

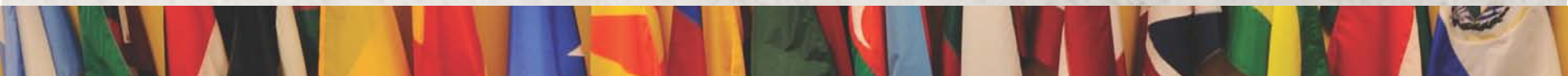
Sovereign Wealth Funds Public Policy and Asset Allocation After the Financial Crisis

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OUTLINE

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- II. The Fletcher School's Sovereign Wealth Fund Initiative (SWFI)**
- III. Asset Allocation Diversifies Beyond Traditional Geography and Asset Classes**
- IV. Socio-Political Risks Faced by SWFs**
- V. Preferred Approaches by SWFs to Recipient Country Discriminatory Practices**
- VI. Identification and Development of Context-Appropriate Levels of Transparency and Accountability**

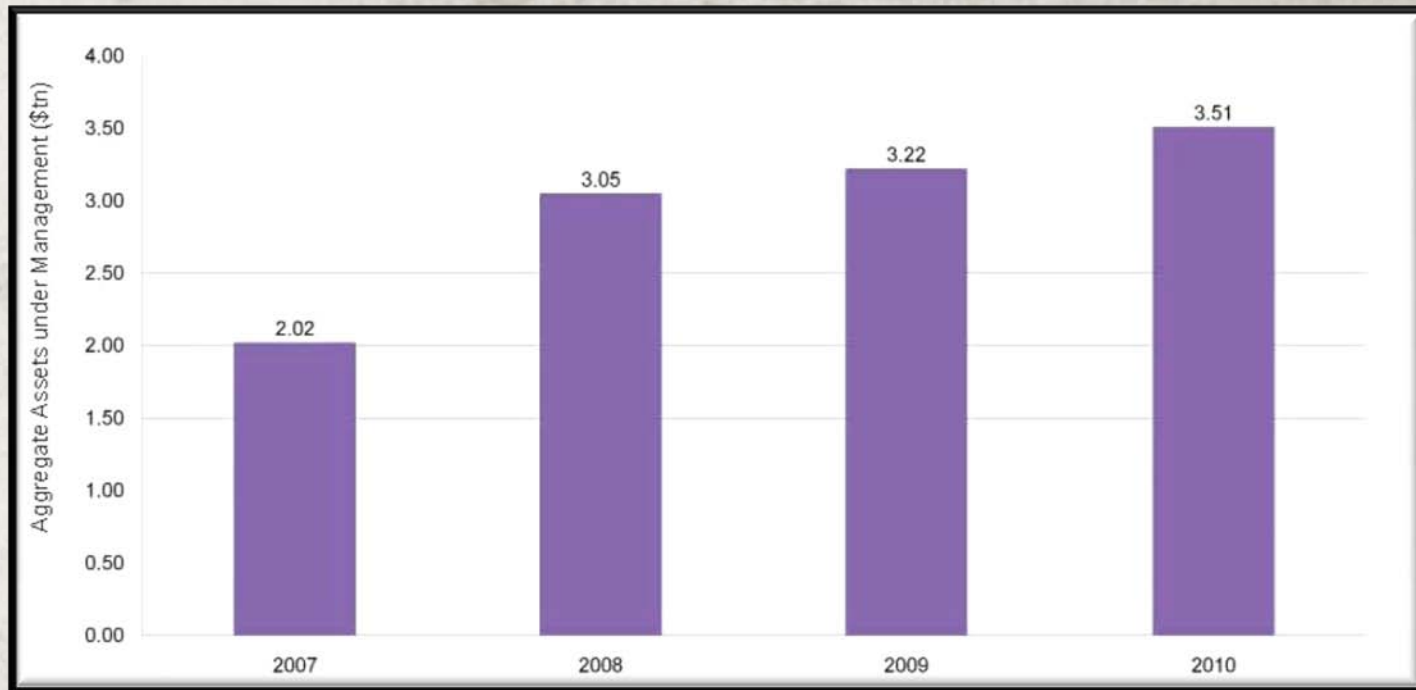


I. Relevance of Sovereign Wealth Funds : Factors Driving Growth

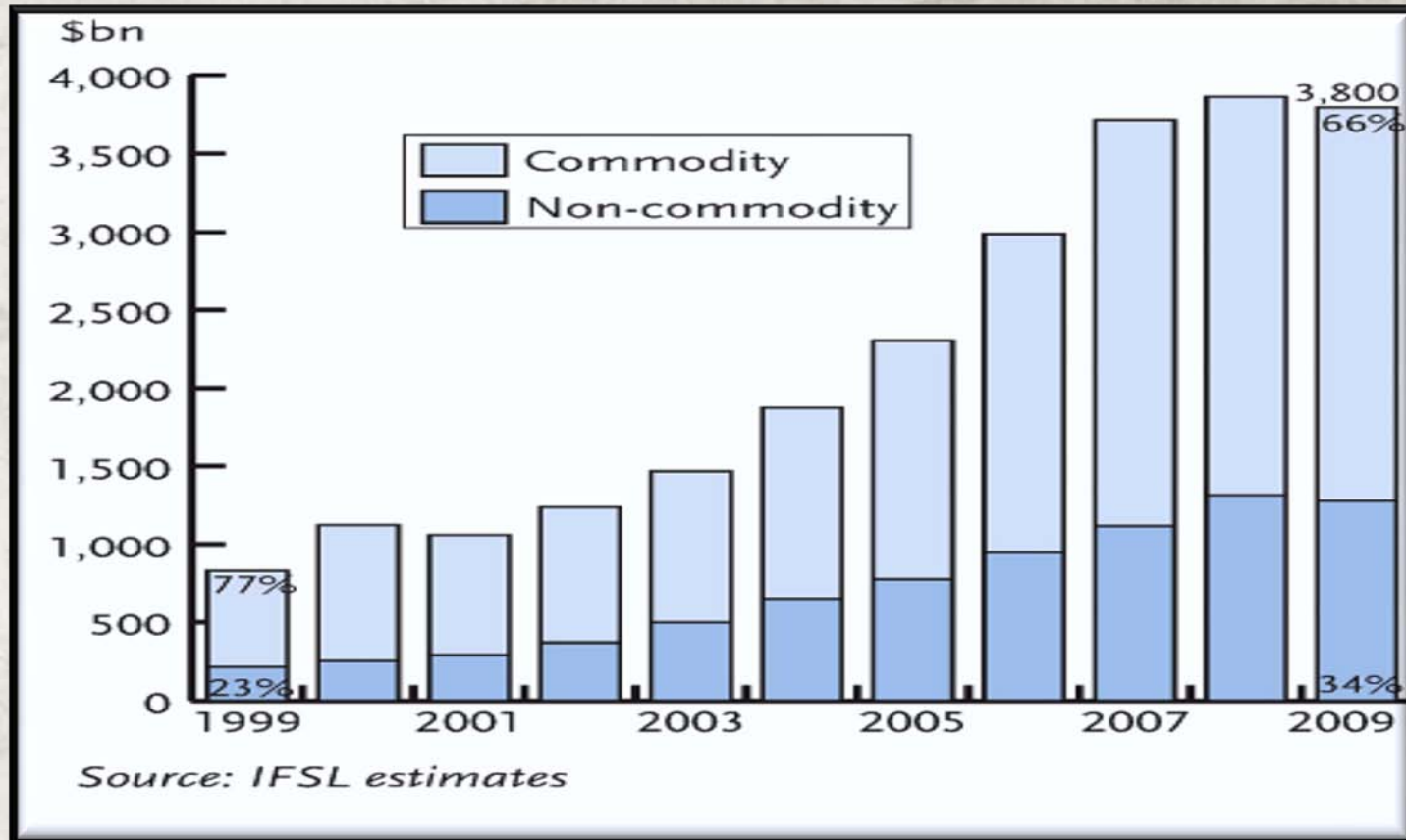
- International reserves reached levels beyond those needed to buffer external vulnerabilities in many EM countries
- Reserve accumulation must be sterilized to be non-inflationary; domestic cost of sterilization greater than return on central bank investments
- SWFs do not face same investment restrictions as central banks
- Growth of SWFs also driven by need to insulate economy from volatile commodity prices, share wealth across generations and fund priority projects



