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Adam D. Dixon [a] & Ashby H.B. Monk [b]
[a] School of Geographical Sciences, University of Bristol, UK
[b] Collaboratory for Research on Global Projects, Stanford University, USA
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Reconciling transparency and long-term investing within sovereign funds

Adam D. Dixon[a]* and Ashby H.B. Monk[b]

[a]*School of Geographical Sciences, University of Bristol, UK;* [b]*Collaboratory for Research on Global Projects, Stanford University, USA*

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One of the potential consequences of the international community's focus on transparency and commercial orientation, when it comes to sovereign wealth funds, has been to shorten the latter's investment time horizons. As a result, these theoretically long-term investors are pressured into behaving like many short-term investors in the marketplace today, pushed by structural conditions that demand short-term performance in order to secure legitimacy. In evaluating the tension between transparency and long-term investing, we offer a conceptual framework for thinking through different types of transparency pertaining to the investment process as a means of discussing and communicating acceptable and non-acceptable asymmetric information in relation to financial performance.

Keywords: sovereign wealth funds; Santiago Principles; financial markets; short-termism; long-term investing; transparency

1. Introduction

Social scientists and policymakers alike are increasingly critical of the pervasive short-termism embedded within finance and its associated markets, institutions and agents (Dore 2008, Dymski 2009, Engelen et al. 2011). On the one hand, short-termism can be seen as a structural issue that manifests in a number of forms, from the powerful data-engines that offer near-instantaneous views of portfolios to the emphasis many investors place on quarterly and even monthly reporting (Connelly et al. 2010, Froud et al. 2006, Laverty 2004, Marginson and McAulay 2008). As a result, the environment in which firms and investors make decisions tends more towards the realization of short-term performance objectives rather than longer-term ones. On the other hand, short-termism can be seen as emanating from cognitive and behavioural biases, where the uncertainty inherent in long-term expectations draws people to shorter rather than longer-term investment horizons (Akerlof and Shiller 2009, Clark 2011). Combining these structural and agential issues brings into question the capacity of investors to effectively price long-term risks or incorporate inter-generational factors into today's investment decisions. Consequently, the existential socioeconomic challenges of the contemporary period, such as demographic ageing, climate change and adequate provision of infrastructure, seem to be secondary interests for many in the institutional investment community (Hawley and Williams 2000, 2007, Hebb 2008).

And yet, global economic imbalances and high commodity prices have fueled the almost exponential growth of a type of institutional investor that does have an inter-generational time

*Corresponding author. Email: adam.dixon@bristol.ac.uk

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horizon and, in theory, has the ability to price the long-term risks cited above; these are sovereign wealth funds (SWFs). With combined assets of roughly 5 trillion dollars, the 60 or so SWFs in the world are qualitatively different than other institutional investors, such as pension funds or insurance companies, in that they do not possess liabilities to specific beneficiaries (Monk 2009). Moreover, SWFs have a single owner, the government sponsor, which, in theory, has a perpetual time horizon.[1]

As such, SWFs, while perhaps not a singular group, represent an island of long-term investors in a sea of short-termism.[2] A number of commentators have thus suggested that these funds may be an important source of capital for addressing the above-mentioned long-term challenges, while also acting as a counterweight to the structural and agential issues driving short-termism in global financial markets (see e.g. Bolton et al. 2011). In other words, the sudden rise of SWFs may offer creative organizational and institutional designers an opportunity to address the constraints that limit other institutional investors from considering long-term risks alongside more pressing short-term risks.

