

## **Qatar Investment Authority**

### **Santiago Compliance Rating**

**D**

### **Commentary**

We give the Qatar Investment Authority a rating of **D**, or **non-compliant** with the Santiago Principles.

The Qatar Investment Authority (QIA) is one of the largest global sovereign wealth funds (SWFs). Its assets under management are assumed to have reached more than US\$300 billion. Given Qatar's vast natural resources, most notably natural gas, we assume that the QIA's asset base will grow substantially over time. The International Monetary Fund (IMF) suggests that QIA could benefit from roughly US\$20 billion in hydrocarbon-based cash inflows per year until 2019, or US\$120 billion in total.

QIA is also one of the most active equity investors within the global sovereign wealth fund industry, which has led it to be highly visible in the international financial system. It is a major shareholder in international corporations in the automobile, construction, retail and financial services sectors, amongst others. It is also an active investor in real estate. QIA's investment policy has also elevated Qatar's standing in international affairs. Its network-based investment policy has enabled the Emirate to build strong political alliances with key international actors.

Given QIA's exposed position in the international financial system and beyond, we note a substantial discrepancy between that position and QIA's commitment to the Santiago Principles. The fund does not make publicly accessible relevant legislation, a charter, other constitutive documents or management agreements. It has one of the most restrictive disclosure policies with regard to financial information. In addition, it does not disclose robust information about its governance arrangements. The independence of operational fund management from the Government, a core ambition of the Santiago Principles, cannot be ascertained based on existing official documentation.

Our rating is informed by the assumed substantial financial resources at QIA's disposal and its extroverted investment policy. Given these two factors, QIA's commitment to the Santiago Principles is not satisfactory.

## About this assessment

The Generally Accepted Principles and Practices (GAPP) for sovereign wealth funds (SWFs), known as the “Santiago Principles”, constitute a voluntary code that sets a generic standard for the transparency, governance and accountability management of SWFs.

This assessment represents our judgement on the degree to which the Qatar Investment Authority complies with each of the Principles’ obligations. Our conclusions are based exclusively on publicly disclosed documentation. The choice of data used in this assessment reflects GeoEconomica’s independent view of the timeliness, coverage, accuracy, credibility and usability of available information. The entity evaluated in this document may or may not have chosen to comment on preliminary conclusions reached during the evaluation process. Based on public information, this assessment does not express a judgement on any actual follow-through in the application of the Santiago Principles and does not provide assurance of action. Compliance with individual obligations set by the Principles is assessed on a “comply or explain” basis.

Further information about the methodology used in this assessment can be obtained directly from GeoEconomica GmbH.

## Rating scale

We use the following scale to rate the compliance of SWFs according to our assessment conclusions:

**Full compliance (A, A-):** We rate SWFs as *fully compliant* with the Santiago Principles if their governance, transparency, accountability arrangements and disclosure practice in our view correspond fully with the disclosure obligations and substance of the Principles. This also includes disclosure of a convincing self-assessment of compliance with the Principles.

**Broad compliance (B+, B, B-):** We rate SWFs as *broadly compliant* with the Santiago Principles if their governance, transparency, accountability arrangements and disclosure practice in our view correspond broadly with the disclosure obligations and substance of the Santiago Principles. Assessments identify minor shortcomings in the disclosure practice and/or minor deviations from the Principles’ substance. Applying B+, B and B- ratings allows a higher degree of granularity and differentiation across SWFs.

**Partial compliance (C+, C, C-):** We rate SWFs as *partially compliant* with the Santiago Principles if their governance, transparency, accountability arrangements and disclosure practice in our view correspond only partially with the disclosure obligations and substance of the Santiago Principles. Assessments identify gaps that substantially compromise compliance with the Principles. Applying C+, C and C- ratings allows a higher degree of granularity and differentiation across SWFs.

**Non-compliance (D):** We rate SWFs as *non-compliant* with the Santiago Principles if their governance, transparency, accountability arrangements and disclosure practice in our view are deficient across most areas covered by the Principles.

**Not rated (X):** We exclude SWFs from our ratings that in our view do not demonstrate any meaningful commitment to implementing the Santiago Principles, whose political institutions lack the capacity to establish any meaningful governance arrangements and/or investment policies, or whose mandates are under revision. We also do not rate funds whose disclosure policies only allow for a fragile assessment.