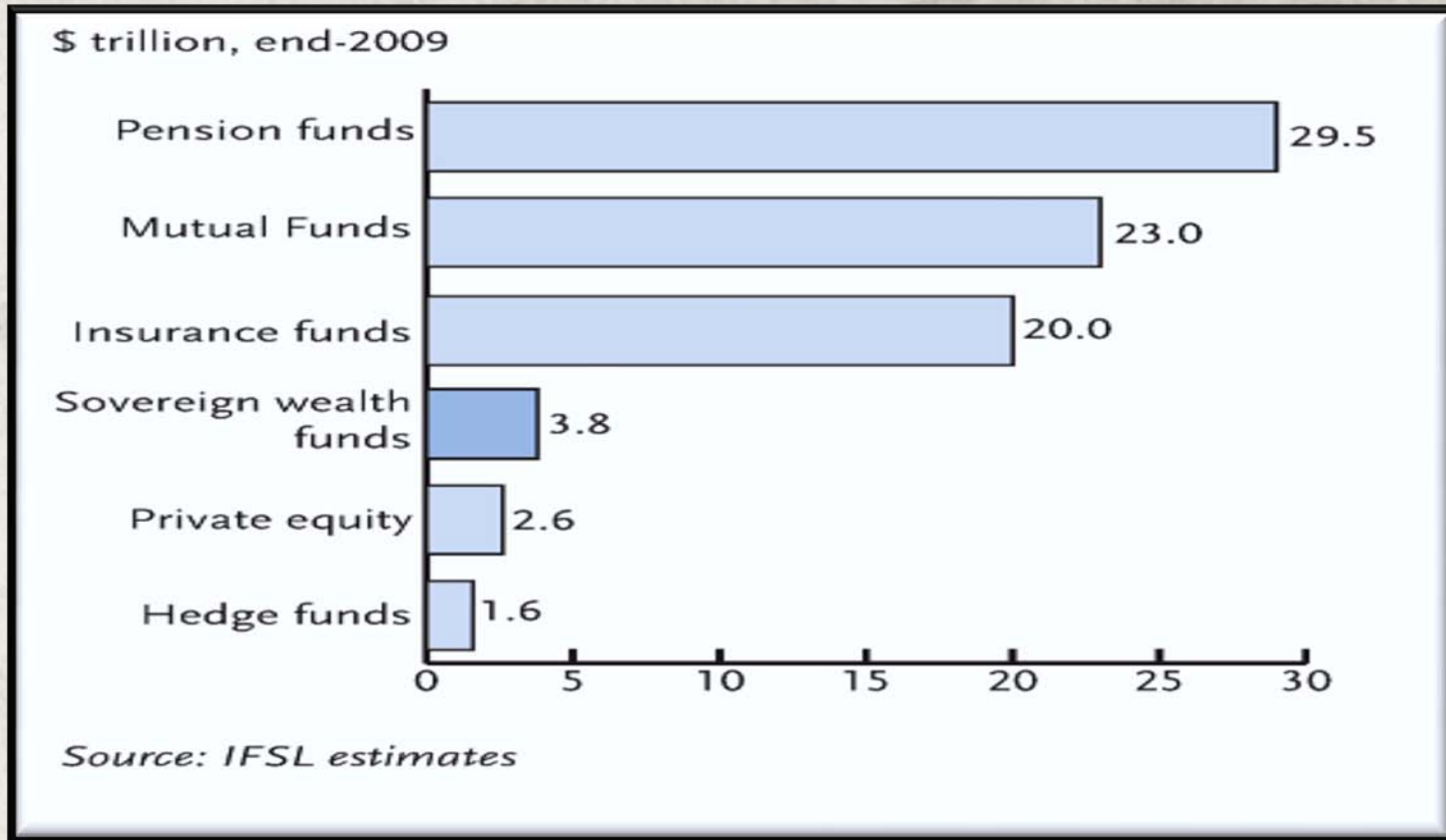
Growth in Aggregate SWF Assets under Management 2007-2010