Notwithstanding SWFs' unique characteristics, which provide them with the structural foundations conducive to long-term investing, these funds are faced with certain institutional contradictions at both the international and domestic level that, it seems, can only be reconciled through a public demonstration of short-term performance (Gelpern 2011, Monk 2009). Indeed, at the international level there is scepticism regarding the motives underpinning SWFs' behaviour, where some worry that they will be used to underwrite mercantilist industrial policies that distort competition and efficiency in product and financial markets (Haberly 2011). Moreover, there is a fear that these geopolitical motives can be hidden within a sovereign fund's 'long-term investment strategy' by providing these funds with plausible justification for non-commercial (and non-performing) investments. On a domestic level, some SWFs also face scepticism as to the justification for saving current government income and investing it outside of the home country rather than spending it on goods and services today (van der Ploeg and Venables 2012). This local pressure to 'show results' on an annual, quarterly or even monthly basis serves to shrink the investment time horizon of these funds.

To counter the scepticism and establish legitimacy, SWFs have been pushed (by their sponsors and domestic and international stakeholders) to prioritize short-term performance, transparency and routine disclosure (Truman 2010). This push for greater SWF transparency is at the core of the 'Santiago Principles' (also known as the Generally Accepted Principles and Practices for Sovereign Wealth Funds), which were developed by the International Working Group of SWFs and are now advanced by its successor, the International Forum of SWFs (IFSWF). The rationale underpinning the Santiago Principles, which were unveiled in 2008, was to ensure the international legitimacy of these organizations with a view to keep global financial markets open to SWFs. In short, the advanced industrialized economies used the threat of protectionism as a mechanism to force transparency (the presence of symmetric information) on the funds.

The object of greater transparency is, ultimately, to ensure that the behaviour of SWFs remains purely commercial. However, one of the unintended consequences of this focus on transparency and commercial orientation has been to shorten SWFs' time horizons. As a result, these theoretically long-term investors are pressurized into behaving like many short-term investors in the marketplace today, pushed by structural conditions that demand short-term performance in order to secure legitimacy (and ensure survival). Said slightly differently, the prerequisite for SWFs to secure international and domestic acceptance is to demonstrate performance that matches up to established conventions, which negates the potentially positive impact these funds could have in extending the time horizon of 'finance'.

In this paper, we evaluate the tension that exists between transparency and long-term investing. We argue that although a commitment to transparency may drive short-termism, non-transparency is equally harmful to long-term investing, as it provides a mechanism for examining inefficiencies in the investment process and other malfeasance. Unfortunately, this argument alone is too simplistic and realistically naïve. Whether the dichotomy between transparency and non-transparency is this strict and rigid is at issue. Even resolutely transparent organizations may find reasons for non-transparency (the presence of asymmetric information) in certain instances, particularly those engaged in a competitive market place. What is needed, then, is a more expansive understanding of transparency that separates transparency into different types, such that a more refined conceptual frame for how organizations and their sponsors, in this case sovereign funds, approach and try to resolve the tension between transparency and long-term investing.

We divide the paper as follows. In the next section we review the development and implementation of the Santiago Principles in driving transparency as a means for SWFs to obtain international legitimacy. In Section 3, we discuss how transparency may drive a short-term performance obsession that risks undermining a long-term strategy. This, we argue, may be a reason for the arguably ambiguous record of aggregate SWF transparency, as evidenced in the recent IFSWF survey of Santiago Principles compliance. In Section 4 we provide a conceptual framework for considering and communicating different types of transparency, recognizing the heterogeneity of sovereign funds and sponsors' objectives. The final section concludes.

2. Transparency and legitimacy

In 2006, the US government raised concerns over the purchase of UK-based ports operator P&O, which had contracts to run a number of US ports, by DP World, a state-owned company based in the UAE. Although the Committee on Foreign Investment in the United States approved the deal in 2005, US Coast Guard Intelligence and members of the US Congress brought a number of potential security risks to the fore. Faced with the prospect of a Congressional bill to block the deal, DP World voluntarily divested P&O's US operations. DP World's experience (and some would say unfair treatment) was instrumental in the policies that SWFs and investment receiving countries would establish when sovereign funds rose to prominence in 2007, as they sought to buy discounted assets associated with the subprime financial crisis (Rose 2009).

