Sovereign wealth funds: managing windfall revenues

by

Mr. Sven Behrendt
Managing Director of GeoEconomica

The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
UNCTAD
Multi-Year Expert Meeting on Commodities and Development

Sovereign wealth funds: managing windfall revenues

Sven Behrendt

Sources: Sources used for the entire presentation include most recent annual reports, legal documents, and GeoEconomica proprietary data.
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
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
The world’s commodity based 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
Government Pension Fund Global (Norway): select data

GPFG asset growth 2001-2012
(in NK billion)

GPFG: asset allocation 2013

GPFG assets under management as percent of Norway's GDP

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

- 67% sovereign bonds
- 30% inflation indexed sovereign bonds
- 3% money market

PRF asset allocation 2012

- 46% corporate bonds
- 18% sovereign and government related bonds
- 16% inflation indexed sovereign bonds
- 20% equities

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>
<tr>
<td>Financial transparency and <strong>corporate governance</strong> indicators (2/2)</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td><strong>Legal foundation</strong></td>
<td></td>
</tr>
<tr>
<td>Does the fund have a proper legal foundation?</td>
<td></td>
</tr>
<tr>
<td><strong>Objective</strong></td>
<td></td>
</tr>
<tr>
<td>Is the objective of the fund clearly defined?</td>
<td></td>
</tr>
<tr>
<td><strong>Role of the owner</strong></td>
<td></td>
</tr>
<tr>
<td>Does government disclose performance expectations?</td>
<td></td>
</tr>
<tr>
<td><strong>Capable supervisory bodies</strong></td>
<td></td>
</tr>
<tr>
<td>Has the supervisory body the capacity and mandate to set investment strategies and supervise operational management?</td>
<td></td>
</tr>
<tr>
<td><strong>Independent operational management</strong></td>
<td></td>
</tr>
<tr>
<td>Does the operational management implement investment policies without government intervention?</td>
<td></td>
</tr>
<tr>
<td><strong>Proper auditing</strong></td>
<td></td>
</tr>
<tr>
<td>Is the fund properly audited?</td>
<td></td>
</tr>
</tbody>
</table>
SWFs: Managing windfall revenues towards a structural transformation.

Key lessons
GeoEconomica

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

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