

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

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Rome, 17 June 2010

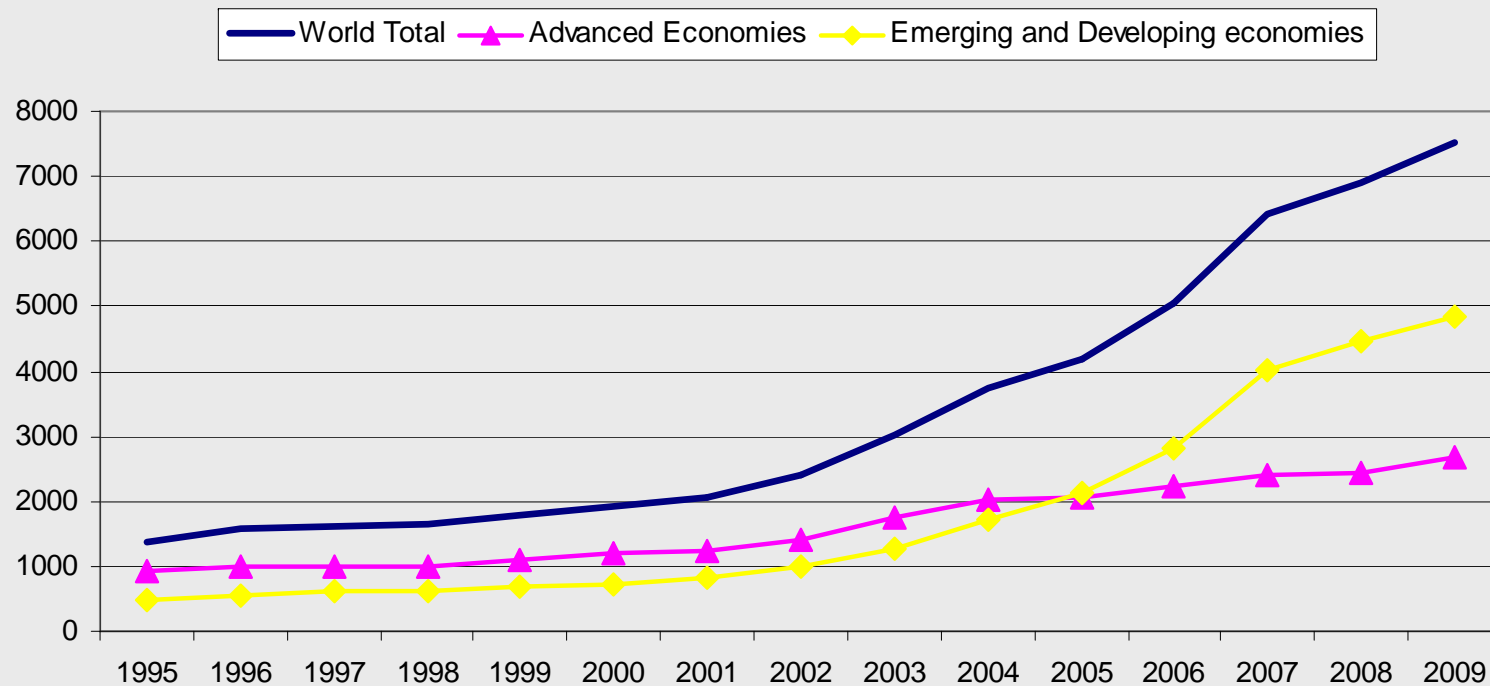
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- ***AN OVERVIEW ON SOVEREIGN WEALTH FUNDS (SWFs)***
- ***NEW TRENDS IN SWF'S INVESTMENT BEHAVIOUR***
- ***THE EU AND THE US CONFRONTED WITH SWFs***
- ***A MULTILATERAL FRAMEWORK: IMF AND OECD***
- ***CONCLUSIONS***

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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)

