

GLOBAL COMMODITIES FORUM

7-8 April 2014

**Sovereign wealth funds as tool for
responsible governance of resource wealth**

by

Mr. Sven Behrendt
Managing Director, GeoEconomica

The views expressed are those of the author and do not necessarily reflect the views of
UNCTAD.

UNCTAD
Global Commodities Forum 2014

Sovereign wealth funds as tool for
responsible governance of resource wealth

Sven Behrendt

Sovereign wealth funds: what are they?

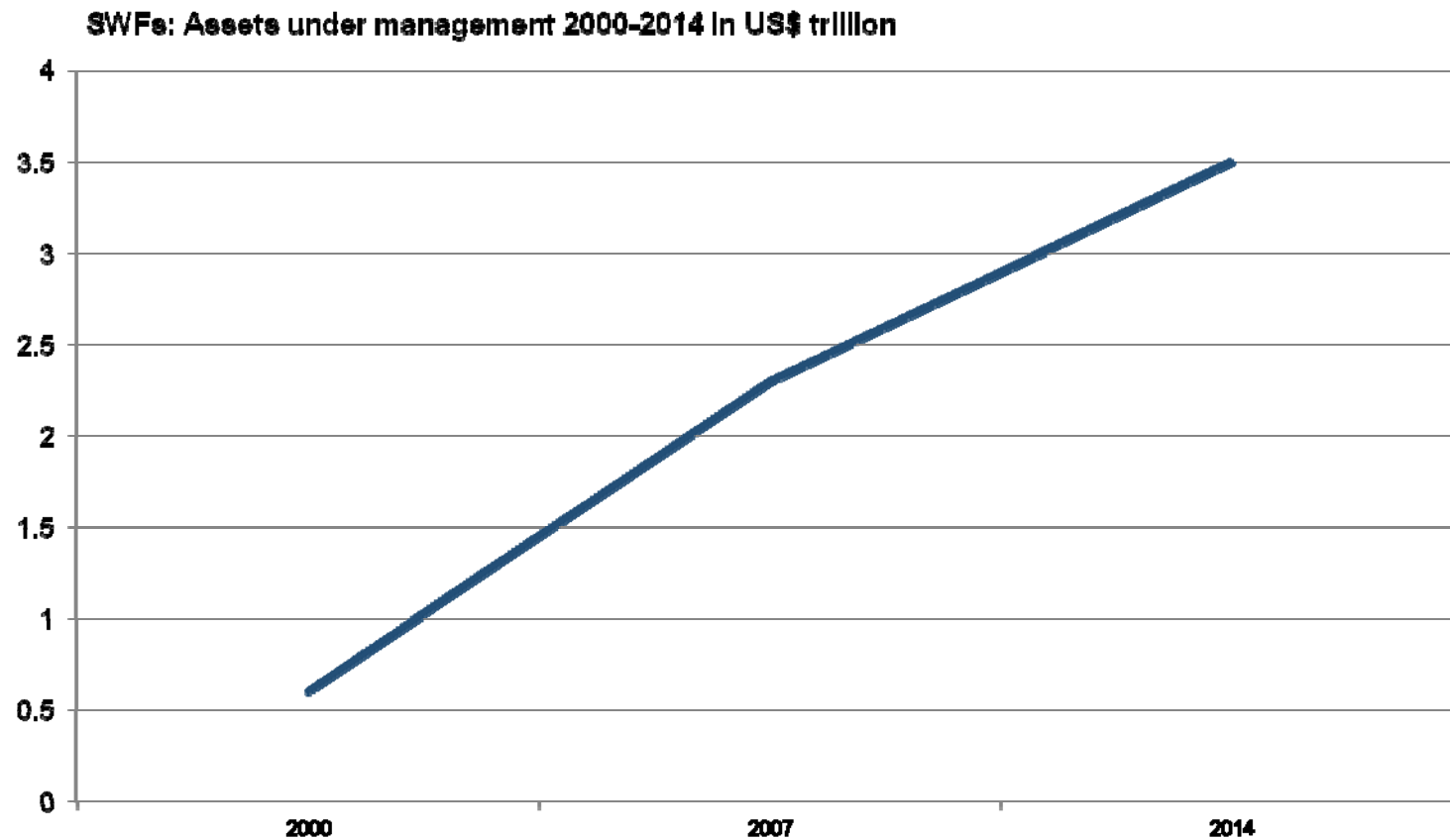
Formal definition

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.

