

Transparency, Long-term Investment, and the Political Economy of Sovereign Wealth Funds

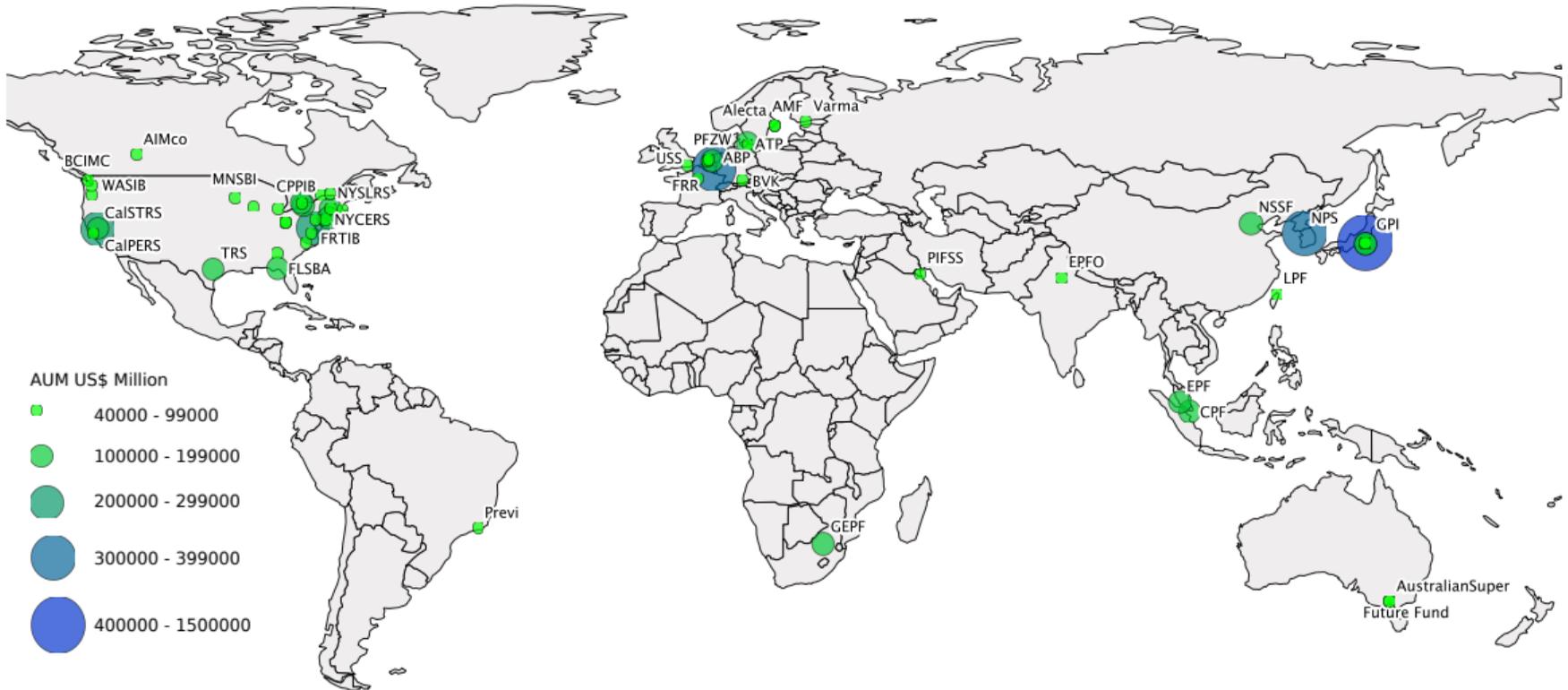
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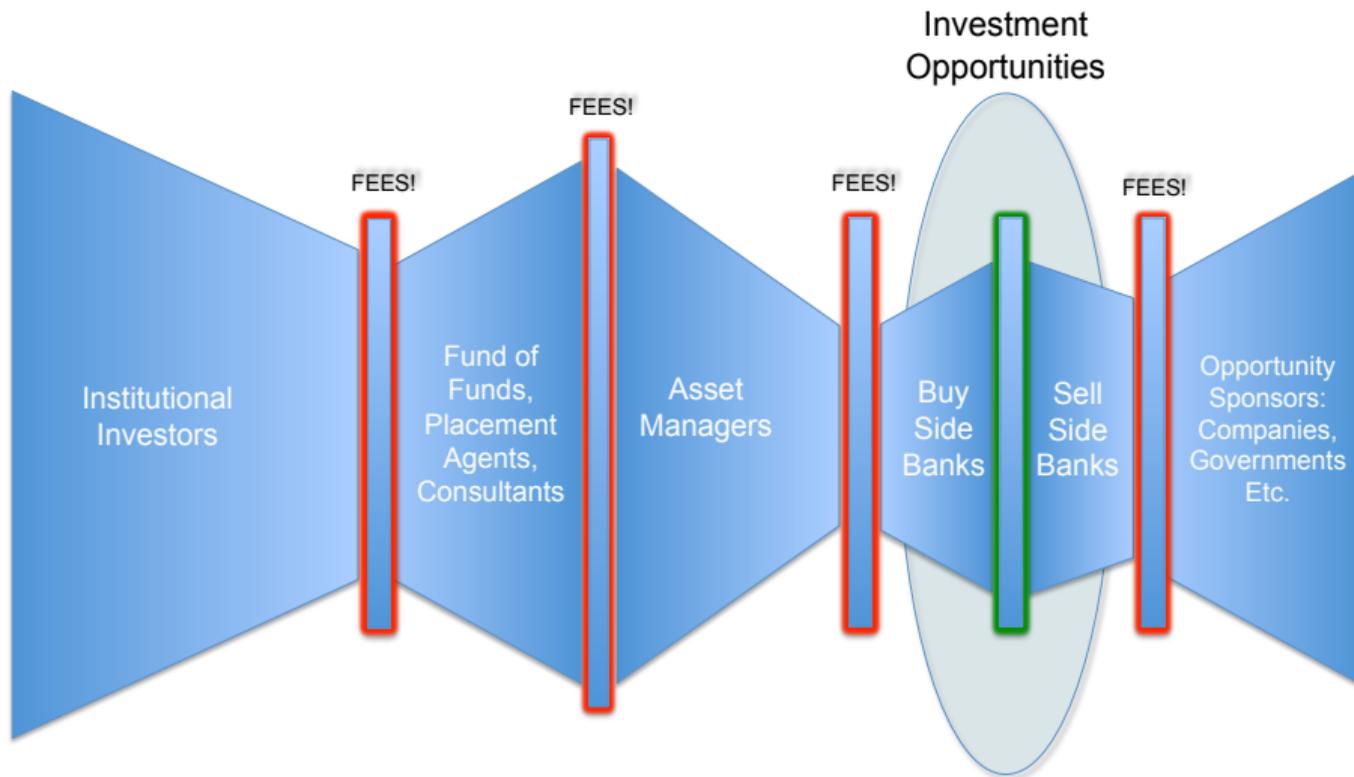
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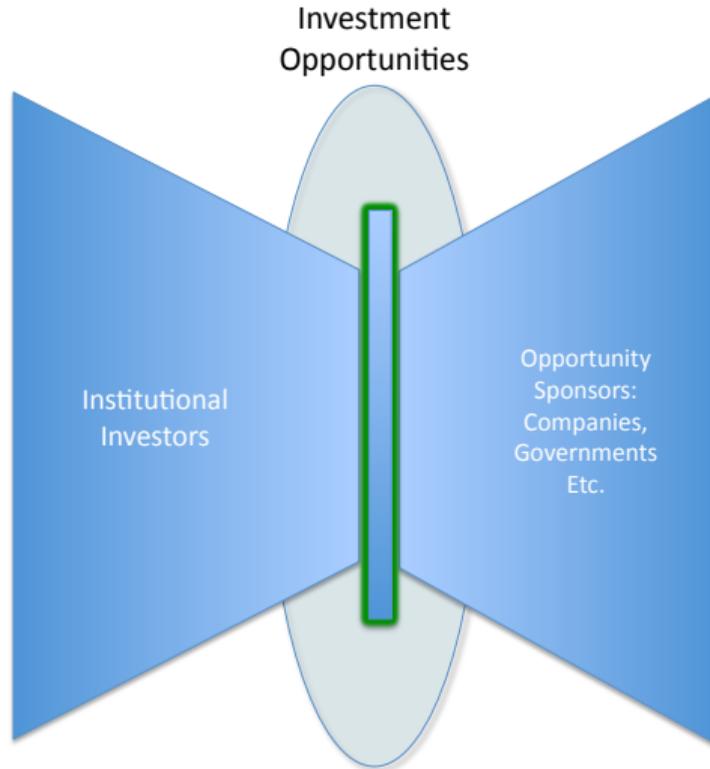
Pension Fund Capitalism