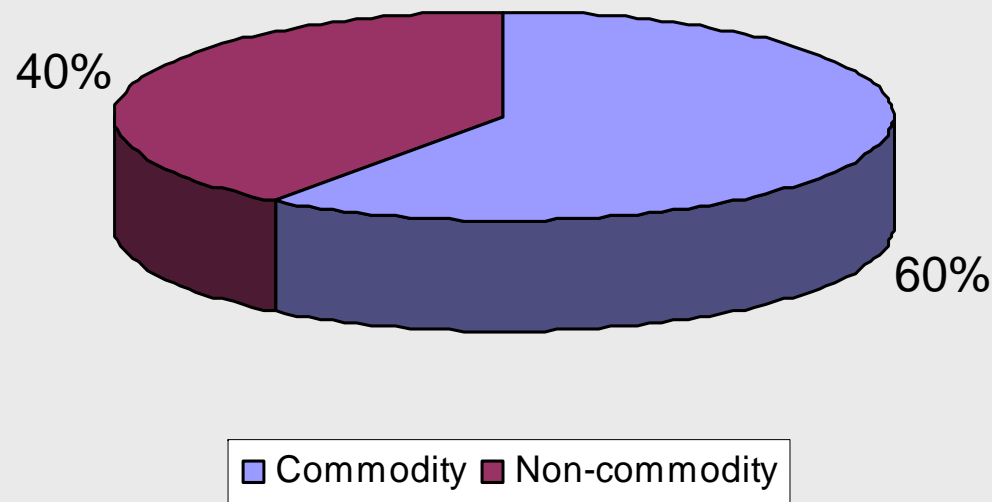
SWFs are a non-homogeneous category of financial actors.

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***

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)

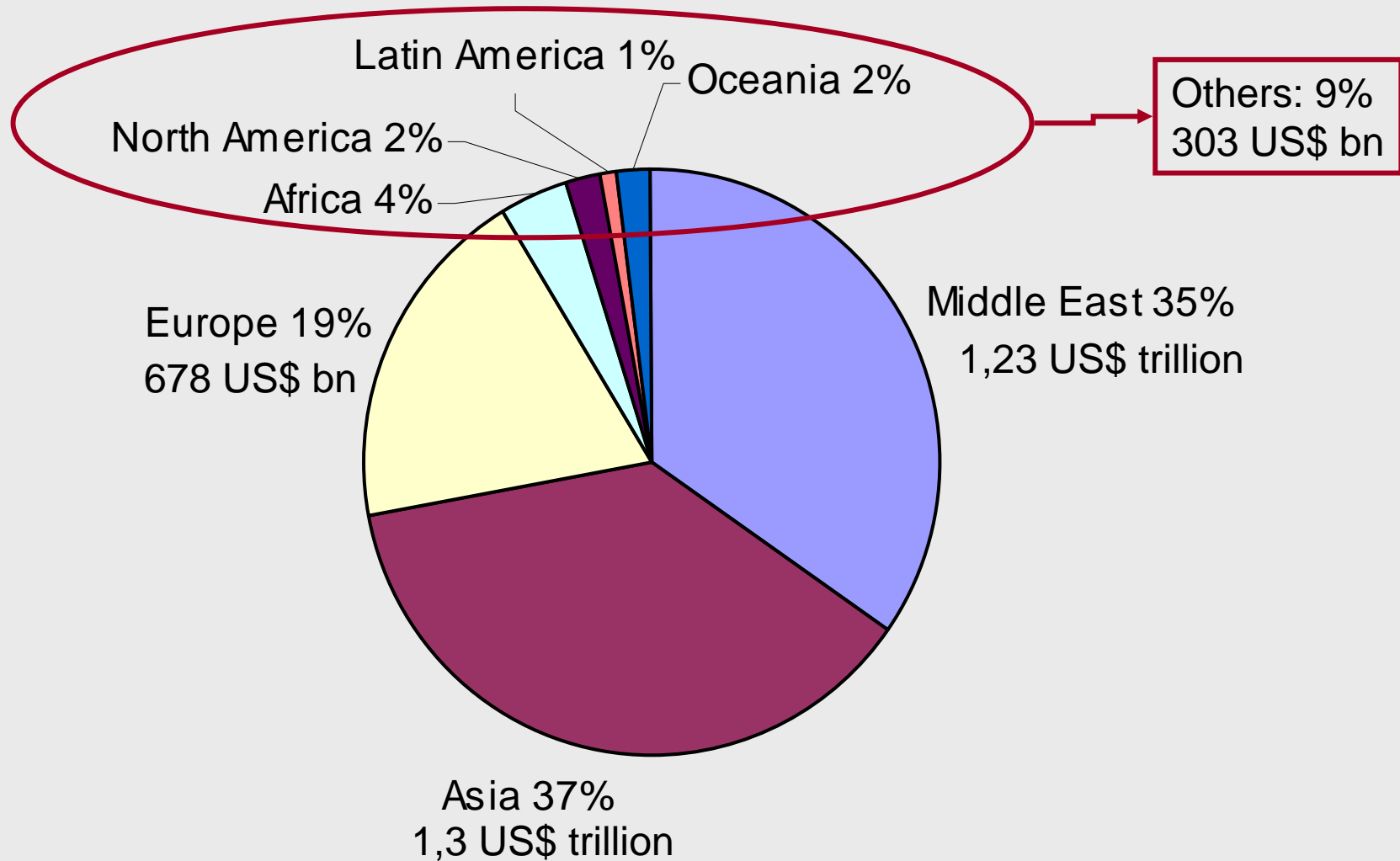
<i>COUNTRY</i>	<i>NAME</i>	<i>ASSETS (US\$ billion)</i>	<i>Year</i>	<i>Type</i>
UAE	Abu Dhabi Investment Authority (ADIA)	282 – 627	1976	Commodity
Norway	Norwegian Government Pension Fund	431*	1990	Commodity
Saudi Arabia	Various funds belonging to Saudi Arabian Monetary Agency (SAMA)	365	-	Commodity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

