SHIFTING THE WEALTH OF NATIONS:
THE ROLE OF SOVEREIGN WEALTH FUNDS

Alberto Quadrio Curzio
Università Cattolica and Centre for Economic Research (CRANEC)
Accademia Nazionale dei Lincei

Valeria Miceli
Università Cattolica and Centre for Economic Research (CRANEC)
Centre for Financial Analysis & Policy, University of Cambridge

Rome, 17 June 2010

Le slide che seguono sono state presentate al Convegno del Long Term Investors Club del 17 giugno 2010 e sono state pubblicate sul sito della Cassa Depositi e Prestiti.
CONTENTS

- AN OVERVIEW ON SOVEREIGN WEALTH FUNDS (SWFs)
- NEW TRENDS IN SWF’S INVESTMENT BEHAVIOUR
- THE EU AND THE US CONFRONTED WITH SWFs
- A MULTILATERAL FRAMEWORK: IMF AND OECD
- CONCLUSIONS
<table>
<thead>
<tr>
<th>CONTENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>➢ AN OVERVIEW ON SOVEREIGN WEALTH FUNDS (SWFs)</td>
</tr>
<tr>
<td>➢ NEW TRENDS IN SWF’S INVESTMENT BEHAVIOUR</td>
</tr>
<tr>
<td>➢ THE EU AND THE US CONFRONTED WITH SWFs</td>
</tr>
<tr>
<td>➢ A MULTILATERAL FRAMEWORK: IMF AND OECD</td>
</tr>
<tr>
<td>➢ CONCLUSIONS</td>
</tr>
</tbody>
</table>
Total foreign exchange holdings in US$ billion (1995-third quarter 2009)

Source: Quadrio Curzio, Miceli, 2010, “SOVEREIGN WEALTH FUNDS. A complete guide to state-owned investment funds”, Harriman House, Petersfield, UK
What are sovereign wealth funds (SWFs)

SWFs are a non-homogeneous category of financial actors. They share some common characteristics:

- Owned by a sovereign state
- Investments denominated in foreign currency
- Separate from central banks' official reserves
- Search for yields above the risk-free rate
- Absence of short-term withdrawals
- Long-term horizons
© 2021 MANN+HUMMEL International GmbH

SWF’s significant numbers

- 53 SWFs in the world
- Total assets: 3.2 – 3.8 trillion US$ at mid-2009
- Commodity vs non-commodity funds

Source: Quadrio Curzio, Miceli, 2010, “SOVEREIGN WEALTH FUNDS. A complete guide to state-owned investment funds”, Harriman House, Petersfield, UK
### SWF’s: a possible league table

First 15 SFWs in order of asset size (end-2008 – mid 2009)

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>NAME</th>
<th>ASSETS (US$ billion)</th>
<th>Year</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE</td>
<td>Abu Dhabi Investment Authority (ADIA)</td>
<td>282 – 627</td>
<td>1976</td>
<td>Commodity</td>
</tr>
<tr>
<td>Norway</td>
<td>Norwegian Government Pension Fund</td>
<td>431*</td>
<td>1990</td>
<td>Commodity</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Various funds belonging to Saudi Arabian Monetary Agency (SAMA)</td>
<td>365</td>
<td>-</td>
<td>Commodity</td>
</tr>
<tr>
<td>China</td>
<td>SAFE Investment Company</td>
<td>300</td>
<td>1997</td>
<td>Non-Commodity</td>
</tr>
<tr>
<td>China</td>
<td>China Investment Corporation</td>
<td>298</td>
<td>2007</td>
<td>Non-Commodity</td>
</tr>
<tr>
<td>Singapore</td>
<td>Government Investment Corporation-GIC</td>
<td>180-248</td>
<td>1981</td>
<td>Non-Commodity</td>
</tr>
<tr>
<td>Kuwait</td>
<td>Kuwait Investment Authority - KIA</td>
<td>169-228</td>
<td>1953</td>
<td>Commodity</td>
</tr>
<tr>
<td>China-Hong Kong</td>
<td>Hong Kong Monetary Authority – Investment Portfolio</td>
<td>140</td>
<td>1998</td>
<td>Non-Commodity</td>
</tr>
<tr>
<td>Singapore</td>
<td>Temasek Holdings</td>
<td>119</td>
<td>1974</td>
<td>Non-Commodity</td>
</tr>
<tr>
<td>China</td>
<td>National Social Security Fund</td>
<td>114**</td>
<td>2000</td>
<td>Non-Commodity</td>
</tr>
<tr>
<td>Russia</td>
<td>National Wealth Fund (NWF)</td>
<td>93**</td>
<td>2008</td>
<td>Commodity</td>
</tr>
<tr>
<td>Russia</td>
<td>Reserve Fund (RF)</td>
<td>75**</td>
<td>2008</td>
<td>Commodity</td>
</tr>
<tr>
<td>Libya</td>
<td>Libyan Investment Authority (LIA)</td>
<td>65-70</td>
<td>2006</td>
<td>Commodity</td>
</tr>
<tr>
<td>Qatar</td>
<td>Qatar Investment Authority (QIA)</td>
<td>58-65</td>
<td>2005</td>
<td>Commodity</td>
</tr>
<tr>
<td>Australia</td>
<td>Australian Government Future Fund (AGFF)</td>
<td>59*</td>
<td>2006</td>
<td>Non-Commodity</td>
</tr>
</tbody>
</table>