<b>Assessment</b>	<b>Qatar Investment Authority</b>
<b>Legal framework</b>	<p>The Principles stipulate that a signatory’s legal framework should be sound and should support its effective operation and the achievement of its stated objective(s).</p> <p>QIA makes reference to Emiri Decision No. 22 of 2005 as the “QIA Constitution”. That decision is not publicly accessible. Other relevant legislation, a charter, other constitutive documents or management agreements are not disclosed. The remainder of this assessment is conducted on the basis of public declarations made by QIA.</p>
<b>Policy purpose</b>	<p>The Principles call for their signatories to clearly define and disclose the policy purpose of a fund.</p> <p>QIA’s mission is to develop, invest and manage the reserve funds of the state and other property assigned to it by the Supreme Council for Economic Affairs and Investment (SCEAI). QIA is understood to be an integral part of Qatar’s strategy to diversify its finances and diversify its national economy. We consider this policy statement too broad to comply with the Principles’ obligations for a consistent policy purpose.</p>
<b>Coordination with domestic fiscal and monetary authorities</b>	<p>The Principles commit their signatories to closely coordinate their activities with domestic fiscal and monetary authorities, in the event these activities have significant and direct domestic macroeconomic implications and an impact on public finances, monetary conditions, balance of payments or the overall sovereign balance sheet, amongst others.</p> <p>The QIA does not disclose how it coordinates activities with domestic fiscal and monetary authorities.</p>
<b>Source of funding and withdrawal policies</b>	<p>The Principles commit their signatories to publicly disclose policies, rules, procedures or arrangements on a fund’s general approach to funding, withdrawal and spending operations on behalf of the government.</p> <p>The Fund declares that it manages the state reserve funds and other property assigned to it by the SCEAI. We note that the Supreme Council appears to have considerable influence over QIA’s funding. However, the fund remains silent about the precise nature of its funding arrangements. It does not disclose any policies, rules, procedures or arrangements with regard to withdrawal and spending operations.</p>
<b>Statistical data reported to the owner</b>	<p>Signatories to the Principles are required to report relevant statistical data pertaining to a fund to its owner for inclusion in macroeconomic data sets.</p> <p>QIA does not disclose the processes through which it ensures that relevant statistical data are reported to the owner.</p>
<b>Governance framework</b>	<p>The Principles commit signatories to reporting on their governance arrangements in a comprehensive manner. The governance structure should be specified in a fund’s legal framework, such as in relevant legislation, a charter or other constitutive documents. Combined, Principles 7 to 9 of the Santiago Principles call for signatories to build their governance arrangements around three entities:</p>

the owner, one or multiple supervisory bodies and operational management.

From the sparse disclosure that QIA provides, we identify the SCEAI, the QIA Board and a chief executive officer (CEO) and management team as the constituents of its governance architecture.

**Owner's mandate**

The Principles require signatories to ensure that a fund's owner sets its objectives, appoints the members of its governing body(ies) and exercises oversight over the fund's operations.

We assume the SCEAI introduced by QIA's official documentation to be the highest body in its governance architecture. The fund declares that the SCEAI approves policies, plans and programmes that in turn provide guidance for the management of state reserve funds, which are administered by QIA. QIA does not disclose any further documentation about the role of the owner in setting objectives or exercising oversight over it.

**Governing body(ies)**

Signatories to the Principles are committed to ensuring that the governing body(ies) set(s) the strategy and policies needed to achieve a fund's objectives; the Principles note that the(se) body(ies) is(are) ultimately responsible for a fund's performance. Governing body(ies) should be structured to exercise effective, independent and objective judgement in respect of their responsibilities.

We identify the Board of Directors, the QIA Board, as the fund's governing body. QIA declares that its Board is responsible for the implementation of its mission. It has reportedly established a framework for its operations through appropriate policies, including investment policies, risk-management policies, a legal policy, a compliance policy and a code of conduct. QIA does not make these policies accessible. Four of seven members of the QIA Board are representatives of the royal family.

**Operational management**

The Principles require a fund's operational management to implement its strategies in an independent manner and in accordance with clearly defined responsibilities. Operational management should have the authority to make individual investment decisions. Its responsibilities should be clearly defined in relevant legislation, charter, other constitutive documents or management agreements.

QIA declares that the CEO, together with the management team, is responsible for its day-to-day management. Business decisions are the sole responsibility of QIA's Board and executive management.