*Q3 – 2009;

** end-2009

Source: Quadrio Curzio, Miceli, 2010, "SOVEREIGN WEALTH FUNDS. A complete guide to state-owned investment funds", Harriman House, Petersfield, UK

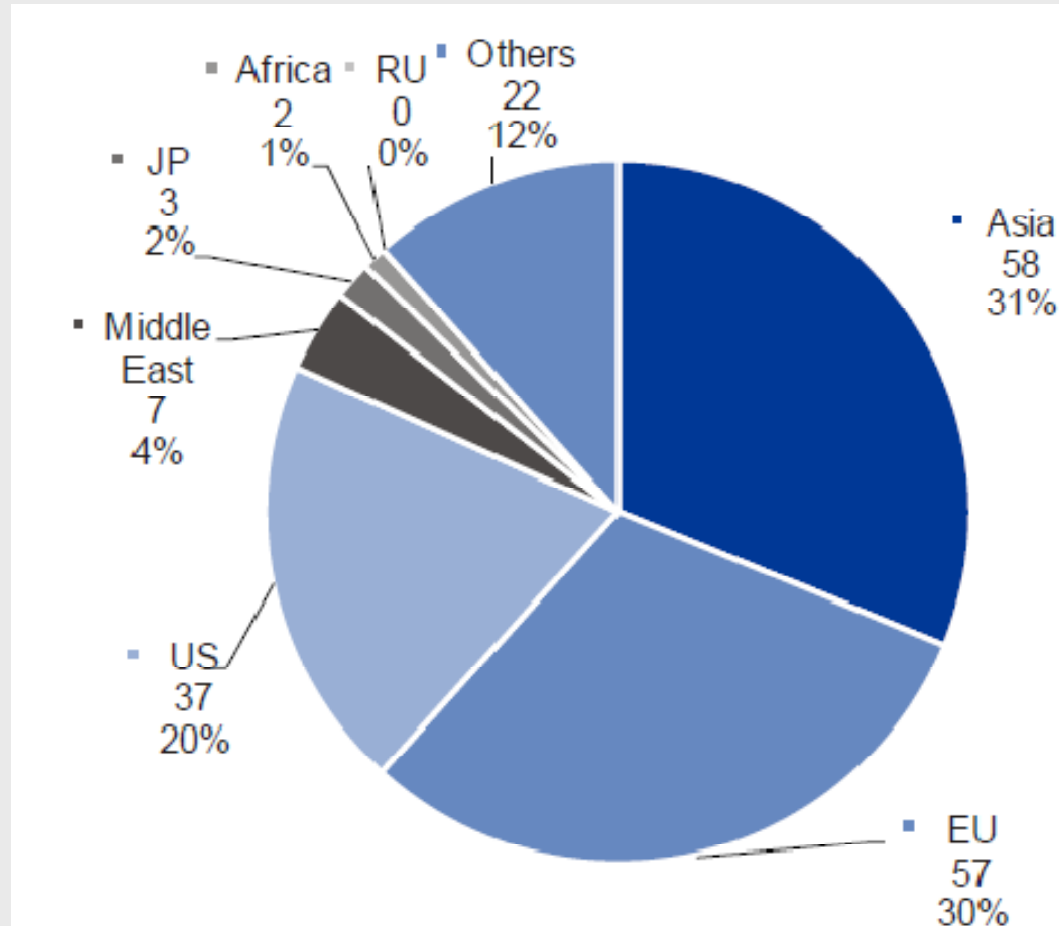
SWF's geographic origin