Having already supported the DP World bid as part of an 'open market' foreign policy, the Bush Administration, through the leadership of Treasury Secretary Henry Paulson, moved quickly to get ahead of any potential controversy surrounding SWF investments in the United States. In the fall of 2007, at the joint Annual Meeting of the IMF and World Bank, Paulson put forth an SWF agenda that sought to maintain and indeed promote openness to SWF investment. The main condition for this access was that SWF investments would have to be demonstrably commercial and eschew political objectives (Norton 2010a, 2010b). The IMF immediately took on the task of convening a roundtable of SWFs and host countries, known as the International Working Group of SWFs, to identify and draft a set of generally accepted principles and practices (GAPP) that could, in effect, neutralize politicization and ensure a commercial orientation (Monk 2009). The idea was to use governance and investment management standards to focus these funds on risk-adjusted financial returns only. The resulting Santiago Principles were thus representative of a large international effort (led by the advanced OECD economies) to foster increasingly open financial markets with common standards and principles of conduct. In effect, the Santiago Principles are simply another step in a long process of global financial and economic integration, which includes accounting harmonization and increased cooperation among regulators (Dixon and Monk 2009). At the centre of this process is transparency.

Transparency is a fundamental tenet of financial market regulation in the advanced economies. Not only is transparency a requirement for issuers of securities, it is also, in most cases, necessary for the buyers of those securities and the intermediaries in between. For example, in the United States, the world's largest capital market, federal regulations require institutional investors to abide by strict disclosure requirements. The *Investment Company Act of 1940*, which covers mutual funds and other types of professionally managed funds, requires publication of funds' investment policy and periodic reporting of the funds' financial statements. Moreover, the Act provides strict guidance as to the composition of directors of the fund and their fiduciary duties. Any changes to the funds' investment policy or its board of directors must occur through a majority vote of the funds' outstanding voting securities (Markham 2011). Comparable requirements exist in regulations covering other institutional investors, such as the *Employee Retirement Income Security Act of 1974*, which covers employer-sponsored private pension plans (Sass 1997).

The emphasis on periodic reporting of a fund's financial position and a clearly articulated investment policy is likewise a hallmark of institutional investor regulation in Europe (Lamfalussy 2001). For example, the 2003 *EU Directive on Institutions for Occupational Retirement Provision* requires provision of a statement of investment principles as well as regular disclosure of the financial soundness of the fund. Similar measures are likewise found in the *EU Directive on Undertakings for Collective Investment in Transferable Securities*, which covers mutual funds and other collective investment schemes.

Given the regulatory requirements of transparency in institutional investment in advanced economy capital markets, it is unsurprising that the political and regulatory reaction vis-à-vis the emergence of SWFs on the world stage was to adopt comparable standards of conduct (Truman 2010). Indeed, the 24 principles governing SWF behaviour in the Santiago Principles evoke the same doctrine of transparency that guides institutional investment in advanced economies. The Santiago Principles are divided into three sections: (1) legal framework, objectives and coordination with macroeconomic policies; (2) institutional framework and governance structure; and (3) investment and risk management framework. In all three cases, transparency is either evoked directly, through some form of disclosure, or indirectly, through the funds relationship with the sponsoring government. For example, GAPP 1–5, 11–12 and 15–17 directly cite transparency by calling for periodic publication of statistical and financial data and public disclosure of the funds' broader purpose in terms of (a) its fiscal and macroeconomic policy function and its relationship between the state sponsor; and (b) its investment policy and financial objectives. GAPP 6–10 evoke transparency indirectly by calling for clearly defined standards of conduct and responsibility for the funds' governing body and its operational management, supported by a clearly defined accountability framework.

It is not until GAPP 18 and 19, does a proposition appear that SWF investment decisions should be based on sound portfolio management principles and solely for the purpose of maximizing risk-adjusted financial returns; and, as stated in GAPP 21, that if an SWF exercises its shareholder ownership rights, it should do so only for the purpose of protecting the financial value of its investment. That these three principles appear towards the end, yet encompass many of the primary national security concerns surrounding SWFs, is suggestive of the importance of transparency and accountability in bringing SWFs in line with other (advanced political economy) institutional investors. It would seem that international legitimacy (and access to global markets) demands disclosure.