**Accountability**

Our interpretation of the Principles' obligation for accountability focuses on a fund's accountability arrangement with its political constituents – the government, the legislature and the broader public. The accountability framework for a fund's operations should be defined in the relevant legislation, charter, other constitutive documents or management agreements.

QIA does not provide robust information on its accountability arrangements. The structure of political institutions in Qatar suggests that the fund is ultimately accountable to the Emir. This is supported by the Emir's presence on the QIA Board, along with members of the royal family.

**Annual report and accounting standards**

The Principles commit a fund to prepare an annual report and accompanying financial statements on its operations and performance in accordance with

recognised international or national accounting standards.

QIA does not publish an annual report and does not disclose the accounting standards it applies.

**Auditing**

The Principles commit a fund to conduct an audit on its operations and financial statements in accordance with recognised international or national auditing standards.

QIA reports that the State Audit Bureau monitors and audits its accounts.

**Professional and ethical standards**

The Principles commit a fund to clearly define professional and ethical standards and make them known to the members of the fund's governing body(ies), management and staff.

QIA's professional or ethical standards are reportedly based on integrity, mission focus, entrepreneurialism, excellence, and respect for people..

**Third parties**

The Principles commit a fund to establish clear rules and procedures for dealing with third parties.

QIA does not disclose any rules and procedures for dealing with third parties.

**Regulatory and disclosure requirements in host countries**

The Principles commit a fund to conduct its operations and activities in host countries in compliance with all applicable regulatory and disclosure requirements of the countries in which it operates.

QIA does not disclose any arrangements that ensure that its operations and activities in host countries comply with all applicable regulatory and disclosure requirements.

**Disclosure of relevant financial information**

The Principles call for the public disclosure of relevant financial information to demonstrate a fund's economic and financial orientation. The financial information referred to in the Principles includes a fund's asset allocation, benchmarks where relevant, and rates of return over appropriate historical periods consistent with investment horizons. The Principles do not commit their signatories to disclose the size of their assets under management.

QIA states that, as is usual with many global investment institutions not listed on public markets, it does not publish financial information. It therefore does not meet this requirement of the Principles.

**Investment policy**

The Principles commit a fund to ensure that investment policies are clear and consistent with defined objectives, risk tolerance and the investment strategy as set by the owner or the governing body(ies).

QIA declares itself to be responsible for investing funds in asset classes such as equities, fixed-income securities and private equity, as well as through direct investment, to complement Qatar's considerable wealth in natural resources. QIA declares it does not disclose its investment criteria. Beyond these statements, it does not reveal any meaningful information about its investment policy.

**Disclosure of non-financial and economic considerations**

The Principles commit their signatories to make investment decisions that maximise risk-adjusted financial returns, based on economic and financial grounds. Investment decisions subject to other than economic or financial considerations should be clearly described in the investment policy.

QIA declares that ethical considerations inform its investment policies, but it does not specify what these criteria are.

**Privileged information in competition with private entities**

The Principles commit a fund to disclose how it is prevented from taking advantage of privileged information or inappropriate influence by the broader government in competing with private entities.

QIA does not disclose how it is prevented from taking advantage of privileged information or inappropriate influence by the broader government in competing with private entities.

**Ownership rights**

The Principles commit a fund to disclose its general approaches to voting securities of listed entities.

QIA does not to disclose its general approaches to voting securities of listed entities.

**Risk management framework**

The Principles commit a fund to ensuring a framework that identifies, assesses and manages the risks of its operations.

QIA does not conclusively describe its approach to risk management.

**Investment performance and benchmarks**

The Principles stipulate that a fund's assets and investment performance (including absolute and relative benchmarks, if any) should be measured and reported to the owner. Our assessment focuses on a fund's investment performance and performance benchmark.

QIA does not disclose its investment performance or the benchmarks it uses to assess its performance.

**Implementation of the Santiago Principles**

The Principles commit their signatories to engage in regular reviews of the implementation of the Santiago Principles.

QIA has not disclosed a review of the implementation of the Principles.

## About

GeoEconomica is an independent macro-trend and political risk advisory and research firm. It monitors how macro trends and politics are moving markets.

## Contact

GeoEconomica  
Geneva Office  
4, Chemin des Papillons  
1216 Cointrin – Geneva  
Switzerland  
info@goeconomica.com  
Tel.: +41 (0)22 341 47 78

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