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

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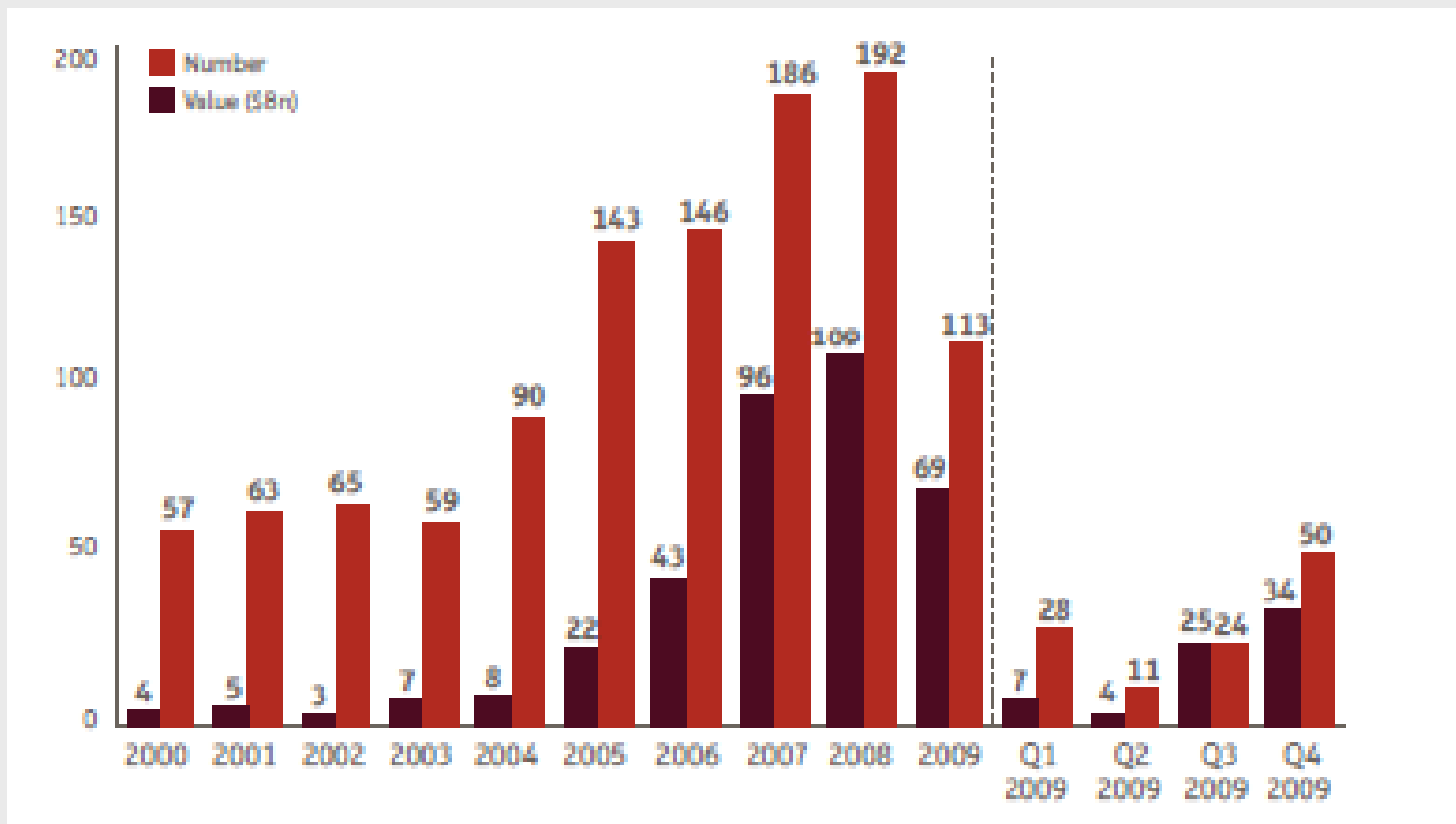
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New trends in SWFs' investment behaviour