But the pressure for disclosure is not simply international: depending on the political authority structure of the SWF, domestic pressure for transparency can be significant as well (Dixon and Monk 2012). For SWFs sponsored by developed economy, democratic governments (e.g. Alberta, Norway, New Zealand and Australia), the pressure for transparency and accountability is likely built into the mandate and operations of the fund. In these cases, the SWF is directly accountable to the parliament, which is directly accountable to the voters (Clark and Monk 2010). Given that SWFs are ultimately a fiscal resource, they are part and parcel of budgetary politics. Hence, for SWFs sponsored by democratic governments, their continued existence must be justified over competing claims to fiscal resources in relation to wider social and economic policies. As a result, democratically sponsored SWFs must regularly report on their investment objectives and performance with respect to the timescale of budgetary politics, which can be short in most democracies (Nordhaus 1975).

3. Transparency and long-term investing

As suggested above, the advanced political economies traditionally have used transparency to understand 'what' and 'how' an organization is doing. Through periodic reporting and disclosure, a stakeholder can examine an organization's strategies (the 'what') and its performance (the 'how') and then benchmark this information against competitors to come to some understanding of the relative value of a given organization within the marketplace. Therefore, when it came to writing a governance protocol for SWFs that could guarantee commercial behaviour (via the Santiago Principles), these same assumptions (and heuristics) were at the forefront of the designers' thinking. The Santiago Principles make an assumption that if an outsider can understand the 'how' and the 'what' of SWFs through regular disclosure, that outsider can derive an insider's understanding of the 'why': whether SWFs were focused on commercial or political goals. By this logic, then, if SWF performance deviates too much from the conventional 'what' and 'how', the outsider might infer that the behaviour underpinning the investments (the 'why') was something other than commercial, which was (and is) the pressing concern of western economies faced with the rising prominence of SWFs.

The problem with this logic is that it ignores the idiosyncrasies and heterogeneity of SWFs. These are funds that have differing risk budgets and mandates that make benchmarks very challenging to identify. In addition, this heuristic ignores the issue of time (the 'when'). Indeed, the Santiago Principles raise an important question about whether short-term performance is a suitable predictor of long-term performance, as the 'how' benchmark tends to be based on short-term metrics drawn mostly from short-term investors (Rappaport 2005). We think not. Investment decisions that take into consideration both long-term and short-term risks will, at the margin, be different from those investment decisions that seek to maximize short-term performance only. By forcing long-term investors to disclose their performance on an annual or even quarterly basis, long-term investors are thus being asked to justify their long-term portfolios in relation to short-term portfolios.

Consider the case of Peru and its private pension funds, which are benchmarked against each other on a daily basis. Does a daily return provide an outsider with any information as to the skill of the asset managers over a year? Put another way, if we see one fund with negative performance on a day when another fund has positive performance, is it fair to assume that the latter is commercially more viable than the former? Many would agree that daily returns are not a valid predictor of annual returns and should not be used to make judgments of this kind. After all, the investment strategies are probably quite different for the two periods (momentum versus value; technical versus fundamental). In a similar vein, should we rely on quarterly or even yearly returns when assessing the skill (or commercial orientation) of an inter-generational investor? Once again, the investment strategies should be quite different (public equity versus private equity; financial instruments versus real assets). Is it possible to really understand the 'why' for a long-term inter-generational investor by benchmarking their performance against an investor focused on yearly performance?