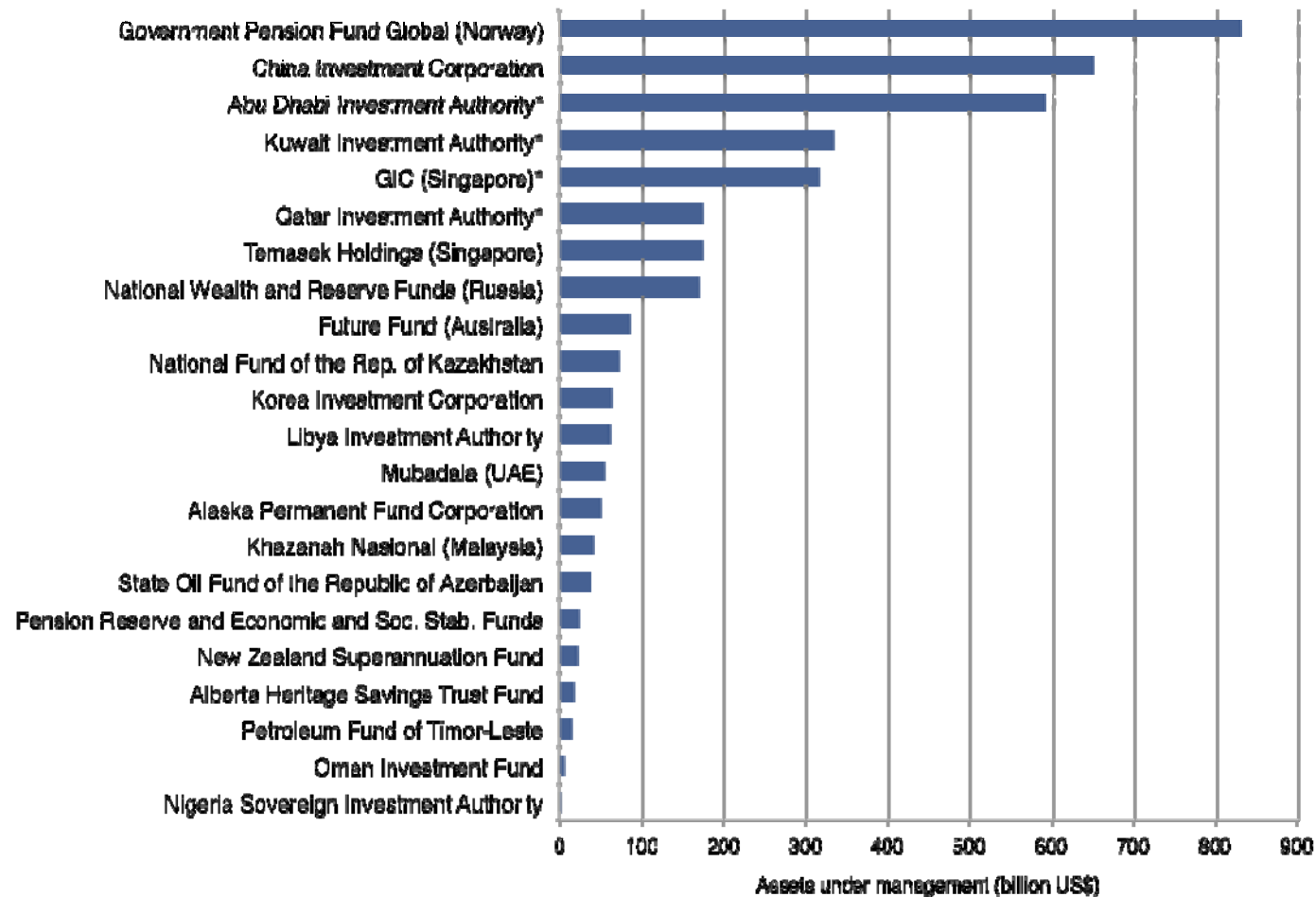
Global SWFs: assets under management



The world's largest SWFs

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

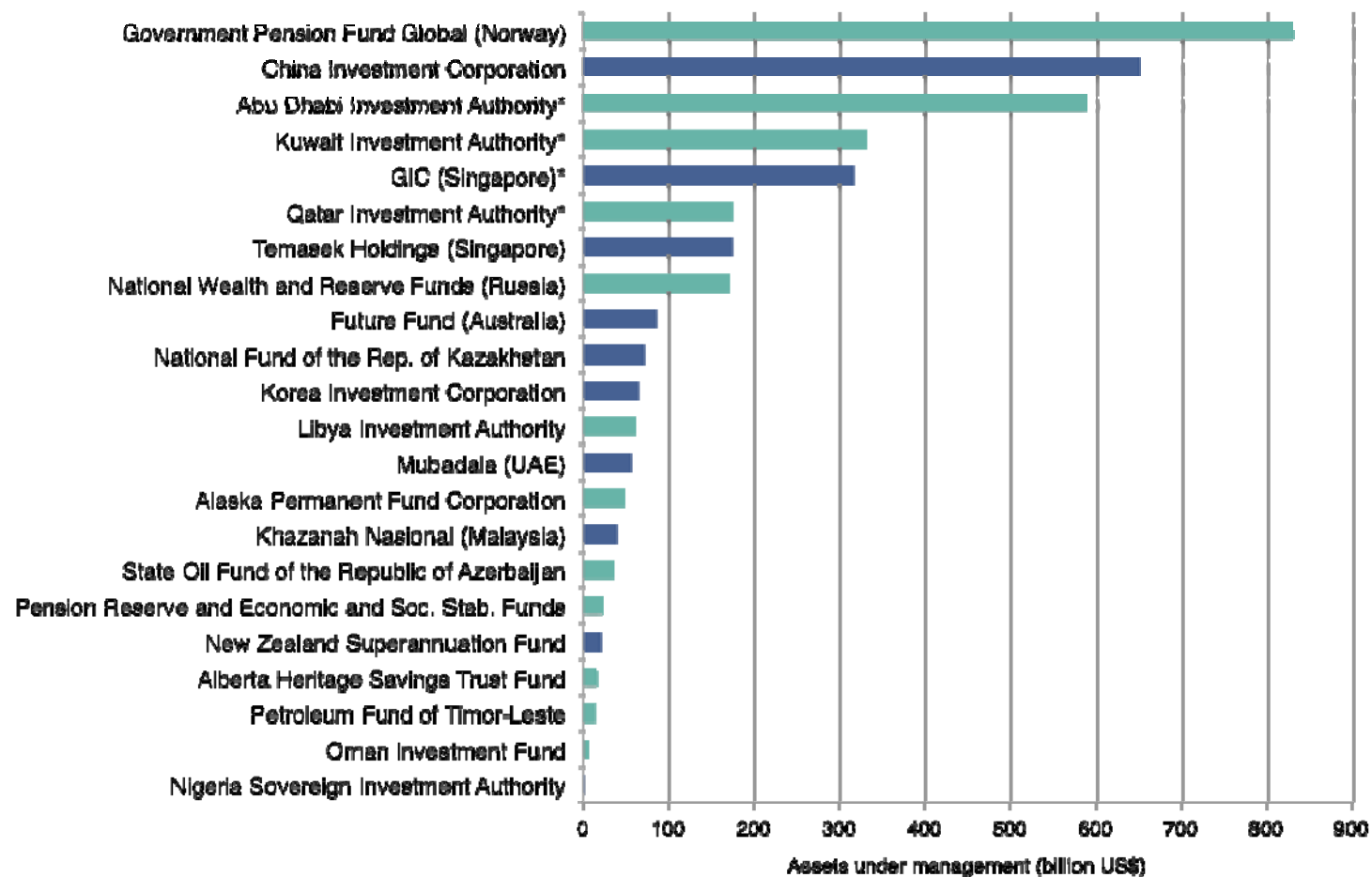
* estimates



