Sovereign wealth funds as tool for responsible governance of resource wealth

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
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Sven Behrendt
Sovereign wealth funds: what are they?

**Formal definition**

Sovereign wealth funds (SWFs) are special purpose investment funds or arrangements, owned by general government.

SWFs hold, manage, or administer assets to achieve financial objectives, and employ a set of investment strategies which include investing in foreign financial assets.

SWFs are commonly established out of balance of payments surpluses, official foreign currency operations, the proceeds of privatization, fiscal surplus, and/or receipts resulting from commodity exports.
Global SWFs: assets under management

SWFs: Assets under management 2000-2014 in US$ trillion

0 0.5 1 1.5 2 2.5 3 3.5 4

2000 2007 2014
The world’s largest SWFs

World’s largest SWFs by assets under management in US-$

- Government Pension Fund Global (Norway)
- China Investment Corporation
- Abu Dhabi Investment Authority
- Kuwait Investment Authority
- GIC (Singapore)
- Qatar Investment Authority
- Temasek Holdings (Singapore)
- National Wealth and Reserve Funds (Russia)
- Future Fund (Australia)
- National Fund of the Rep. of Kazakhstan
- Korea Investment Corporation
- Libya Investment Authority
- Mubadala (UAE)
- Alaska Permanent Fund Corporation
- Khazanah Nasional (Malaysia)
- State Oil Fund of the Republic of Azerbaijan
- Pension Reserve and Economic and Soc. Stab. Funds
- New Zealand Superannuation Fund
- Alberta Heritage Savings Trust Fund
- Petroleum Fund of Timor-Leste
- Oman Investment Fund
- Nigeria Sovereign Investment Authority

*estimates

Assets under management (billion US$)
The world’s commodity based SWFs

![Bar chart showing the world's largest SWFs by assets under management in US$](chart)

- Government Pension Fund Global (Norway)
- China Investment Corporation
- Abu Dhabi Investment Authority*
- Kuwait Investment Authority*
- GIC (Singapore)*
- Qatar Investment Authority*
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* estimates

Assets under management (billion US$)
State Oil Fund of Azerbaijan: select data

GPFG asset asset growth: 2001-2012 (In USD million)

SOFAZ's assets as share of Azerbaijan's GDP (In percent)

SOFAZ: Asset allocation 2012

Investment portfolio: rate of return 2006-2012 (In percent)
Chile’s Economic and Social Stabilization Fund (ESSF) and Pension Reserve Fund (PRF)

ESSF/PRF market value (US$ millions) and global copper prices 2006-2012

ESSF and PRF assets as share of Chile’s GDP (in percent)

ESSF asset allocation 2012

PRF asset allocation 2012

ESSF/PRF net annual return 2007-2012 (in percent)
**Financial transparency** and corporate governance indicators (1/2)

<table>
<thead>
<tr>
<th>Category</th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of assets under management</td>
<td>How much money is stored in a fund?</td>
</tr>
<tr>
<td>Funding arrangements</td>
<td>Where does the money come from?</td>
</tr>
<tr>
<td>Withdrawal arrangements</td>
<td>Where does the money go to once it leaves the fund?</td>
</tr>
<tr>
<td>Investment policies</td>
<td>How are monies invested?</td>
</tr>
<tr>
<td>Performance benchmarks</td>
<td>How successfully are monies invested?</td>
</tr>
</tbody>
</table>
Financial transparency and **corporate governance** indicators (2/2)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal foundation</td>
<td>Does the fund have a proper legal foundation?</td>
</tr>
<tr>
<td>Objective</td>
<td>Is the objective of the fund clearly defined?</td>
</tr>
<tr>
<td>Role of the owner</td>
<td>Does government disclose performance expectations?</td>
</tr>
<tr>
<td>Capable supervisory bodies</td>
<td>Has the supervisory body the capacity and mandate to set investment strategies and supervise operational management?</td>
</tr>
<tr>
<td>Independent operational management</td>
<td>Does the operational management implement investment policies without government intervention?</td>
</tr>
<tr>
<td>Proper auditing</td>
<td>Is the fund properly audited?</td>
</tr>
</tbody>
</table>
Santiago Compliance Index: Ratings 2013

Santiago Compliance Index 2013, based on assessment period January – April 2013

- Norway - Government Pension Fund Global: 94%
- New Zealand - Superannuation Fund: 92%
- Australia - Future Fund: 90%
- Chile - ESF Stabilization Fund and Pension Reserve Fund: 86%
- US/Alaska - Alaska Permanent Fund: 83%
- Timor-Leste - Petroleum Fund: 81%
- Singapore - Temasek Holdings: 78%
- Canada - Alberta Heritage Savings Trust Fund: 77%
- Azerbaijan - State Oil Fund: 71%
- Singapore - GIC: 68%
- Trinidad and Tobago - Heritage and Stabilization Fund: 65%
- China - China Investment Corporation: 65%
- China: 63%
- Korea - Korea Investment Corporation: 61%
- United Arab Emirates - Abu Dhabi Investment Authority: 60%
- Kuwait - Kuwait Investment Authority: 59%
- Russia - National Wealth Fund and Reserve Fund: 57%
- Botswana - Pula Fund: 46%
- Mexico - Oil Revenues Stabilization Fund: 44%
- Qatar - Qatar Investment Authority: 39%
- Bahrain - Future Generations Reserve Fund: 24%
Operationalizing the principle of transparency in the governance of resources wealth and the example of SWFs.

Key lessons
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