



Implementation of the Santiago Principles

The Santiago Principles are a set of principles and practices which are voluntarily endorsed by members of the International Forum of Sovereign Wealth Funds (“**IFSWF**”).

The Santiago 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 IFSWF was established in 2009 to meet, exchange views on issues of common interest, and facilitate an understanding of the Santiago Principles and SWF activities. The Future Fund Board of Guardians (“**Board of Guardians**”) is a founding member of the IFSWF.

This document describes how the Board of Guardians implements the Santiago Principles.

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 its supporting management team in the Future Fund Management Agency ("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>, the <i>Medical Research Future Fund Act 2015</i>, the <i>Aboriginal and Torres Strait Islander Land and Sea Future Fund Act 2018</i> the <i>DisabilityCare Australia Fund Act 2013</i> and the <i>Nation-building Funds Act 2008</i>. The framework is designed specifically to establish the sound and effective operation of the organisation and achievement of its objectives.</p> <p>The legal basis and structure and the legal relationships between the Board of Guardians, Agency and the Australian 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 various public asset funds themselves is available from the Future Fund's annual report and website.</p> <p>www.futurefund.gov.au/About-us/Legislation-and-governance</p> <p>www.futurefund.gov.au/investment/how-we-invest/investment-mandates</p>

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<p>2. The SWF's policy purpose should be clearly defined and publicly disclosed.</p>	<p>The Future Fund was established to strengthen the Australian Government's long-term financial position.</p> <p>The Medical Research Future Fund ("MRFF") was established to improve the health and wellbeing of Australians by providing grants of financial assistance to support medical research and medical innovation.</p> <p>The Aboriginal and Torres Strait Islander Land and Sea Future Fund ("ATSILS") was established to fund the Indigenous Land and Sea Corporation which assists Indigenous Australians to acquire and manage land resources.</p> <p>The DisabilityCare Australia Fund ("DCAF") was established by legislation with the object of reimbursing States, Territories and the Commonwealth for expenditure incurred in relation to the National Disability Insurance Scheme Act 2013 and to fund implementation of the <i>National Disability Insurance Scheme Act 2013</i> in its initial period of operation.</p> <p>The Nation-building Funds ("NBFs") 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 and research. The Board of Guardians is responsible for the investment of the assets in each of these funds, not for disbursements or other policy issues. 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>www.futurefund.gov.au/About-us/Legislation-and-governance</p> <p>www.futurefund.gov.au/investment/how-we-invest/investment-mandates</p> <p>www.futurefund.gov.au/About-us/annual-reports</p>

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<p>3. Where 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, the MRFF, the ATSILS, the DCAF, and the NBFs subject to requirements set out in legislation.</p> <p>The Commonwealth’s financial position, including the assets of the Future Fund, the Commonwealth’s unfunded superannuation liabilities and the assets and liabilities associated with other funds invested by the Board of Guardians, is a matter for Government. Full details are published annually in the Australian Government Budget Papers and other related documents.</p> <p>The Board of Guardians does not have control or influence over management of the liabilities and frames its investment strategy around the Investment Mandate Directions issued by the responsible Ministers under the legislation. The Investment Mandate Directions do not direct the Board of Guardians to invest in particular sectors or asset classes domestically or internationally. Based on its mandate the Board of Guardians develops and implements appropriate investment portfolios in line with the Investment Mandate Directions.</p> <p>In establishing the NBFs the Australian Government made a commitment that spending proposals would be delivered in line with prevailing macroeconomic conditions. Spending from the NBFs 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. Withdrawals from the Future Fund, the MRFF, the ATSILS, and the DCAF are made in accordance with the governing legislation.</p> <p>Coordination by Government with all relevant fiscal and monetary authorities, and relevant departments, is undertaken as part of the legislated processes for withdrawals.</p> <p>www.futurefund.gov.au/About-us/Legislation-and-governance www.budget.gov.au</p>