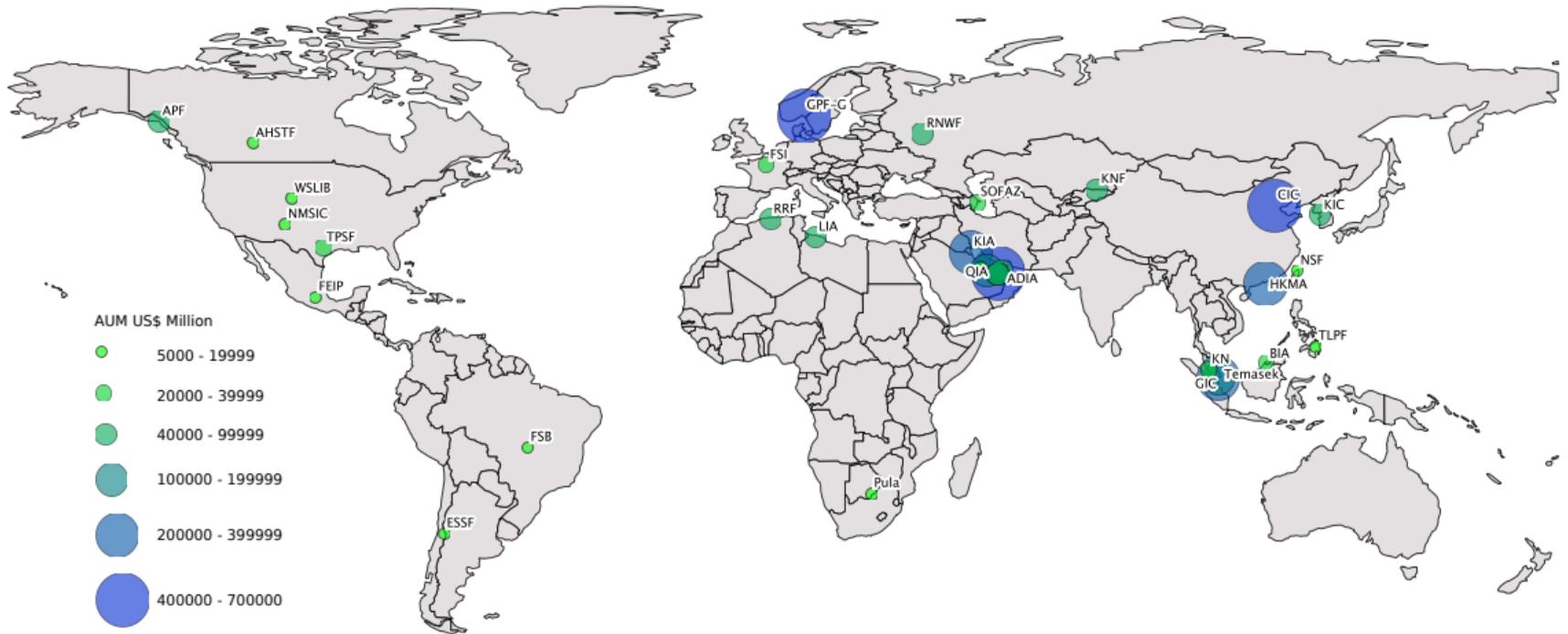
Functional Structure of Investment Management