Through the Santiago Principles, and their intense focus on transparency, the advanced political economies are, in effect, attempting to benchmark SWFs against conventional investors in the marketplace in order to ensure commercial and non-threatening behaviour. However, this 'convention' is built around ostensibly short-term institutions (i.e. regulations, norms, conventions) and agents (e.g. market intermediaries, asset managers). In order to understand the 'why' of sovereign funds, the implied benchmarks for evaluation created by the Santiago Principles should have included the what, how and when. As it stands, the current benchmarks will bias sovereign funds towards shorter-term investments (Lowenstein 1996).

This bias towards the short-term ostensibly arises from the challenge for the long-term sovereign fund in explaining their operations and plans to a society of lay-spectators and their political representatives in such a manner that allows for those lay spectators to fully understand and agree to the strategic vision. The difficulty herein lies in the expansive scope and complexity of contemporary financial markets, where expertise and recourse to commonsense investing based on commercial experience and basic levels of education are inadequate. In today's markets the breadth of financial products goes well beyond traditional asset classes, as does the different geographies open to investment and their concomitant particularities. As a result, there is a high demand and need for domain-specific knowledge and specialized teams capable of navigating turbulent markets spatially and temporally (Clark 2007).

If assembling such capability at a single sovereign fund is an ongoing challenge, it is arguably unlikely that the general public (assuming they matter to some degree in the political process in places sponsoring sovereign funds) will have the financial acumen necessary to effectively assess the competency of the fund's managers and the soundness of its strategy, especially when dealing with long time horizons. Simply increasing transparency does not neutralize this problem. For example, Ang, Goetzmann, and Schaefer (2009) argue in the case of Norway, one of the most transparent funds in the world, that it was not the issue of transparency that resulted in public criticism of the SWF in 2008 in the wake of the global financial crisis and the collapse of global equity markets; it was failing to adequately explain how the fund's strategy and operations could be impacted upon in a crisis environment. In other words, Norges Bank Investment Management (NBIM) was caught in a 'middle ground' where the general public had enough information to know that something had gone wrong but not enough information (or competency) to properly assess whether the fund was behaving in a capable manner given the circumstances.

Although improving the quality of transparency through better explanation and education may deflect criticism of poor performance in the short term, such a strategy still may prove ineffective and be trumped by the salience of and desire for short-term performance metrics. Likewise, domestic opponents of a country's SWF could utilize the poor performance to reinforce their argument against the existence of the fund or the fund's strategy, assuming that in most cases there is some element of domestic opposition or the possibility thereof. Hence, the stakes of political interference are still highly present, which could scuttle even the most basic long-term investment objectives if such interference were to materialize following transitory systemic events. For some sovereign funds in certain places, particularly those without traditions of representative democracy, it may prove easier to limit transparency heavily, such as withholding information on asset allocation or even the exact size of the fund. In other words, maintaining a shroud of secrecy and fostering public ignorance has its attractions.

There is thus an argument (that can be frequently heard among SWF stakeholders) for maintaining a certain degree of non-transparency so as to retain the ability to make long-term investments without fear of political repercussions. As a result, it is not surprising to see ongoing ambivalence over the disclosure policies in the Santiago Principles from the IFSWF members. Although the raw data are unavailable, a report produced by the IFSWF (2011), based on member surveys, provides interesting insights into the tensions surrounding increased transparency within SWFs (see also Bagnall and Truman 2011). According to the report, respondents were asked if they disclose information on the following seven elements of investment policy: investment objectives, risk tolerance, investment horizon, strategic asset allocation, investment constraints, use of leverage and the use of external managers. Of the 21 member funds that responded to the survey, only eight disclose information on all these elements, despite the fact that all are accepted convention and best practice among institutional investors in advanced markets. Given that the responding funds signed up to the Santiago Principles and joined the IFSWF (on a voluntary basis) as a means of clarifying their objectives as an institutional investor on global markets, it is surprising to see these levels of (self-reported) non-transparency.