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<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>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. Details on planned contributions to and withdrawals from the funds are included in the Australian Government's annual Budget.</p> <p>www.futurefund.gov.au/About-us/Legislation-and-governance www.finance.gov.au/investment-funds/ www.budget.gov.au</p>
<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. Audited annual financial statements are tabled in Parliament and quarterly updates on the portfolio are released publicly.</p> <p>www.abs.gov.au www.futurefund.gov.au/investment/investment-performance/portfolio-updates www.futurefund.gov.au/about-us/annual-reports</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 of Guardians and Agency, as asset manager are detailed in the legislation. Further detail is provided by the Investment Mandate Directions for each fund and the Statement of Expectations and Statement of Intent exchanged between the Government and the Board of Guardians and the Agency. Internal policies, procedures and protocols have been established to further delineate roles and responsibilities at the operational level.</p> <p>www.futurefund.gov.au/About-us/Legislation-and-governance www.futurefund.gov.au/investment/how-we-invest/investment-mandates</p>

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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>The objective for each fund, the procedures for the appointment of the Board of Guardians by Government and arrangements for the exercise of oversight, while maintaining the investment independence of the Board of Guardians, are detailed in the legislation.</p> <p>www.futurefund.gov.au/About-us/Legislation-and-governance</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>The Board of Guardians is bound by the legislation and Investment Mandate Directions set by Government to pursue the investment objectives detailed in the legislation and to act in good faith. The legislation also provides the Board of Guardians with the necessary powers to undertake its mandated activities and sets out the experience, expertise and credibility required of appointees to the Board of Guardians.</p> <p>www.futurefund.gov.au/About-us/Legislation-and-governance www.futurefund.gov.au/investment/how-we-invest/investment-mandates</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>The Board of Guardians 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 of Guardians and to assist in giving effect to its decisions.</p> <p>Clear internal policies, procedures and protocols have been established to further delineate roles and responsibilities at the operational level.</p> <p>www.futurefund.gov.au/About-us/Legislation-and-governance</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>Accountability arrangements, including the requirement for publication of an annual report and arrangements for the provision of reports and information to the responsible Ministers, are detailed in the legislation.</p> <p>Members of the Board of Guardians are held accountable through the requirements imposed on them through the legislation, with civil and criminal penalties applying for breach of specific duties and obligations.</p> <p>Further accountability is also provided through the operation of the <i>Public Governance, Performance and Accountability Act 2013</i> governing the establishment and operation of Special Accounts for each fund.</p> <p>www.futurefund.gov.au/About-us/Legislation-and-governance</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>An annual report (prepared in accordance with the requirements of the <i>Future Fund Act 2006</i> and the <i>Public Governance Reporting and Accountability Act 2013</i>) and audited financial statements are prepared in accordance with the Public Governance, Performance and Accountability (Financial Reporting) Rule.</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. The annual report and financial statements are also published online once they have been tabled in Parliament.</p> <p>www.futurefund.gov.au/About-us/Legislation-and-governance www.futurefund.gov.au/annual-reports</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 Audit & Risk Committee of the Board of Guardians. 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 the Australian Auditing Standards.</p> <p>www.futurefund.gov.au/About-us/annual-reports www.anao.gov.au</p>
<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 of Guardians 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>www.futurefund.gov.au/About-us/Legislation-and-governance www.apsc.gov.au/values/conductguidelines.htm</p>

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<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 approach to engaging third parties, including advisors and investment managers, by the Board of Guardians and the Agency is outlined in a Statement of Investment Policies available on our website. 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>www.futurefund.gov.au/investment/how-we-invest/investment-policy-and-position-papers</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 requires that all investment activities are undertaken in accordance with applicable regulatory and disclosure 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>www.futurefund.gov.au/About-us/Legislation-and-governance</p>
<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 of Guardians and the Agency are set out in the legislation and in public annual reports. The framework clearly establishes the independence and accountability arrangements for each Fund, the Board of Guardians and the Agency.</p> <p>www.futurefund.gov.au/About-us/Legislation-and-governance www.futurefund.gov.au/annual-reports</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 organisation also issues public quarterly updates on performance and asset allocation and routinely provides updates on its operations and the performance of the various funds during formal public hearings before a Committee of the Senate.</p> <p>www.futurefund.gov.au/annual-reports www.futurefund.gov.au/investment/investment-performance/portfolio-updates www.futurefund.gov.au/news-room</p>