The world's commodity based SWFs

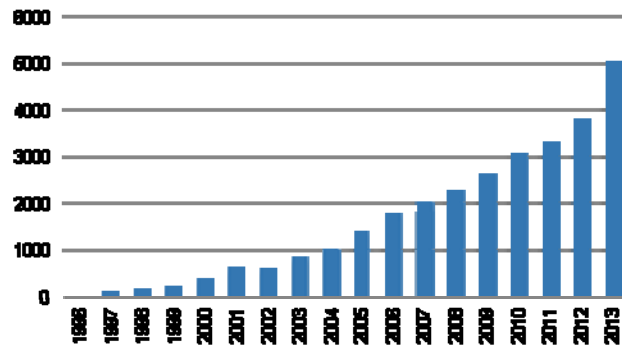
World's largest SWFs by assets under management in US-\$

* estimates

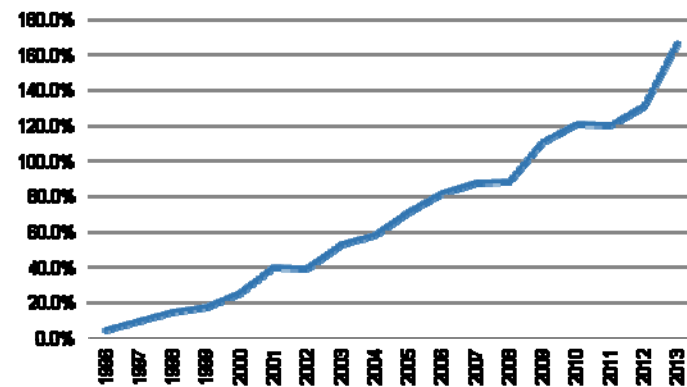


