International Forum of Sovereign Wealth Funds
Published on *International Forum of Sovereign Wealth Funds* (http://www.ifswf.org)

The Many Roles of Sovereign Wealth Funds: IFSWF Annual Meeting Opening Speech

Adrian Orr, IFSWF Chair; CEO New Zealand Superannuation Fund

Tena kotou, tena kotou, tena kotou katoa

Talofa Lava, Kia Orana, Malo e Lelei, Bula Vinaka.

Greetings from my corner of the world, the South Pacific.

I am delighted to welcome you all to Astana on behalf of our hosts, Samruk-Kazyna one of the two sovereign wealth funds of Kazakhstan.

Thank you for hosting this meeting. I know from our experience in Auckland last year how big a job it is.

I thank Samruk-Kazyna, in particular, for their generous hospitality. You have worked tirelessly with the IFSWF Secretariat over many months to put this event together.

And I also thank the Secretariat. It is not the easiest thing for the annual meeting to be held in a different corner of the world each year. They are a small team and we are an organisation with very big ambitions, not only for our annual conference but for how we work and what we want to achieve.

IFSWF members and official observers have already enjoyed two days' of workshops, which have been challenging and stimulating.

These workshops really are the engine room of this Forum because they are detailed and focused on the technical issues that we grapple with every day.

They allow for free and frank discussion, openness, sharing and, above all, for learning.

This morning, we open the conference sessions and I welcome all of those who are joining us for these wider conversations. They are on the theme of exploring new frontiers, a key part of our global future.

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This IFSWF conference has come around quickly. It has not quite been a year since we last met in Auckland.

But as an organisation, we have packed a great amount of work into these last nine months. We have made real progress against our long-term strategy.

- We achieved a major milestone in **transparency** in February this year when 29 members simultaneously published our own assessments of how we apply the Santiago Principles. It was the first time we have been able to do that.

These assessments are now fully accessible online and searchable by the public. In 2014, only 15 sovereign funds published these documents.

At the same time, the Fletcher School of Law and Diplomacy at Tufts University released an accompanying study on the trends emerging in these self-assessments.

- We have deepened our **partnerships** with Bocconi University and the Fletcher School which has led to two significant member events. Bocconi ran its first, highly successful, Sovereign Investment Academy in Milan. In Massachusetts, the Fletcher School hosted a roundtable on risk featuring a number of its professors and alumni to lead discussions.
- We have held several **online seminars** or webinars, including a four-part series on the climate challenge and one on private equity performance benchmarking.
- We welcomed **new members**, including Panama's sovereign wealth fund, Fondo de Ahorro de Panamá, and the Turkish sovereign wealth fund, Turkiye Wealth Fund. Most recently, we have welcomed Nauru, to our fold.

IFSWF currently has 33 member funds, including one associate member, from 32 countries spanning the entire globe. Our members represent approximately half of all sovereign wealth funds and manage approximately 80 per cent of all sovereign wealth fund assets.

- We are also improving our own organisational efficiency by changing the way we run ourselves. This was approved yesterday at our annual meeting. We will introduce a nine-member **Advisory Committee** to replace the three committees that have led our work programmes until now.

The change is possible because of the growth in the maturity and capability of the Secretariat. It enables us to involve members actively in the Advisory Committee to steer our progress.

Until now, the sub-committee roles have been hands-on and this has led to some difficult demands with the different time-zones that we operate in. I thank all of our hard-working sub-committee members for the effort they have put in.

- This year we have initiated a major investment to create a **database of sovereign wealth funds and our investments**. Sourced from public datasets, we believe that this will become the gold standard for SWF data. When it is launched next year, it will put the IFSWF front and centre of public discussions and comparisons of SWF investments.

As like-minded institutions with similar purposes, we have many areas of shared interest.

We have been pleased with the quality of the events held at Bocconi and the Fletcher School, as well as our own technical workshops and webinars.

The content is valuable for our members and partners, but they also offer members the chance to discuss, share and learn from each other about common challenges. Through these activities, we are building a substantial network.

Together, we constitute the global community of Sovereign Wealth Funds and it is important that we invest our time understanding each other.

