



# Strategy of the Libyan Investment Authority

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## **The vision statement of the Libyan Investment Authority**

### **Achieving sustainable investment returns for future generations**

#### **Strategic Goals**

- Preservation of the assets of the Libyan Investment Authority and maximizing its market value.
- Investing in accordance with the best practices of global sovereign wealth Funds: wisely, sustainably, and balancing the achievement of returns and risks.
- Diversification of investments in terms of markets and asset classes through the assistance of the best investment experts.
- Investment in the leading, most transparent markets and making investment decisions based on the forecast of investment returns.
- Building confidence, commitment to integrity, highest degree of transparency, compliance with the Santiago Principles, and a robust internal code of conduct.
- Work as an integrated Authority through a unified investment strategy and policies for the Authority and its subsidiaries.
- Establishing a strong governance and control framework that enables senior management to impose supervision and control at the level of the Authority and its subsidiaries.
- Improving LIA 's image in front of internal and external stakeholders.
- Training and qualifying national cadres in the field of investment.



## Introduction

In the context of modernization and development, with the view to elevating the Libyan Investment Authority to the ranks of sovereign Funds and achieve its goals, namely, maximizing the value of the assets of the Libyan people which are entrusted with the Libyan Investment Authority, the Board of Directors decided to formulate a clearly defined strategy that is appropriate to the requirements of the current stage pursuant to an updated strategic track. This includes the formulation of a vision statement and goals that define what LIA aspires to concretize in the long term. Additionally, putting in place a detailed strategic plan in the short term, which consists of implementable steps on which the Authority must endeavor to achieve these strategic goals.

For the success of this trajectory, the Libyan Investment Authority has exerted efforts to create an appropriate, favorable business environment that meets the requirements of this transformation. It has made great strides in its efforts to bring about transformation during 2020, by launching several major work programs, including: the strategic transformation program, valuation and preparation of financial statements, analysis of the impact of sanctions and the termination of disputes and Litigation regarding LIA 's leadership. The Libyan Investment Authority, having become stable and having achieved the desired results from those endeavors, embarked on the stage of the elaboration of the strategic plan.

To formulate LIA strategy, many basic factors were taken into account, the most important of which are the current status of LIA, analysis of its surrounding environment, international freezing decisions, lessons learned from the experiences of peer sovereign wealth Funds, and LIA 's tasks and objectives. The vision has been defined.

Based on that study, an analysis was conducted on the gap in LIA between the current situation and what it should be according to its vision. A set of basic objectives have been developed that ensure bridging the gap and having access to the vision. Likewise, a strategic action plan has been developed for the near term that includes a set of specific, implementable and measurable steps aimed at achieving the strategic goals of LIA.



This strategy dealt with a review of the current challenges, constraints, limitations and shortcomings faced by LIA in comparison with its counterpart sovereign wealth Funds. The strategy relied on that comparison to conduct a gap analysis and the needs of LIA. Outputs were used to define the required capacities and priorities of reform activities that would ensure the optimal functioning of LIA as a Sovereign Wealth Fund.

This strategy, also addressed the requirements of Law No. (13) of 2010 regulating the Libyan Investment Authority. An official vision statement was formulated. The strategic objectives were harmonized which define the goal of the Authority in the next ten years and beyond. They were formulated with the objectives of the Authority specified under this law. The strategic objectives are a concrete set of the principles and aims that will allow LIA to move forward towards achieving its specific vision.

This strategy focuses on the work of the Authority in particular. It, also ensures the management of the investments of the subsidiaries in accordance with unified investment policies and objectives, and paves the way for the implementation of a comprehensive long-term strategy in the coming stage that brings about tangible changes in the portfolios, Funds, subsidiaries and its management mechanism, to serve as a comprehensive vision and strategy for the Authority and its subsidiaries as a whole.