One interpretation for the variability of disclosure is the possible contradictions between an SWF achieving its long-term objectives and maintaining high levels of 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' (IFSWF 2011, 29). In other words, the community of SWFs is struggling to reconcile the demands for routine transparency and the demands for long-term performance. Given the potential benefits of long-term investing, should the stakeholder community be against this lack of transparency? Or should stakeholders applaud it?

4. The different aspects of transparency

Thus far, it may seem as though we are making a case for non-transparency to encourage long-term investment. Undoubtedly, a person or government predisposed to non-transparency would have plenty of fodder for argumentation given the challenges of adequately communicating a complex investment strategy to a lay public. Considering that the short-termism endemic in global financial markets offers competitive opportunities to those funds that can adopt a long-term approach (Ang and Kjaer 2011), it would seem that non-transparency is an acceptable iniquity for protecting a long-term strategy. Furthermore, if we accept that long-term investors can outperform short-term investors over the long run, it would, in turn, suggest that non-transparency offers commercial benefits. All that being said, however, the 'non-transparency short cut' to long-term investing is a risky path, as it means the investor is operating without the consent of society, domestic and international. Moreover, it means trusting the benevolence of the SWFs' leaders, whose long-term interests may be individual rather than societal (Dixon and Monk 2012, Goldman 2011, Hatton and Pistor 2012).[3]

Is it possible, then, 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? We would contend that revealing acceptable opacity for the preservation of a long-term strategy and vision, whether in the domestic or international domain, could manifest through an enhanced dialogue over the definition(s) of transparency. However, this requires a more systematic clarification of different types of transparency as pertains to sovereign fund operations and governance, which can be used by stakeholders to judge sovereign fund transparency and which, likewise, can be used by sovereign funds and their sponsors in communicating how and in what ways they are transparent.

To this end, we offer a conceptual framework for parsing different types of transparency in the constitution and operation of sovereign funds. Taking inspiration from Geraats's (2002) conceptual framework for central bank transparency, we distinguish five aspects of sovereign fund transparency: political, procedural, policy, operational and performance. Each of these aspects may provide different motives for transparency.

- *Political transparency* refers to the exogenous rules and regulations underpinning the fund's operations. Transparency in this domain will clarify the fund's objectives and institutional arrangements as well as the sovereign fund's relationship with the sponsoring government. This could include the sovereign fund's mission statement and the legal framework that defines its existence. Absolute transparency in this domain would also describe the institutional arrangements (formal or otherwise) guiding the interaction between the fund and the government sponsor.

- *Procedural transparency* refers to the resourcing and, indeed, resources at the disposal of the fund to achieve its objectives. Transparency in this domain will generally describe the governance architecture and the decision-making process, both in terms of investments but also in terms of the organizational requirements. This could include policies for how the board is chosen, arrangements regarding board tenure, and how authority is delegated inside and outside of the fund, such as to an investment committee, the selection of external managers or the hiring of internal staff.
- *Policy transparency* refers to the rules and objectives that the fund – generally through its formal governance arrangements – imposes on its own operations and personnel. Transparency in this domain will thus highlight the fund's strategic vision, investment beliefs and strategy. This could include information about asset allocation, geographic distribution of investments and information on risk budgeting.
- *Operational transparency* refers to the way the investment strategy is implemented and by whom. Transparency in this domain will describe the ways in which the fund seeks to put policies into action, such as how the fund plans to access financial markets, certain industries, geographies or even specific assets. This could include information on whether assets are managed 'in-house' or through external asset managers, and what type of involvement the fund has with the investee entities in which the fund invests.
- *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.

These may seem to invoke some of the underlying principles of the Santiago Principles and many of the national regulatory frameworks facing sovereign funds when investing internationally. To this we would not disagree, save for transparency related to performance. For some funds it may be possible to be completely transparent to a significant degree across all these domains. But even these funds would still require complementary mechanisms to manage and mitigate potential criticisms, particularly related to short-term performance. The New Zealand Superannuation Fund (NZSF) is illustrative in this regard.