You will have heard me say it before, but it bears repeating, the three **Cs: Compare, Collaborate, Co-invest**.

Our events allow us to **compare** best practice directly and learn from each other's experiences. This is important because it enables us to communicate with our stakeholders in an informed way and to explain where we stand in the global context.

It gives us the opportunity not only to improve what we do as individual organisations but to be leaders in investment practice.

Collaboration is important also. It means that we can work together to achieve more than we can do on our own.

It makes us more effective institutions and allows the best of our thinking to come to the fore.

For example, we are working on designing new performance benchmarks and risk metrics for the longer term and new models of partnership and engagement with external managers.

This year all our members collaborated in publishing the Santiago Principles case studies and assessments.

We also collaborated around climate change and sustainable investment – an increasingly important work in progress.

The final C is **co-investment**. As funds increasingly look to diversify their investment approaches, it makes sense to for like-minded peers with aligned interest to pool resources and build capabilities.

Co-investment allows us to share risk and invest in smaller or new jurisdictions.

But co-investment is not easy. It requires a lot of trust. And to build trust means that we have to be open and transparent with each other. This takes personal relationship building, not just at CEO level, but throughout the whole institution.

Building relationships is at the core of the IFSWF. We have seen members co-invest in one-off direct investments such utilities and increasingly we are starting to see strategic co-investment partnerships, such as those Russia has with China.

This model of comparing, collaborating and co-investing is absolutely critical to the future of sovereign wealth funds.

If we get it right we create a powerful force of economic good, shifting investment horizons beyond the short-term profit focus, to long-term sustainable wealth creation.

The potential for the future is exciting.

It has been a year of real achievement for the IFSWF. But there is much to do as the IFSWF continues to evolve to become a broader network for collaboration and co-investment.

So it is apt that we are here for the first time in Central Asia with a theme of exploring new frontiers. As the developed economies mature and overall growth slows, so the new cadre of emerging markets and new investment opportunities are attracting more attention.

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In Auckland, we were transfixed by the unfolding American Presidential election. As a wave of support from America's mid-west and frontier states propelled Donald Trump to victory, many predicted a new era of geo-political instability and investment uncertainty.

In the event, it appears markets have shrugged off not just election results and referenda, but also political tensions and much else.

For the first time since the Global Financial Crisis, global growth is broadly based:

- Monetary policy in Western economies remains stimulatory, even if Governments are looking at how to wind back Quantitative Easing;
- European and Japanese economies have (finally) responded to their Governments' stimulus;
- Emerging markets have put 2015/16 behind them;
- US economic strength is being driven by investment and employment growth, in spite of political uncertainty;
- China economic strength from investment and credit growth has continued, although the intended transition from manufactured exports to domestic services is happening.

But structural imbalances remain. Government and Central Bank balance sheets are stretched and asset prices are near full value in many areas.

And the global financial sector still confronts issues such as disruption, changing risk dynamics and uncertainty on many fronts.

Looking to the future, there are several trends that suggest we will continue to face uncertainty and complexity, and even a continuation of the kind of political populism we have seen in recent times.

- Demographics:
  - We have ageing populations in many countries, but large numbers of youth in most emerging markets;
  - There are big implications for savings and investment drivers, demand, and for public policy – such as pensions and health spending.
- The rise of the middle class:
  - In emerging markets, the middle class is growing rapidly and they demanding global status and goods and services, with implications for resources.
  - Developed economies face a middle-income trap – the challenge of doing both the same thing better (ie: productivity) and doing better things (ie: innovation.
- Increased urbanisation means pressure on infrastructure and changes to traditional social frameworks:
  - This leads to issues about national versus sub-national policies;

    - And a need to find new models of finance for public sector goods.
- On climate change, we have seen two steps forward from most of the world and one big step back from the United States. But the inevitable move to a low-carbon economy will result in changes to policy setting, energy patterns and investment.
- Robotics, automation, Artificial Intelligence, big data
    - All have implications for production and distribution frameworks and service channels;
    - For the future of work;
    - For returns to the owners of capital versus labour;
    - And for policy changes as governments seek to manage the new environment.

This is the 9th annual meeting of the International Forum and in some ways, it harks back to our formation.