Challenging the Status Quo



Sovereign Fund Capitalism



DP World Controversy



The 'Santiago Principles'

- 24 voluntary principles divided in three sections:
 1. legal framework, objectives, and coordination with macroeconomic policies;
 2. institutional framework and governance structure; and
 3. investment and risk management framework

Standardizing SWFs

- Santiago Principles are an attempt to benchmark SWFs against conventional investors in the marketplace in order to ensure commercial and apolitical conduct
- However, this 'convention' is built around ostensibly short-term institutions (i.e. regulations; norms) and agents (e.g. market intermediaries; for-profit asset managers)

Communicating the Long Term

- The short term is easier to explain to lay spectators and even political representatives
- In today's markets the breadth of financial products goes well beyond traditional asset classes, as are the different geographies open to investment
- NBIM received criticism after the crisis for not having adequately explained its strategy

Using Long-termism as Excuse for Secrecy

- 2011 IFSWF Report on Santiago Principles shows rather high levels of non-transparency
- The report even states that some members, 'argue that certain types of information and the frequency with which it is released might create an overly short-term focus'

Fostering Transparency

- Is it possible to produce a situation where a sovereign fund can be both transparent and non-transparent, instead of being either or?
- Is there a more effective means of fostering greater transparency in aggregate, while allowing for opacity in certain instances, particularly when such opacity justifiably reinforces a long-term strategy and vision?

A Conceptual Framework

- Five different aspects of transparency can be distinguished: political, procedural, policy, operational, and performance
- Each of these aspects may provide different motives for transparency

Comparable to Santiago Principles

- **Political transparency:** The exogenous rules and regulations underpinning the fund's operations
- **Procedural transparency:** The resources at the disposal of the fund to achieve its objectives
- **Policy transparency:** The rules and objectives that the fund imposes on its own operations and personnel
- **Operational transparency:** The way the investment strategy is implemented and by whom

Performance transparency

- Refers to the investment outcomes achieved by the fund
- Transparency in this domain could be quantitative performance and judged against appropriate peers or, more often, bespoke benchmarks that reflect the fund's risk-return profile
- Transparency could also be qualitative and judged through external and independent audits of subjective criteria that focus on a specific organizational culture

Conclusions

- From a realist view of geopolitics, there will continue to be significant differences in how sovereign funds and their sponsors interpret transparency, particularly when transparency is voluntary, as in the case of the Santiago Principles
- The contention that more transparency is antithetical to long-term investing reinforces the interpretive differences of transparency or the reluctance thereof
- The temporal dimension of transparency, particularly as regards to the dissemination of performance metrics, requires further discussion and argument