In contrast to the view that transparency may harm a long-term strategy, the NZSF is demonstrating that transparency is not antithetical to a truly long-term approach. Indeed, the NZSF, which routinely tops the list of the most transparent funds in the world (Truman 2010), is the only sovereign fund that we are aware of that is required by law to publish monthly performance figures. Considering that the asset allocation is weighted heavily towards equities, which are volatile in the short run, and towards atypical and illiquid investment options, which require a long-term commitment to realize their potential, the fund is at a higher risk of facing criticism during periods of market uncertainty and following major market events. As a result, it has had to prioritize effective communication, through pro-active disclosure and outreach, as a core competency of the fund. Accordingly, remarkable detail is provided on how funds are invested. For example, in a recent report titled 'How We Invest', the NZSF details how it tries to generate alpha (beat the markets); when and how it uses derivatives; how environmental, social, and governance considerations are incorporated into operations and investments; when the fund chooses to invest its assets in-house; and what it looks for in its third-party asset managers.[4] The NZSF appears to have squared the equation between long-term investing and high transparency (and is highly transparent across all of the aforementioned transparency domains).[5]

As the NZSF case illustrates, the demands for public transparency as a function of legitimacy are to be expected in the case of a representative democracy, but the demand for transparency, the international community notwithstanding, may not be significant in countries with notionally democratic regimes and non-democratic regimes. And yet, just as the fully transparent fund requires complementary mechanisms for managing the outcomes of its transparency, the fund that is opaque will need to justify such asymmetric information in some context, whether this occurs through the Santiago Principles as they evolve, the national rules in the countries in which they invest, or through engagement and outreach domestically. In other words, the fund will still have to demonstrate the 'what' and the 'why, as required for international and possibly domestic legitimacy. But, as suggested in the last section, there remains a reluctance, assuming such claims surrounding long-term investing are genuine, to reveal the 'what' and 'how' in the short term. We suggest that this could be achieved through different types of transparency; that which does not serve to shrink the fund's time horizon.

For example, the Government of Singapore Investment Corporation (GIC) since 2008 has become more transparent across most of the aforementioned transparency domains, specifically regarding its governance, investment strategy and global operations. This is due, on the one hand, to developments globally, but it is equally a function of the growing pressure domestically for transparency as the government had to withdraw funds to support the economy in the wake of the global economic downturn of 2007–2008. In terms of the 'when', the GIC is emphasizing disclosure of its real returns on the 5-year, 10-year and 20-year time scale. As such, GIC is being transparent regarding its performance, but in the form of smoothed performance metrics over the long term in place of volatile short-term performance metrics in the short term. In other words, the GIC is trying to demonstrate the 'what' and the 'how', as required for international and possibly domestic legitimacy, without revealing the short-term 'how'. Hence, the fund could be said to be transparent in the context of performance, but it may offer a distinct timeline on which performance is revealed. Nevertheless, the level of transparency is still measured in comparison with western funds such as the NZSF. For example, the argument proffered by Minister Mentor Lew Kuan Yew for the lack of relative transparency of the GIC was to limit the domestic politicization of the fund's global investment strategy (Yeung 2011).

5. Implications and conclusions

In this paper we argue that transparency and long-term investing are positive for society. However, there is a tension between the two. Too much transparency may seem for some counterproductive to long-term investing, as it may drive short-termism. Conversely, rationing transparency is counter to obtaining society's acquiescence, which is a fundamental concern in democratic states, one of the demands of the international community and a norm of contemporary financial markets. This much is clear in the framing of the Santiago Principles. In effect, no large investor can avoid calls for greater transparency if they want unfettered access to global markets and domestic buy-in for their organization. Even in countries with limited democratic representation there can be domestic pressure for greater transparency. As such, the competition between transparency and long-term investing tends to be won by transparency.