Suspicion of the investment intentions of some sovereign wealth funds has grown in certain markets. Travel for citizens of a number of countries has become more challenging.

There is a powerful current of opinion towards nationalism and away from collective approaches. Free trade arrangements are being challenged.

Time and economic recovery help to dissipate the investment lessons learned during the Global Financial Crisis.

In this global context, my view is that the role of the IFSWF has grown increasingly important.

The original objective of the Santiago Principles was to help maintain the free flow of capital and investment needed for a stable global financial system. This aim is still paramount for the IFSWF today.

We do that by promoting best practice in governance, investment and risk management.

During the GFC, sovereign wealth funds and our patient capital played a crucial role. As those memories recede, so the IFSWF acts as a collective beacon for our standards, purposes and value to international investment markets.

The pool of investment capital may have increased since the GFC, but sovereign wealth funds are still one of the main sources of patient capital for the future.

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There is a growing view around the world that asset ownership is about more than short-term profit maximisation.

An ideal market includes a mix of investors with different investment time horizons and investment strategies. Time horizons will always vary by industry and asset type.

But across all industries, long-term thinking goes beyond a product cycle and beyond a typical investment cycle.

Some recent research suggests that short-term strategies and behaviours have become entrenched in today's markets. That short-termism has become a problem for the global financial system.

A 2014 survey conducted by McKinsey & Company found that senior executives were seeing increased short-term pressure on financial performance -- notwithstanding their belief that a long-term approach is a key driver of company performance.

Long term investment is good for economies. It can curb market dysfunction, be counter-cyclical and can provide a source of liquidity when other sources dry up.

A long-term investor does not have to base investment decisions solely on the returns expected over one or two year period.

A long-term investor can focus on intrinsic value. As a long-term investor, you can act more like an engaged business owner rather than just looking for a return. You can invest capital where it will grow.

The advantages for a long-term investor stem from the increased number of options available. You can choose to invest in a wider range of investments than a short-term investor might consider, including riskier and illiquid assets.

But long-term investing is not just about the horizon over which you hold an investment or measure returns. It is also about the control you have over capital: your independence, purpose, mandate and liquidity profile.

It requires the ability to be persistent through periods of short-term underperformance.

Above all, it aligns the interests of asset owners and investors. And it opens possibilities for investment in new ideas, new markets and for sustainable investment.

The SWF community is broad and diverse. There is a range of funds with distinct mandates, and each has different ways of investment. Each of us plays a different role in our country's macroeconomic framework.

But we are all commercial, long-term investors. As such, most of us can take a wider view of the world than the advantage of opportunities created.

As sovereign investors with a long-term horizon, we are in a privileged position compared with many investors.

With that privilege comes responsibility. Sovereign wealth funds play many roles in global, regional and local economies, as well as having a duty to the citizens whose money we look after.

Our privileges and responsibilities as long-term sovereign investors have two clear imperatives.

First, we must remain true to purpose by positioning our institutions to weather turmoil and take advantage of good prospects as they arise.

Achieving this end requires observance and implementation of the same truths that, nine years ago, we named the Santiago Principles.

The Principles give practical effect to the familiar theme of good governance—institutional structures and investment activities that are focused, steadfast, transparent and accountable.

Our second imperative is to consider and even to lead on relevant parts of the global agenda and investment best practice.

In Auckland, we started a conversation on the investment implications of climate change. Through this year, there has been a concerted effort to understand both risk and the management of it in a more holistic sense.

The theme of this year's conference sessions exploring new frontiers, a key part of our global future. As long-term investors, we will have an important part to play.

This year's annual meeting marks another important milestone in IFSWF's maturity as a peer forum for member sovereign wealth funds.

Already, in the member-only sessions held so far, we have discussions on a wide range of topics, from specific elements of risk, how to adapt asset allocation models in a low return world, to ESG and investment in new technologies.

The discussions have been candid, informative, insightful and wide-ranging. In many ways, this combination encapsulates the best of the IFSWF membership.

From our very largest members in Asia and the Gulf to our smallest and newest member, Nauru, the ability to convene like-minded institutions to co-operate and collaborate, is our reason for existing.

The focus now is on action. And the onus is on us.