## **1. The current challenges facing the Authority**

In addition to reviewing the best practices of SWFs, and to help formulate LIA's vision and strategic objectives, a gap analysis was conducted to identify constraints and inadequacies that prevent LIA from operating optimally as a Sovereign Wealth Fund. These critical challenges revealed by the gap analysis can be summarized in three main themes: the need to enhance confidence, the need to build capacities, and the need to develop investment.

### **1.1. The need to enhance confidence**

Considering that, the Libyan Investment Authority is a Libyan sovereign wealth Fund owned by future generations and managed independently, and given the critical political phase that Libya has gone through and the international freezing decisions, which impacted the image of LIA at home and abroad, it increased confidence risks, especially with local and international stakeholders, namely, it



impacted its ability to safely manage the assets of the Libyan people which were entrusted with LIA. Some of these factors are outside the direct influence of LIA, such as international freezing decisions, turmoil and political instability that Libya witnessed.

However, there are other factors, that fall under the direct control of LIA, including low transparency measures, such as the use of an old website, failure to publish annual audits and the non-activation of the role of the Board committees in addition to the lack of audited reports, valuation and consolidated financial statements, which raises controversy about LIA's control over all its assets. So, it is important that LIA's strategy focuses on raising transparency in therein and work towards taking the necessary measures to achieve this.

### **1.2. The need for capacity building**

Having the right set of capacities is of paramount importance for SWFs not only in terms of investment, but also for building and enhancing stakeholders' confidence in the Fund's ability to manage its assets. Today, resources constraints and inefficiencies affect LIA 'S ability to bridge the gap and keep pace with peer SWFs.

To ensure the success of this strategy, LIA must establish appropriate enabling factors, including:

A well-resourced and experienced staff team.

- A strong set of policies and measures, built into LIA.
- Robust IT systems for investment, control and business continuity.
- Prepare robust reports on financial statements, valuations and investment returns.
- Clear lines of control such as management of risk, compliance and audit.
- International consultants supportive of the objectives of the authority.

These enabling factors must be implemented in both LIA and its subsidiaries.

### **1.3. The need to develop investment**

In light of the investments distribution and portfolios of the Libyan Investment Authority, and the results of the valuation reports, it can be noted that a large



part of LIA's portfolio is not effectively invested (deposits, shares, bonds, portfolios), meaning that its performance is lower than the average of its sector, due either to weak investment efficiency of the portfolio that was established when LIA was founded and its low performance rates, or due to the applicable United Nations sanctions regime that prevents LIA from managing its Funds.

Deloitte firm submitted in October 2020 a report on the negative impact of the sanctions regime and measures for freezing the assets owned by LIA that were distributed internationally. This report and the results of the analysis of the negative impact of the freeze were forwarded to the Sanctions Committee.

In addition, LIA also faces non-financial challenges such as difficulties in negotiating on obtaining offers from suitable suppliers, challenges related to opening new accounts, and general reluctance from international providers to support LIA considering that it is subject to sanctions.

Similarly, the Authority and its subsidiaries face challenges related to their inherited illiquid investments. Many of these legacy investments were driven by political reasons and have not generated any returns since their inception. Given the decision of the current Board of Trustees to stop any investments or sales, LIA is obligated to continue operating the distressed assets at risk at the moment.

On the other hand, other sovereign wealth Funds invest actively and achieve annual returns of 6-7% of the value of the invested funds, whereas LIA continued to achieve returns less than the average achieved by the peer sovereign wealth Funds.

The sanctions regime costs LIA direct losses and missed out returns (Negative interest rates, administrative expenses despite the freezing of the management of these Funds, and the inability to reinvest the matured bonds). Therefore, the strategy LIA must include efforts to communicate with the Sanctions Committee in order to request minor amendments to the sanctions regime in a manner that allows the management of assets, subject to sanctions while they are under freeze in a fashion that averts LIA's assets the risks of corrosion resulting from the application of the sanctions regime.