*Q3 – 2009; ** end-2009

**Source:** Quadrio Curzio, Miceli, 2010, “SOVEREIGN WEALTH FUNDS. A complete guide to state-owned investment funds”, Harriman House, Petersfield, UK
SWF’s geographic origin

- Middle East 35%, 1.23 US$ trillion
- Asia 37%, 1.3 US$ trillion
- Europe 19%, 678 US$ bn
- North America 2%
- Africa 4%
- Latin America 1%
- Oceania 2%
- Others: 9%, 303 US$ bn

Source: Quadrio Curzio, Miceli, 2010, “SOVEREIGN WEALTH FUNDS. A complete guide to state-owned investment funds”, Harriman House, Petersfield, UK
Geographical destination of SWFs’ investments

Cumulated value: 1995 - June 2009 (US$ billion and % of total)

Source: Kern, 2009, Deutsche Bank Research on data Dealogic
CONTENTS

- AN OVERVIEW ON SOVEREIGN WEALTH FUNDS (SWFs)
- NEW TRENDS IN SWF’S INVESTMENT BEHAVIOUR
- THE EU AND THE US CONFRONTED WITH SWFs
- A MULTILATERAL FRAMEWORK: IMF AND OECD
- CONCLUSIONS
New trends in SWFs’ investment behaviour

Number and value of deals (US$ billion)

New trends in SWFs’ investment behaviour
By target sector (US$ billion)

CONTENTS

- AN OVERVIEW ON SOVEREIGN WEALTH FUNDS (SWFs)
- NEW TRENDS IN SWF’S INVESTMENT BEHAVIOUR
- THE EU AND THE US CONFRONTED WITH SWFs
- A MULTILATERAL FRAMEWORK: IMF AND OECD
- CONCLUSIONS
The EU and the US confronted with SWFs

- **EU: a variety of options**
  - **France**: legislation to protect public order, public safety and national defence lives together with an open attitude toward FDI
  - **Germany**: legislation to protect national security and public order
  - **Italy**: open attitude
  - **UK**: liberal approach


- **The United States: from concern to reaction. October 2007: FINSA updated CFIUS competences.**

- How far the trade-off between national security and the opportunity to draw long term capitals has been appropriately addressed through the mentioned interventions?
CONTENTS

- AN OVERVIEW ON SOVEREIGN WEALTH FUNDS (SWFs)
- NEW TRENDS IN SWF’S INVESTMENT BEHAVIOUR
- THE EU AND THE US CONFRONTED WITH SWFs
- A MULTILATERAL FRAMEWORK: IMF AND OECD
- CONCLUSIONS
<table>
<thead>
<tr>
<th>1. Sound legal framework</th>
<th>13. Professional and ethical standards clearly defined and publicised</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Policy purpose clearly defined and publicly disclosed</td>
<td>14. Dealing with third parties based on economic and financial grounds</td>
</tr>
<tr>
<td>3. Coordination with domestic fiscal and monetary authority</td>
<td>15. Compliance with all applicable regulatory and disclosure requirements of the hosting countries</td>
</tr>
<tr>
<td>4. Clear and disclosed policies for funding, withdrawal and spending operations</td>
<td>16. Public disclosure of governance framework and objectives</td>
</tr>
<tr>
<td>5. Statistical data provided for macroeconomic datasets</td>
<td>17. Relevant financial information publicly disclosed</td>
</tr>
<tr>
<td>6. Sound governance framework to guarantee operational independence</td>
<td>18. Investment policy based on sound portfolio management principles</td>
</tr>
<tr>
<td>7. Role of the ownership</td>
<td>19. Investment decisions aiming to maximise risk-adjusted financial returns</td>
</tr>
<tr>
<td>8. Role of governing body</td>
<td>20. No exploitation of advantages due to government privileges</td>
</tr>
<tr>
<td>10. Accountability framework clearly defined</td>
<td>22. Framework for risk management</td>
</tr>
<tr>
<td>11. Annual report in accordance with recognised international or national accounting standards</td>
<td>23. Assets and investment performances measured and reported to the owner</td>
</tr>
<tr>
<td>12. Annual auditing in accordance with recognised international or national auditing standards</td>
<td>24. Regular review and monitoring of GAPP implementation</td>
</tr>
</tbody>
</table>
The OECD guidelines for recipient countries

- non-discrimination of foreign investors versus domestic investors
- transparency of procedures/regulations limiting foreign investment
- progressive liberalisation of restrictions on capital movement
- commitment not to introduce new restrictions
- unilateral liberalisation not conditioned on the principle of reciprocity

OECD recognizes the legitimacy of concerns about national security albeit mitigated by the compliance with some principles
CONTENTS

- AN OVERVIEW ON SOVEREIGN WEALTH FUNDS (SWFs)
- NEW TRENDS IN SWF’S INVESTMENT BEHAVIOUR
- THE EU AND THE US CONFRONTED WITH SWFs
- A MULTILATERAL FRAMEWORK: IMF AND OECD
- CONCLUSIONS
CONCLUSIONS

- SWFs are significant investors...
- ...increasingly willing to assume the role of responsible actors in financial markets.
- They may contribute to re-allocate vast amounts of money toward long-term investments...
- ...therefore, as far as they comply with shared principles, they can be considered important partners of long-term investors.
“SOVEREIGN WEALTH FUNDS
A complete guide to state-owned investment funds”
by Alberto Quadrio Curzio and Valeria Miceli - 2010