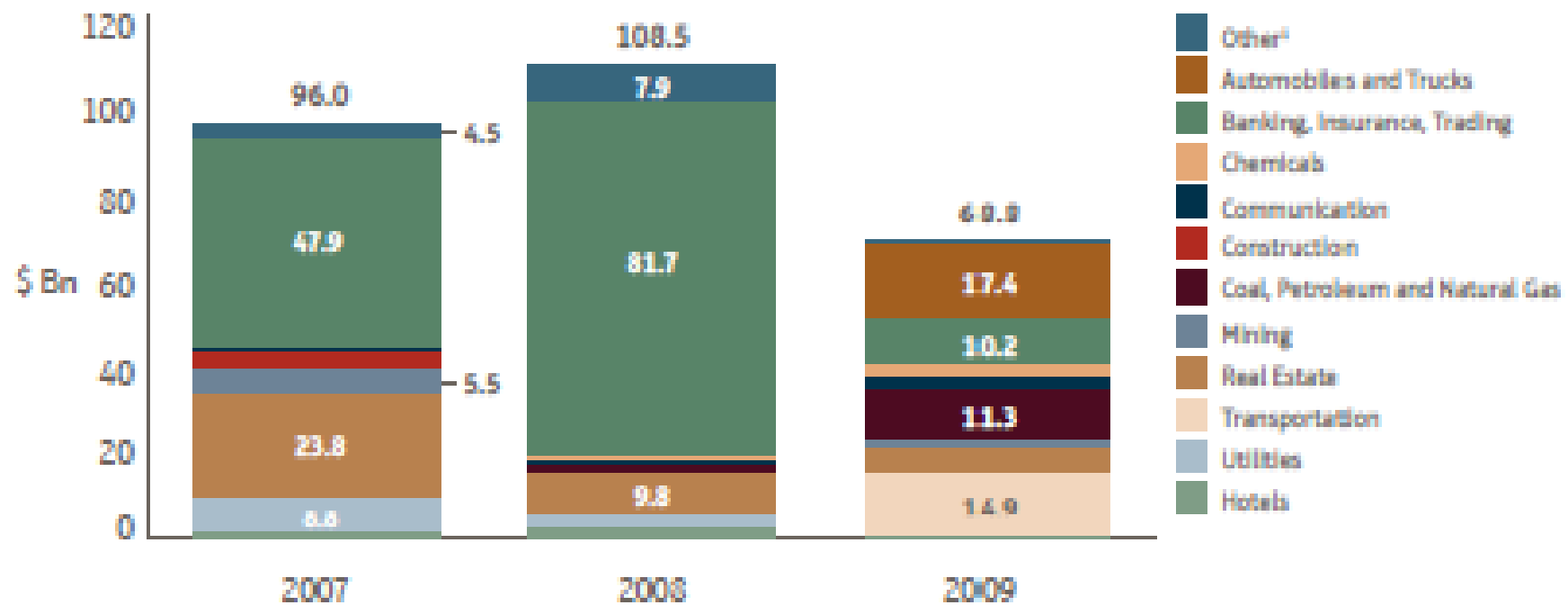
Number and value of deals (US\$ billion)



Source: Miracky and Bortolotti, 2010, "Back on Course. SWFs activity in 2009", Monitor Group and FEEM

New trends in SWFs' investment behaviour

By target sector (US\$ billion)



Source: Miracky and Bortolotti, 2010, "Back on Course. SWFs activity in 2009", Monitor Group and FEEM

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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***

➤ *EU Commission: memorandum N° 115/2008: 'A common European approach to Sovereign Wealth Funds'*

➤ *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?*

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The “Santiago Principles”

24 Generally Accepted Principles and Practices (GAPP)

- | | |
|---|---|
| 1. Sound legal framework | 13. Professional and ethical standards clearly defined and publicised |
| 2. Policy purpose clearly defined and publicly disclosed | 14. Dealing with third parties based on economic and financial grounds |
| 3. Coordination with domestic fiscal and monetary authority | 15. Compliance with all applicable regulatory and disclosure requirements of the hosting countries |
| 4. Clear and disclosed policies for funding, withdrawal and spending operations | 16. Public disclosure of governance framework and objectives |
| 5. Statistical data provided for macroeconomic datasets | 17. Relevant financial information publicly disclosed |
| 6. Sound governance framework to guarantee operational independence | 18. Investment policy based on sound portfolio management principles |
| 7. Role of the ownership | 19. Investment decisions aiming to maximise risk-adjusted financial returns |
| 8. Role of governing body | 20. No exploitation of advantages due to government privileges |
| 9. Role of operational management | 21. Exercise of ownership rights |
| 10. Accountability framework clearly defined | 22. Framework for risk management |
| 11. Annual report in accordance with recognised international or national accounting standards | 23. Assets and investment performances measured and reported to the owner |
| 12. Annual auditing in accordance with recognised international or national auditing standards | 24. Regular review and monitoring of GAPP implementation |

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

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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