## 2. LIA's vision and strategic objectives

Based on Law No. (13) of 2010, which defines that the purpose of establishing the Authority, namely, to directly or indirectly invest its allocated Funds abroad on the basis of economic feasibility in various economic fields in a way that contributes to the development and diversification of the resources of national economy and achieves the best financial returns to secure the future for the coming generations, LIA's vision and strategic objectives have been formulated as follows:

### 2.1. Vision statement

The vision is a description of what LIA seeks to achieve in the long term. The vision was developed to be futuristic and ambitious, expressing the goal for which the Authority was established, and based on which the strategy emerged.

#### **The vision statement of the Libyan Investment Authority**

#### **Achieving sustainable investment returns for future generations**

### 2.2. Strategic goals

To achieve the vision of LIA, a set of strategic objectives were defined in accordance with several criteria and considerations to concretize the vision (status of the Authority, analysis of the surrounding environment, international freezing Resolutions, lessons learned from the experiences of peer sovereign wealth Funds, and LIA's tasks and objectives) as follows:

- Preserving the assets of the Libyan Investment Authority and maximizing its market value.
- Investment in accordance with the best practices of global sovereign wealth Funds: wisely, sustainably, and balancing the achievement of returns and risks.
- Diversification of investments in terms of markets and asset classes through the hiring of the best investment experts.
- Investment in the leading and most transparent markets and making investment decisions based on expectations of investment returns.