Government Pension Fund Global (Norway): select data

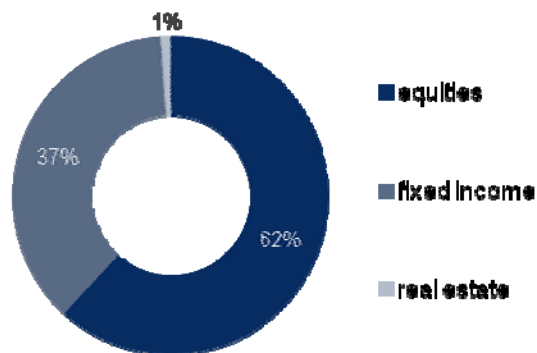
GPFG asset growth 2001-2012
(In NK billion)



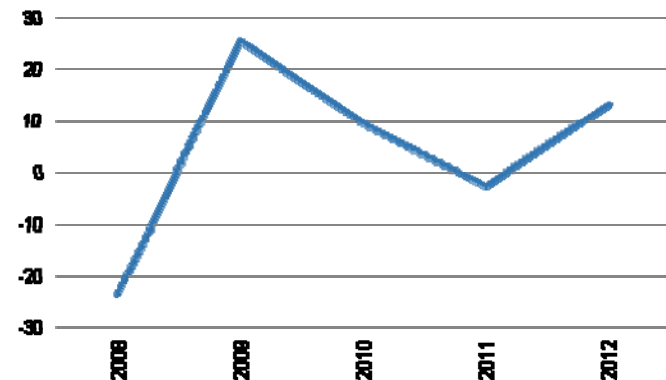
GPFG assets under management as percent of Norway's GDP



