committee. The Australian National Audit Office is responsible for an annual independent external audit conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate and Australian Auditing Standards.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a>  <a href="http://www.anao.gov.au">www.anao.gov.au</a></p>

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<p>13 Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management and staff.</p>	<p>The duties and obligations of members of the Board of Guardians are detailed in the legislation together with arrangements for the management of conflicts of interest. The legislation also includes details of the civil and criminal penalties applying for breach of specific duties and obligations. Persons are eligible for appointment to the Board only if the responsible Ministers are satisfied the person has substantial experience or expertise and professional credibility and significant standing in investing in financial assets, managing investments in financial assets or corporate governance.</p> <p>Staff of the Agency are employed under the <i>Public Service Act 1999</i> and are bound by the Australian Public Service Values and Code of Conduct. Details of these obligations are included in internal policies and training activities.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a>  <a href="http://www.apsc.gov.au/values/conductguidelines.htm">http://www.apsc.gov.au/values/conductguidelines.htm</a></p>
<p>14 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.</p>	<p>The Board's approach to the engagement of third parties, including advisors and investment managers, is outlined in its Statement of Investment Policies available on the internet. Engagement of third parties is based on economic and financial grounds.</p> <p>The purchase of goods and services by the Agency is consistent with the Commonwealth Procurement Guidelines and governed by clear internal policies and procedures to encourage value for money, open and effective competition and fair dealing and ethics.</p> <p><a href="http://www.futurefund.gov.au/investment/investment_policies">www.futurefund.gov.au/investment/investment_policies</a></p>
<p>15 SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.</p>	<p>The Board of Guardians ensures that all investment activities are undertaken in accordance with applicable regulatory and disclosures requirements. Detailed due diligence and reporting is in place to monitor compliance. The legislation requires the Board of Guardians to act in a way that is unlikely to cause any diminution of the Australian Government's reputation in international financial markets.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a></p>

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<p>16 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.</p>	<p>The governance framework and objectives of the Board and the Agency are set out in the legislation and in public annual reports. The framework clearly establishes the independence and accountability arrangements for the Fund, the Board and the Agency.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a></p> <p><a href="http://www.futurefund.gov.au/annual_reports">www.futurefund.gov.au/annual_reports</a></p>
<p>17 Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in internal financial markets and enhance trust in recipient countries.</p>	<p>An annual report and audited annual financial statements are tabled in Parliament and published via the website. The Board also issues public quarterly updates on performance and asset allocation.</p> <p><a href="http://www.futurefund.gov.au/annual_reports">www.futurefund.gov.au/annual_reports</a></p> <p><a href="http://www.futurefund.gov.au/investment/portfolio_updates">www.futurefund.gov.au/investment/portfolio_updates</a></p>
<p>18 The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy , as set by the owner of the governing body(ies), and be based on sound portfolio management principles.</p> <p>18.1 The investment policy should guide the SWF's financial risk exposures and possible use of leverage.</p> <p>18.2 The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.</p> <p>18.3 A description of the investment policy of the SWF should be publicly disclosed.</p>	<p>The Board's Statement of Investment Policies, published on the internet as required by legislation, details its investment strategy and risk tolerance and its application of portfolio investment principles. Annual reports provide additional insight and discussion of the investment strategy.</p> <p>These documents address matters relating to financial risk, leverage, the use of and extent of the activities and authority of internal/external managers as well as the process for their appointment and monitoring of their performance.</p> <p>The policies and practices detailed by these documents are consistent with the obligations contained in the legislation.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a></p> <p><a href="http://www.futurefund.gov.au/investment/investment_policies">www.futurefund.gov.au/investment/investment_policies</a></p> <p><a href="http://www.futurefund.gov.au/annual_reports">www.futurefund.gov.au/annual_reports</a></p>

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<p>19 The SWF's investment decisions should aim to maximise risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.</p> <p>19.1 If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed.</p> <p>19.2 The management of the SWF's assets should be consistent with what is generally accepted as sound asset management principles.</p>	<p>The Board's obligation to seek to maximise risk-adjusted financial returns is established in the legislation with return and risk parameters detailed through investment mandates created under the legislation. The Board is required to operate in a manner consistent with international best practice for institutional investment.</p> <p>The limited set of restrictions on the Board's investment activities, such as limits on the size of stakes in Australian and foreign listed companies, are clearly expressed in the legislation. The Board's approach to consideration of environmental, social and governance matters in its investments is detailed in its Statement of Investment policies and reflects the Board's focus on acting as a prudent investor seeking to maximise risk-adjusted returns.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a></p>
<p>20 The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.</p>	<p>The Board has and seeks no access to privileged information or inappropriate influence through the Government in competing with private entities. The statutory governance framework, duties and obligations of Board members and the Code of Conduct applying to Agency staff provide a solid framework to prevent access to and use of privileged information. Clear protocols and processes have been established for the Board and Agency to maintain this position.</p> <p><a href="http://www.futurefund.gov.au/about_the_future_fund/legislation">www.futurefund.gov.au/about_the_future_fund/legislation</a></p>

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<p>21 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.</p>	<p>The Board is required to have regard to international best practice for institutional investment in determining its approach to corporate governance principles, including in relation to its voting policy.</p> <p>The Board's approach to the exercise of ownership and voting rights is detailed in its Statement of Investment Policies. The annual report discusses the application of the Board's policy including reporting in aggregate of how voting rights have been exercised.</p> <p><a href="http://www.futurefund.gov.au/investment/investment_policies">www.futurefund.gov.au/investment/investment_policies</a>  <a href="http://www.futurefund.gov.au/investment/investment_mandate">www.futurefund.gov.au/investment/investment_mandate</a></p>
<p>22 The SWF should have a framework that identifies, assesses, and manages the risks of its operations.</p> <p>22.1 The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.</p> <p>22.2 The general approach to the SWF's risk management framework should be publicly disclosed.</p>	<p>Consistent with the legislation, investment mandates and obligation to have regard to international best practice for institutional investment, the Board and Agency have established a framework for the identification, assessment and management of the risks of its operations, including appropriate reporting and monitoring arrangements. Policies and procedures are in place to support the risk management framework.</p> <p>The approach to risk management is detailed in the Statement of Investment Policies and the annual report.</p> <p><a href="http://www.futurefund.gov.au/investment/investment_policies">www.futurefund.gov.au/investment/investment_policies</a>  <a href="http://www.futurefund.gov.au/annual_reports">www.futurefund.gov.au/annual_reports</a></p>
<p>23 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.</p>	<p>The assets and investment performance of the Funds, including performance against the benchmarks established in the Investment Mandate are reported to the responsible Ministers and publicly through the annual report and audited financial statements.</p> <p><a href="http://www.futurefund.gov.au/annual_reports">www.futurefund.gov.au/annual_reports</a></p>
<p>24 A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.</p>	<p>The first review of the implementation of the Santiago Principles was undertaken in 2009/10. Further reviews will be published annually with the annual report and via the website.</p>