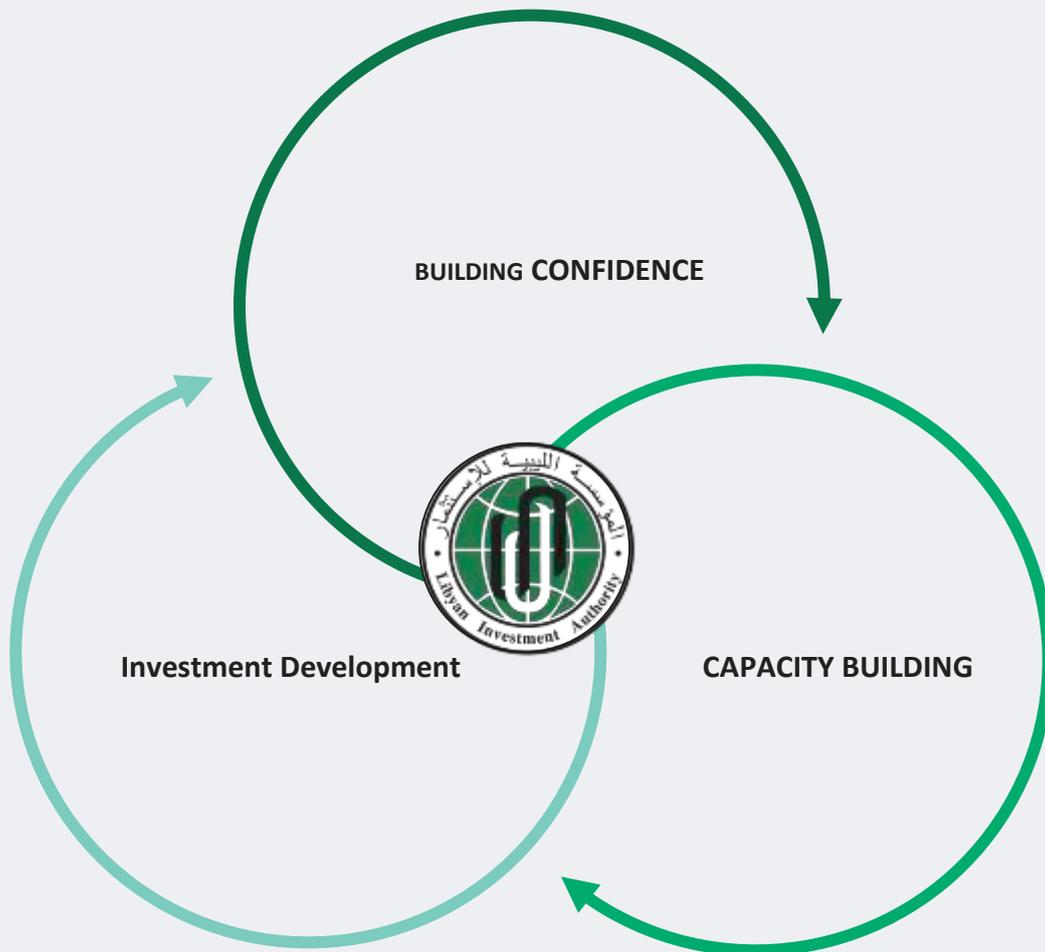


- Building confidence, commitment to integrity, the highest degree of transparency, compliance with the Santiago Principles, and a strong internal code of conduct.
- Work as an integrated Authority through a unified investment strategy and policies for the Authority and its subsidiaries.
- Establishing a strong governance and control framework that enables senior management to impose oversight and control at the level of the Authority and its subsidiaries.
- Improving the Authority's image in front of internal and external stakeholders.
- Training and qualifying national cadres in the field of investment.

### **3. The short -term strategic plan**

To achieve the Authority's vision and priorities, an implementable, measurable, and time-bound strategic plan has been developed. This plan revolves around three axes:

Enhancing confidence, building capacities, developing investment", which will serve as a mainstay for the strategy. This strategy is based on the progress made by the Board of Directors during the year 2020. Each strategic axis has a set of priorities that must be activated now or in the medium term to put LIA on the track to achieving its aforementioned strategic objectives.



### **Building confidence**

: Building trust and obtaining the support of domestic and international communities through the promotion of governance, transparency and external communications.

**Capacity building:** Preparing LIA to implement its strategy that will achieve sustainable investment returns by providing the necessary resources and the rehabilitation of infrastructure and training of human cadres who are capable of leading the Authority and achieving goals.

**Investment development:** restructuring LIA's investments, formulation of a unified investment policy, and moving to the smart sanctions regime to generate returns similar to peer Sovereign Wealth Funds.

### **3.1. Confidence boosting**

LIA, following the completion of the enterprise structuring phase of updating the organizational structure and preparing tools for its implementation, updating and formulating policies and charters, improving compliance with the Santiago



principles, valuating and classifying investment assets, starting an external audit, confirming the legitimacy of LIA 's board of directors, and conducting some financial criminal investigations for inherited problems, however, in addition to the previous achievements the Libyan Investment Authority still has a lot of work to do to enhance confidence by entrenching these recent developments in the Authority and its subsidiaries.

Thus, the Authority shall develop the website, raise the degree of transparency and disclose it; it will be the Authority's front to the world. It will disclose on the website the results of the accurate valuation process of the investment assets of LIA and its subsidiaries. This step will be crucial in enhancing transparency and consequently, increasing confidence in the Authority by providing accurate and regular reports to the local and international communities.

The Authority will benefit more from the establishment of effective infrastructure (advanced systems and capable competent human cadres) for the preparation of reports, which will likely provide support in this endeavor. The Authority will provide guarantees that confirm the accuracy of this data by conducting external audits annually.

In order to enhance the credibility of the Authority and ensure that it continues to operate during the growth phase according to the highest standards and best practices, it must have a team of elite international advisors such as investment advisors, legal advisors, search firms for executives, strategic advisors and IT advisors. This will enhance confidence in the Authority's implementation of its transformation and strategy.

### **3.2. Building capacities**

As a major enabler of the strategy, LIA will initiate the implementation of the outputs of the first phase of the transformation program. It includes strengthening the governance of the board of directors, moving to the new organizational structure, appointment of important vacancies and consultants, through a recruitment company, providing the necessary resources to support infrastructure, preparing and training human cadres. It will create a special database that gives distinction to talents and competent cadres across LIA and its subsidiaries. Similarly, recruitment and guidance of the available competent cadres effectively.