GPFG: asset allocation 2013

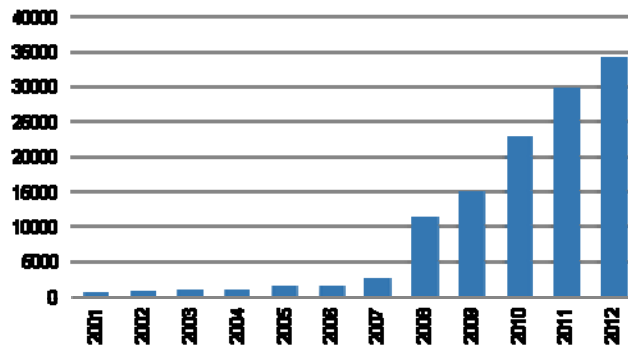


GPFG: returns 2008-2012

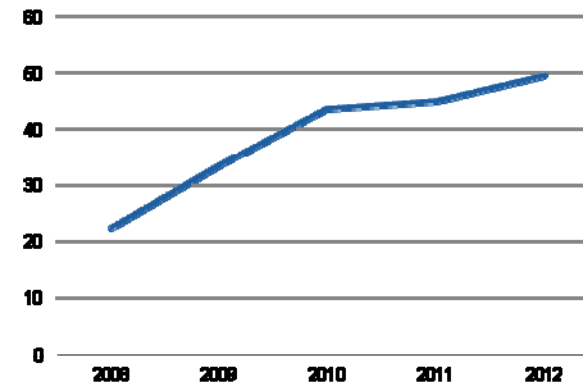


State Oil Fund of Azerbaijan: select data

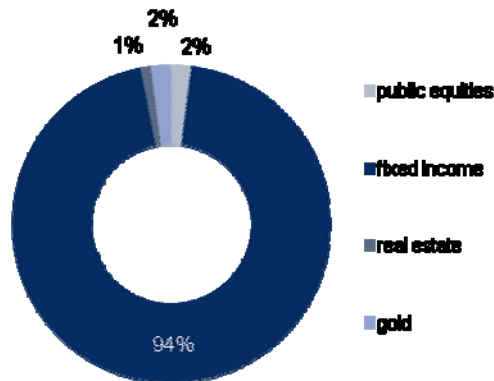
GPFG asset asset growth: 2001-2012
(In USD million)



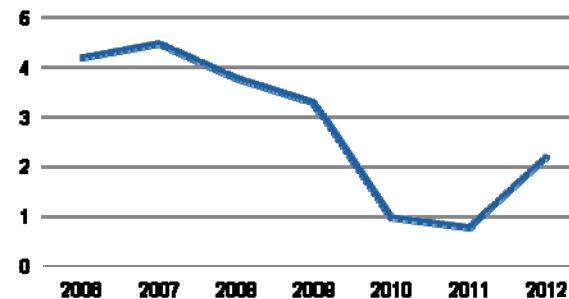
SOFAZ's assets as share of Azerbaijan's GDP (In percent)



SOFAZ: Asset allocation 2012

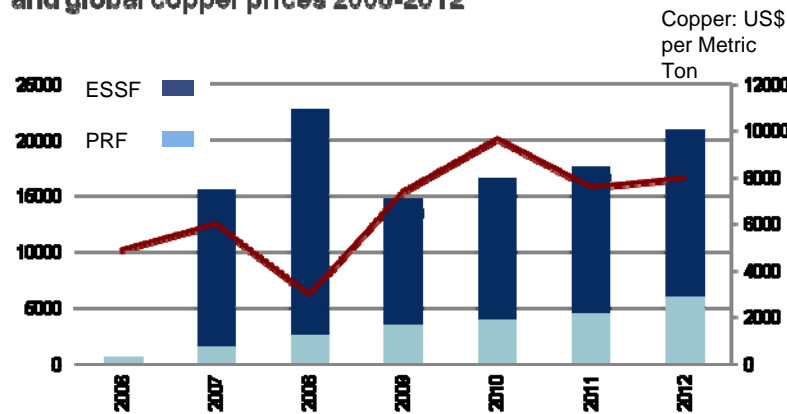


Investment portfolio: rate of return 2006-2012 (In percent)