As the NZSF demonstrates, ongoing public dialogue is as important as being at the leading edge of global financial markets. Saving for the future requires a perpetual dialogue with the public as to why and how the sovereign fund fits with the long-term social contract, and what needs to be done for it to fulfil such an obligation. Indeed, the long-term fund cannot use short-term returns as a metric for evaluating the ability of its managers, as quarterly performance is not a useful indicator of decennial performance. In other words, a long-term investor may actually need to be more articulate, more transparent and more accountable (at least within its stakeholder community) than a short-term fund that has the luxury of pointing to its short-term returns as an indicator of ability or competency. Moreover, perpetual communication is important, as no political regime lasts forever. Democracies hold regular elections and dictators are deposed or die. Yet, this does not mean that a country's sovereign wealth need succumb to that change as well.[6]

Yet, 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. We would argue that one step towards greater transparency in aggregate is the delineation and subsequent discussion of transparency, as the conceptual framework discussed above does.

In certain cases it is arguable that non-transparency is not actually non-transparency. For example, it is a fund that discloses quarterly returns less transparent than the fund that discloses smoothed long-term returns, particularly if the latter fund is transparent in other domains, such as how it is governed and how it implements its investment strategy and where. Here, there is a different temporal dimension to the transparency of performance, which seems logical and justifiable. If malfeasance and impropriety are prevented through other mechanisms, such as clear governance frameworks, then the presence of asymmetric information in the short term may be acceptable, at least at the domestic level, and perhaps tolerated internationally. Ultimately, the temporal dimension of transparency, particularly with regard to the dissemination of performance metrics, requires further discussion and argument.

Hence, there is material value in the discussion on transparency in and of itself and how it is communicated. Said slightly differently, sovereign funds can make greater strides towards increasing aggregate transparency by discussing why and in what instances they are not transparent. This perhaps offers the IFSWFs an important project for the years ahead; one that improves upon the Santiago Principles and their short-term influence.

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Notes

1. We accept that many nation-states are relatively new and the historical geopolitical record would suggest that time-horizons for many nation-states are not necessarily perpetual.
2. In our view, stabilization funds (a type of SWF) should not be included in among long-term investors due to their short-term mandate.
3. Equatorial Guinea is an apposite case in this regard. Like many other resource-rich yet resource-dependent countries, Equatorial Guinea undoubtedly suffers from the 'resource curse'. Although the country is one of the richest in sub-Saharan Africa, with per capita GDP well over US$11,000, 77% of the country lives in poverty, and most institutions are weak and blighted by corruption (Goldman 2011). The country's wealth is managed by a close-knit group of family and ethnic group members under the leadership of President Teodoro Mbasago, who has ruled the country since 1979. In effect, the resource wealth has not been used to better the lives of the majority of the country's citizens. With the oil boom of the last decade, the government has developed a track record of savings. However, there are no mechanisms and safeguards in place to ensure that the funds will last. The country's political leadership does not make substantive disclosure about the fiscal budgeting process, and the existence of the country's sovereign fund, the Fund for Future Generations, provides limited

reassurance either that funds will be preserved for the long-term, as nothing is known about the fund's management. In effect, the fund is a classic 'rentier SWF' that is ultimately in the service of a local elite (Dixon and Monk 2012). The elite may be able to maintain a long-term strategy, but it is likely that the fund and the returns it ultimately spins off will be used and appropriated for short-term (or personal, or politicized) causes (Hatton and Pistor 2012).
4. See http://www.nzsuperfund.co.nz/files/How%20We%20Invest.pdf [visited 29 February 2012].
5. One of the keys here is the double-arms length independence of the fund, separating it from the whims of politicians that might otherwise like to see short-term results.
6. As the case of Libya shows, just because the Gaddafi dynasty has been removed but the National Transitional Council is working to reform the governance of the Libyan Investment Authority for a post-Gaddafi Libya. See Sven Behrendt and Rachel Ziemba 'Libyan Investment Authory. What's Next?' http://www.economonitor.com/blog/2011/08/libyan-investment-authority-whats-next/ [visited 17 April 2012].

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