To support the Board of Directors in making decisions, the Board will rely upon four sub-committees, which are; the Audit, Risk and Compliance Committee, the Investment Committee, the Appointments and Remunerations Committee and the Governance Committee, as shown in the figure below. The Authority will operationalize these committees and appoint their independent members with expertise in asset management, auditing, risk etc. to ensure that recommendations submitted to the Board are enlightened and insightful.



## Structuring of the Board subcommittees

### Detailed objectives

Board	<ul style="list-style-type: none"> <li>• Giving opinion on major strategic topics including the long-term strategy investment policy and its implementation, overall governance framework and oversight over LIA through audits and periodic reports</li> </ul>
Committee of Audit, risks and compliance	<ul style="list-style-type: none"> <li>• Defining and monitoring of the internal controls system and disclosure, internal and external audit and the framework of risks, policies and practices.</li> <li>• Monitoring the compliance with policies, laws, regulations and the code of conduct.</li> <li>• Identification and maintaining of the effective measures for business continuity.</li> </ul>
Investment committee	<ul style="list-style-type: none"> <li>• Reviewing and presenting investment recommendations and policies as well as standards, measures and performance of the portfolio, assets allocation and performance of the Investment manager.</li> <li>• Recommendation for the appointment and dismissal of investment consultants, custodians and managers of external Funds with reviewing matters relevant to LIA frozen assets.</li> </ul>
Committee of appointment and remunerations	<ul style="list-style-type: none"> <li>• Making recommendations regarding nominations for leadership posts, annual manpower plan and the overall framework for LIA 's salaries, remunerations and incentives.</li> </ul>
Committee of Governance	<ul style="list-style-type: none"> <li>• Defining and monitoring the degree of LIA 's commitment to robust and appropriate governance standards.</li> <li>• Recommending strategies to support the Board of Directors and its committees thereof, to carry out the tasks related to governance.</li> <li>• Giving advice to members of the Board of Directors and its subcommittees concerning potential conflict of interest.</li> </ul>



Similarly, to ensure that the Authority at all levels begins to operate in line with the defined strategy, employees will be transferred to the target organizational structure and activate the outputs of the first phase of the transformation project, which includes the approved policies and charters. To facilitate that, the Committee of strategy implementation shall undertake the responsibility of leading and following up on the change. The Committee of strategy implementation will track the general trajectory and shall provide each department with the necessary resources to implement the change.

The transition to the targeted organizational structure will require a number of new roles and filling the vacant positions at the highest levels. The Authority needs an Executive Director to manage day-to-day activities allowing the Chairman of the Board to focus on the advocacy for the Authority's causes in Libya and at the international level. In addition, several vacant positions for managers and department Heads that need immediate occupancy have been identified. The Authority will select suitable candidates with the required skills and experience, with the assistance of a Search Company for executives and with transparent and public procedures.

In addition to rebuilding the Authority in Tripoli, the Authority will re-establish its operations in London, where the London office will be an extension of the Authority in Tripoli. It will play a key role in the way the Authority functions, including: hosting international representatives to support the directors of LIA. It will be like a nexus with the Authority's international advisors, and will act as a center of excellence in investment operations. Furthermore, the permanent presence in London will provide essential support to the team in Tripoli in terms of providing a center for learning and development.

IT systems and tools will be key enablers in facilitating the harmonization of accounting and reporting standards across the Authority and its subsidiaries. LIA will develop a robust IT strategy with the support of an IT consultant to be implemented across the Authority and its subsidiaries. IT solutions will be used on information of investment and risk management to track Enterprise investment returns, investment accounting, adjustments, investment risk and compliance. IT systems will enable the electronic transformation of information to prepare investment reports that cover performance and other related management information.