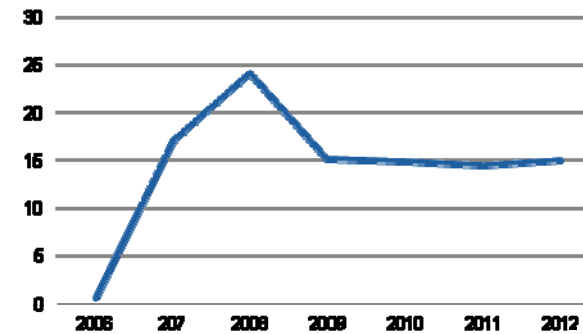


Chile's Economic and Social Stabilization Fund (ESSF) and Pension Reserve Fund (PRF)

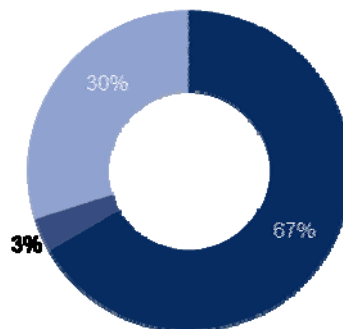
ESSF/PRF market value (US\$ millions) and global copper prices 2006-2012



ESSF and PRF assets as share of Chile's GDP (In percent)

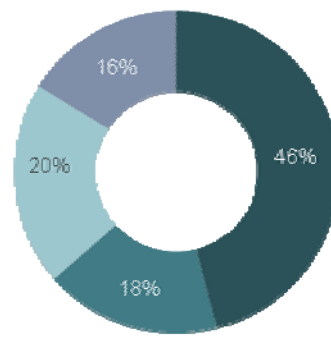


ESSF asset allocation 2012



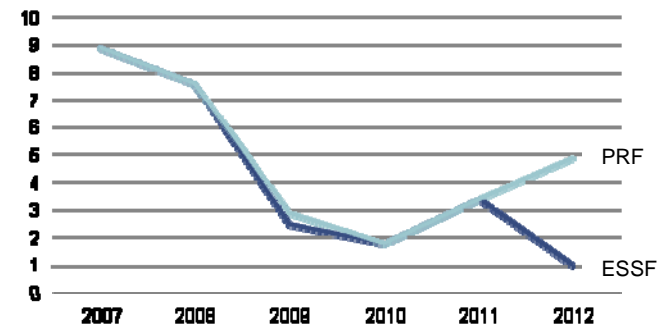
- sovereign bonds
- inflation indexed sovereign bonds
- money market

PRF asset allocation 2012



- sovereign and government related bonds
- inflation indexed sovereign bonds
- corporate bonds
- equities

ESSF/PRF net annual return 2007-2012 (In percent)



Financial transparency and corporate governance indicators (1/2)

Size of assets under management

How much money is stored in a fund?

Funding arrangements

Where does the money come from?

Withdrawal arrangements

Where does the money go to once it leaves the fund?

Investment policies

How are monies invested?

Performance benchmarks

How successfully are monies invested?

Financial transparency and **corporate governance** indicators (2/2)

Legal foundation

Does the fund have a proper legal foundation?

Objective

Is the objective of the fund clearly defined?

Role of the owner

Does government disclose performance expectations?

Capable supervisory bodies

Has the supervisory body the capacity and mandate to set investment strategies and supervise operational management?

