Pacific Sovereign and Trust Funds Investment Governance

... global standards and effectiveness

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Role Expectations

Pacific Trust Funds

- pinnacle fiduciaries
  - increasing economic reliance
  - transparency culture
  - investment framework exists

- verification
  - maintaining international support
    - 2016: NZIPR - MFAT study
    - 2014: World Bank - Gratcheva
    - 2014: IFSWF Case Studies

- expectations
  - examples
Resources

Pacific Trust Funds

Santiago Principles
- broad
- specific to SWF

fi360 Standard
- training - global framework
- operational detail - practical
- verification approach
Decisions regarding investment strategies and types of investments are documented and made in accordance with fiduciary obligations of care.

3.3.1 A documented due diligence process, consistent with prudent practices and generally accepted investment theories, is used to select investments and third-party Investment Managers.

3.3.2 Decisions regarding the selection of investments consider both qualitative and quantitative criteria.

3.3.3 The documented due diligence process used to select investments and third-party Investment Managers is consistently applied.

3.3.4 Investments are preferred over unregulated investments when all other characteristics are comparable.

3.3.5 Investments that are covered by readily available data sources are preferred over similar investments for which limited coverage is available when all other characteristics are comparable.

3.3.6 Decisions regarding passive and active investment strategies are documented and made in accordance with obligations of care.

3.3.7 Decisions regarding the use of separately managed and commingled accounts, such as mutual funds, unit trusts, exchange-traded products, and limited partnerships, are documented and made in accordance with obligations of care.

3.3.8 Decisions to use complex investments or strategies, such as alternative investments or strategies involving derivatives, are supported by documentation of specialized due diligence conducted by individuals who possess knowledge and skills needed to satisfy the heightened obligations of care.

3.3.9 When socially responsible investment strategies are elected, the strategies are implemented appropriately.

It is important for the investment board to be familiar with (or engage professionals who are familiar with) the sources of investment options. The Investment Committee, in consultation with the Investment Advisory Committee, will recommend candidates for investment that meet the established guidelines. The due diligence process involves reviewing candidate investments for their suitability, risk, and expected return. The investment board must rely on the advice of the Investment Advisory Committee and the Investment Manager for the selection of investments.

The primary focus of this Practice is the implementation of the investment strategy with appropriate investment vehicles. By appropriate, we mean the strategies and products are suitable for the portfolio and in line with generally accepted investment theories. The term “generally accepted investment theories” refers to practices considered to be effective in producing the desired outcomes by industry experts and the community of professionals in the investment field. Given that the size of the asset pool and the variety of investment opportunities, generally accepted theories also change to reflect advances in the field. As an investment fiduciary, suitability is also implied under a duty of care.
Perspectives...

- Risk premium challenges
- Policy-purpose alignment
- Regional investment role
- Increase internal capacity
- Investment governance training
- Inter-entity confidence
- Assessment approach
- Practical issues
- Avoid over-reliance
- Provider alignment
- Control costs

Pacific Trust Funds
In Conclusion…

• Specific training is essential beyond current skill sets
  • fi360 Pacific ‘Fiduciary Essentials™’ program
    - used by SWF, Trust Funds, Superannuation Funds
    - already available to northern Pacific funds in association with APAFS

• Preparing for and accepting scrutiny will increase confidence
  • Inter-entity; political ~ operational ~ beneficiaries
  • International supporting nations