Similarly, the Authority will rely on a set of accounting and resources planning systems to facilitate access to the financial data center across the Authority and its subsidiaries in addition to electronic and informatics transformation in financial reporting. These systems can lead to significant benefits including improving cost efficiency resulting from increasing the efficient reporting, as well as increased confidence in data quality (completeness, accuracy, and timeliness), and data consolidation across multiple sources with ease which will allow timely reporting across the various LIA components and asset classes.

The improvement of corporate governance, capacities and systems alone is not enough; therefore, the corporate structure will be included in the subsidiaries with a focus on strengthening the Authority's supervision and control of its subsidiaries. In addition to harmonizing the culture and practices across its various components, as the Authority aims, in the medium term to adopt the slogan "LIA Group" by which all components of the Authority will strive to achieve the same comprehensive overall strategy.

The Authority will focus on enhancing alignment and harmonization between it and its subsidiaries with regard to investment policies, objectives, strategy, systems, data management and standardization of reports.

As a first step, the Authority must prepare standardized reporting forms, prepare consolidated financial statements, internal control provisions for affiliated companies, and establish a central unit to monitor the compliance of subsidiary companies with international regulations and laws and those in force, in the countries in which it operates, including the internationally applicable sanctions regime.

### **3.3. Investment development**

The goal that the Authority seeks to achieve in the short term is to move towards building a modern investment model, compatible with the "smart sanctions" regime, which addresses the harmful side effects of the United Nations sanctions, currently imposed on the Authority's assets and subsidiaries. Thus, preserving and developing its assets in line with its objectives as being a sovereign wealth Fund, which was established for the benefit of Libya and its people. This model, in particular, will enable the reallocation of assets, that do not generate returns, into profitable investment instruments.



At this stage, the Authority's investments will be restructured and a unified investment policy will be developed for the Authority and its subsidiaries.

The results of the asset valuation will be the reference point in the classification of investments, which will be inserted in the investment policy and assets distribution. There shall be an analysis conducted on the investments, their risks and the feasibility of their continuity or otherwise, as well as an analysis of how compatible these investments are with the updated investment policy that LIA will adopt it. Likewise, a strategy of exiting (divestment) will be prepared from some useless investments and the merging of others according to the criteria of competition and diversification in terms of geographical location, risks and the sector invested in.

At this point, the Authority will be open to all options that free up its ability to invest in diversified and externally managed portfolios.

In order to make progress in this regard, The Authority will submit a proposal to create a (special investment mechanism), namely, a set of specific assets managed by an external<sup>1</sup> fiduciary manager as an approach for "Smart Sanctions." Regime.

The Authority, with the help of a reliable international investment advisor, will define the investment asset allocation strategy for the portfolio concerned with the special investment mechanism.

The role of the fiduciary manager will be to implement the investment operations of this portfolio in accordance with the agreed upon strategy, with the aim of achieving annual returns similar to those achieved by peer sovereign wealth Funds.

The source of funding for this portfolio will be from frozen non-performing cash assets that are negatively affected by the sanctions regime, after obtaining the necessary licenses thereof. There's a possibility of expanding, at a later stage to include other assets when the solution is proven to be safe and effective.

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<sup>1</sup> Fiduciary managers are considered among the best investment firms that provide investment expertise, talent, management support and fiduciary supervision of investments, and are licensed and regulated in their home countries.