Independent operational management

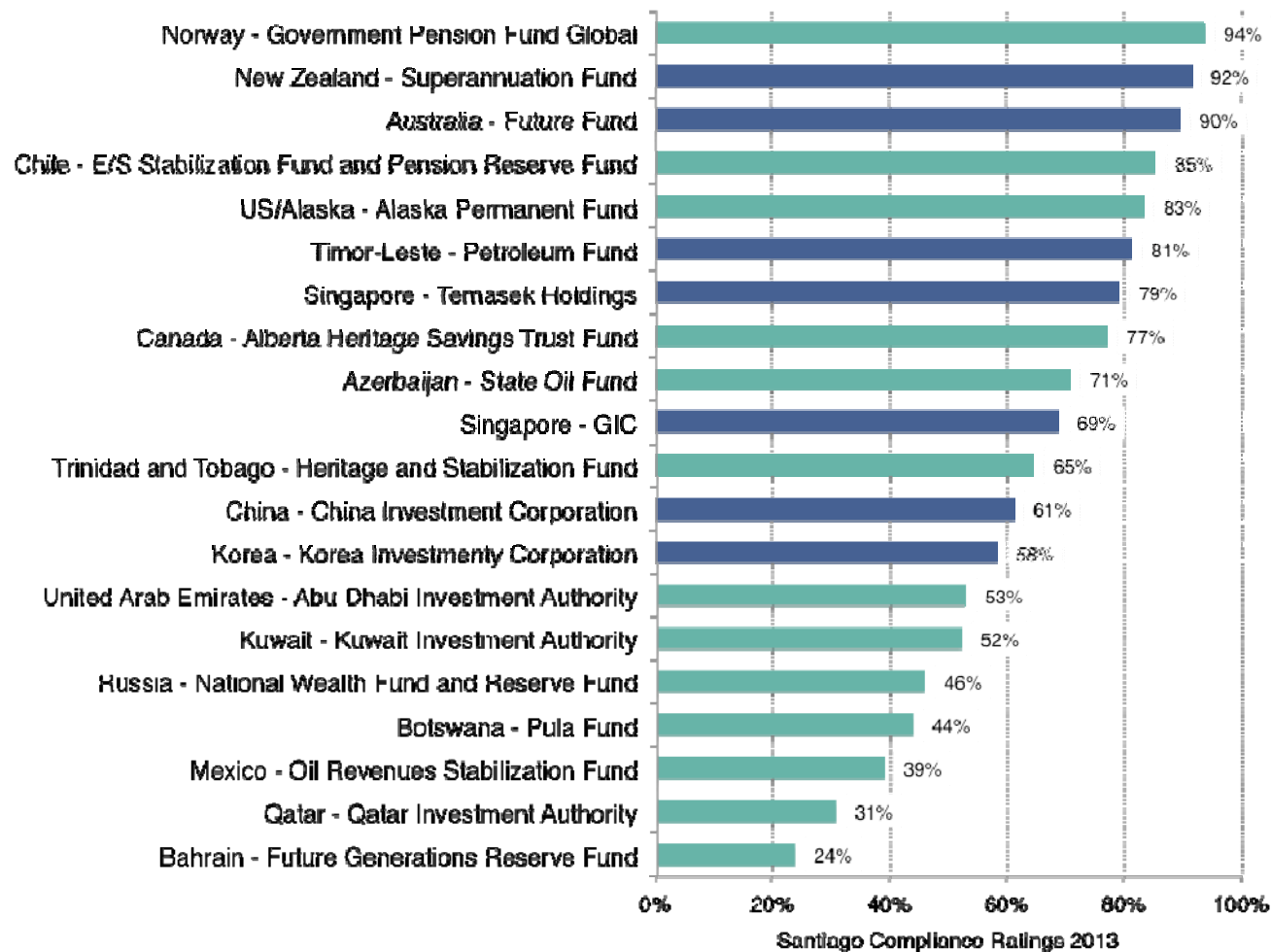
Does the operational management implement investment policies without government intervention?

Proper auditing

Is the fund properly audited?

Santiago Compliance Index: Ratings 2013

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



Operationalizing the principle of transparency in the governance of resources wealth and the example of SWFs.

Key lessons

GeoEconomica

Contact: 4, Air Park • Chemin des Papillons
1216 Cointrin/Geneva (CH)

Telephone: +41 (0) 22 341 4778
sven.behrendt@geoeconomica.com