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<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>A Statement of Investment Policies, published on the website as required by legislation, details the investment strategy and risk tolerance of the Board of Guardians and its application of portfolio investment principles. Annual reports, as well as regular public speeches and briefings, provide additional insight and discussion of the investment strategy. The Board is prohibited from borrowing under Section 23 of the Future Fund Act.</p> <p>These documents and communication activities 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 and communications are consistent with the obligations contained in the legislation.</p> <p>www.futurefund.gov.au/About-us/Legislation-and-governance www.futurefund.gov.au/investment/how-we-invest/investment-policy-and-position-papers www.futurefund.gov.au/annual-reports</p>
<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 of Guardians is obliged by legislation to seek to maximise risk-adjusted financial returns. Return and risk parameters for each fund are detailed through Investment Mandate Directions created under relevant legislation. The Board of Guardians 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 of Guardians' investment activities, such as limits on the size of stakes in Australian and foreign listed companies, are clearly expressed in the legislation. The approach to consideration of environmental, social and governance matters, and to the universe of investments the Board of Guardians considers, is detailed in the Statement of Investment policies and reflects the organisation's focus on acting as a prudent investor seeking to maximise risk adjusted returns.</p> <p>www.futurefund.gov.au/About-us/Legislation-and-governance www.futurefund.gov.au/investment/how-we-invest/investment-policy-and-position-papers</p>

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<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 of Guardians does not seek or have a right of access to privileged information from, or inappropriate influence by, the Government in competing with private entities. Under the statutory governance framework the Board of Guardians operates and makes decisions independently of Government. Policies and processes are in place to restrict and coordinate engagement with the Government in relation to matters concerning the Board of Guardians and Agency. Board members are not permitted to be employees of the Commonwealth or to be holders of a full-time office under a law of the Commonwealth. Agency staff are bound by the Australian Public Service Code of Conduct. The Investment Mandate Directions also requires the Board of Guardians, when undertaking its investment activities, to act in a way that is unlikely to cause any diminution of the Government's reputation in Australian and international financial markets.</p> <p>www.futurefund.gov.au/About-us/Legislation-and-governance www.futurefund.gov.au/investment/how-we-invest/investment-mandates</p>
<p>21. SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If a 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 of Guardians 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. Its approach to the exercise of ownership and voting rights is detailed in the Statement of Investment Policies. The annual report discusses the application of this policy including reporting in aggregate of how voting rights have been exercised. A detailed report on the exercise of voting rights in Australian listed entities is published annually.</p> <p>www.futurefund.gov.au/investment/how-we-invest/investment-policy-and-position-papers www.futurefund.gov.au/investment/how-we-invest/investment-mandates www.futurefund.gov.au/investment/how-we-invest/esg</p>

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<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 Mandate Directions and obligation to have regard to international best practice for institutional investment, the Board of Guardians 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>www.futurefund.gov.au/investment/how-we-invest/investment-policy-and-position-papers www.futurefund.gov.au/About-us/annual-reports</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 Directions, are reported to the responsible Ministers and publicly through quarterly portfolio updates and an annual report (including audited financial statements) which is tabled in Parliament.</p> <p>www.futurefund.gov.au/About-us/annual-reports</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 Board of Guardians undertakes an annual review of its implementation of the Santiago Principles. The Board of Guardians has contributed to the reports on the application of the Santiago Principles. The organisation also regularly participates in workshops and discussions with other members of the IFSWF on best practice approaches to the investment and governance of SWFs.</p> <p>www.futurefund.gov.au/About-us/Legislation-and-governance www.ifswf.org</p>