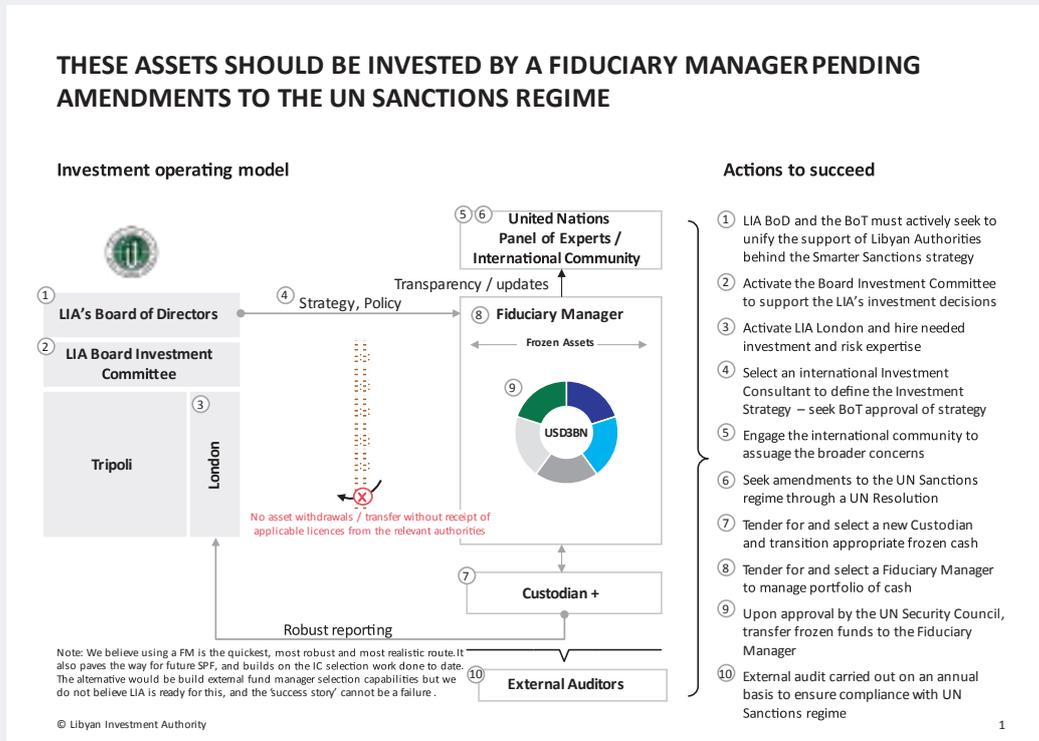


The process of applying for licenses will be subject to continuous review and scrutiny by reputable international law firms before submitting them to the competent authorities (local authorities in the country in which the Funds are invested and the UN Sanctions Committee).



The figure below shows a summary of the proposed operating model.

### Investment Operating Model for Frozen Asset Management



Parallel to the mobilization of support for the special investment mechanism and managing part of its frozen cash, the Authority should build on the momentum of the valuation work that has been conducted to begin defining the appropriate action plans for its illiquid assets. LIA must set clear expectations for itself and its subsidiaries with regard to the objectives of disposition of assets and timetables for the implementation of the asset plans, while each subsidiary is required to form a task force to lead and implement its asset planning process.

As a first step, the Authority will begin directing its subsidiaries to classify all its asset portfolios as either an investment portfolio, a legacy asset portfolio, i.e., non-performing assets, or assets that fall under the materiality threshold. Plans for inherited assets should focus on the most appropriate approach to liquidate these assets whereas portfolio plans include asset improvement shifts, liquidation or keeping assets if these assets generate considerable returns or exert additional due diligence to define the best workflow.

An investment committee shall be established consisting of members from the various subsidiaries of the Authority, chaired by the CEO of the Authority. This committee shall undertake three work tasks: (1) ensuring the compatibility and



harmonization of LIA investment strategies and its subsidiaries with the overall strategy of the Authority, (2) assisting in coordinating the asset planning process, (3) Ensuring the Authority's ability to monitor and supervise the investment decisions taken. It is expected that this committee will meet monthly or as needed to discuss progress made in asset planning, assessing developed asset plans, making major decisions on investments and divestitures as well as identifying measures to mitigate challenges faced by the subsidiaries, wherever appropriate, the Authority and its subsidiaries should begin implementing these asset plans to achieve returns.