Sovereign Wealth Fund Assets Under Management

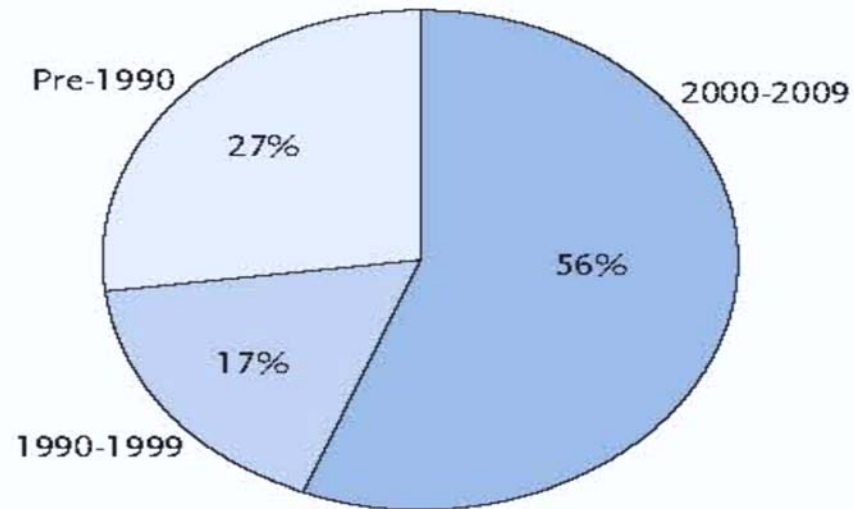


Assets Under Management



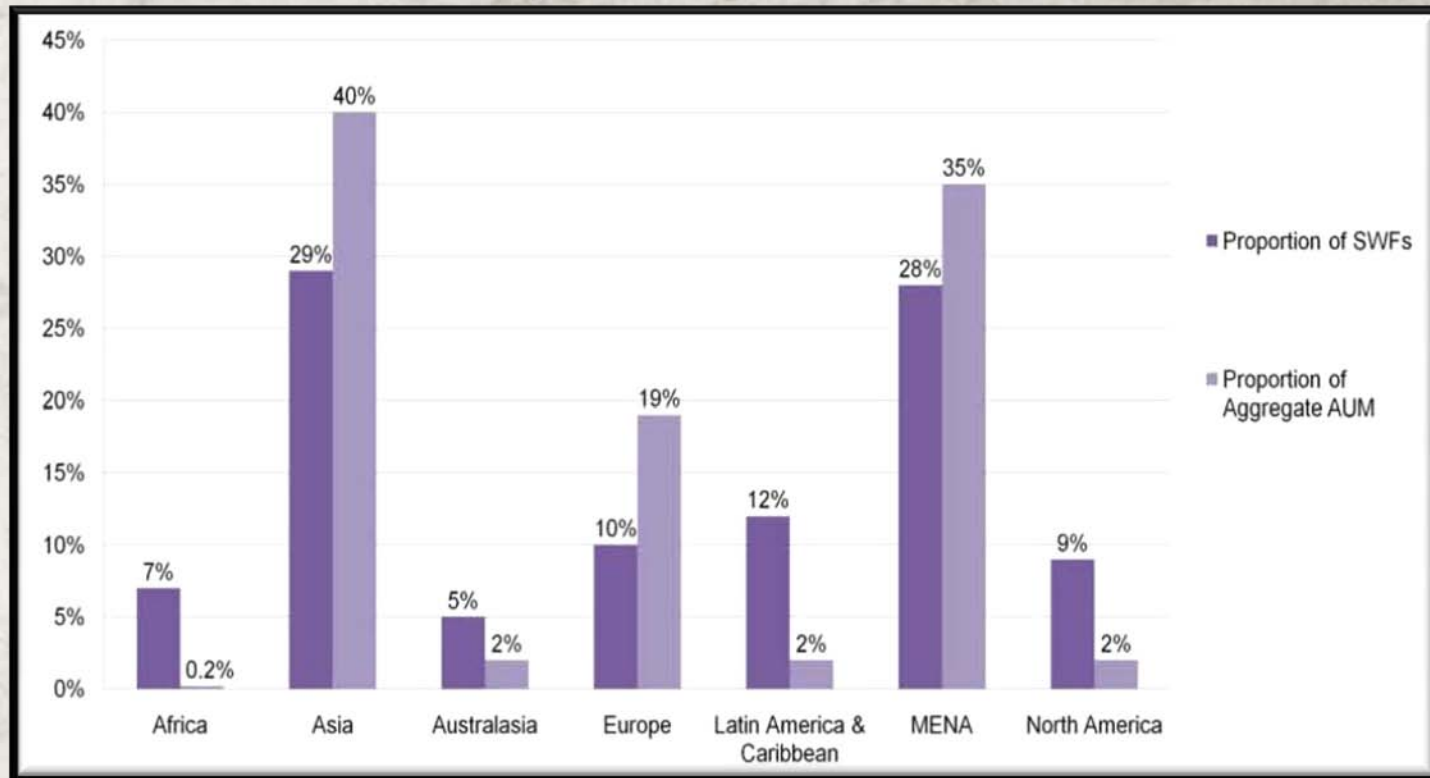
Launch Year of Largest SWFs

Launch year of top 50
sovereign wealth funds, % share by number



Source: IFSL calculations

Number and Value of Sovereign Funds by Region



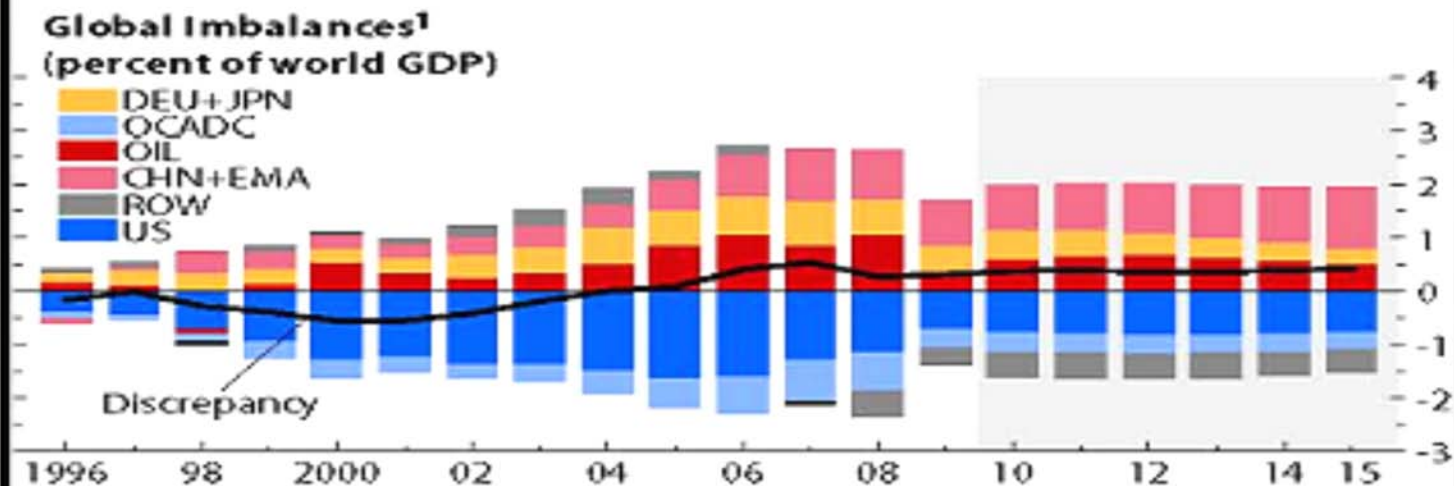
Largest SWFs

end-2009	\$bn assets under management	Country	Inception year	Source
Abu Dhabi Investment Authority	627	UAE	1976	Commodity
Government Pension Fund – Global	445	Norway	1990	Commodity
SAMA Foreign Holdings	431	Saudi Arabia	n/a	Commodity
SAFE Investment Company	347	China	n/a	Non-Commodity
China Investment Corporation	289	China	2007	Non-Commodity
Government of Singapore Invest. Corporation	248	Singapore	1981	Non-Commodity
Kuwait Investment Authority	203	Kuwait	1953	Commodity
National Welfare Fund	168	Russia	2008	Commodity
National Social Security Fund	147	China	2000	Non-commodity
Hong Kong Monetary Authority Invest. Portfolio	140	China (HK)	1993	Non-Commodity
Temasek Holdings	122	Singapore	1974	Non-Commodity
Libyan Investment Authority	70	Libya	2006	Commodity
Qatar Investment Authority	65	Qatar	2005	Commodity
Australian Future Fund	49	Australia	2004	Non-Commodity
Revenue Regulation Fund	47	Algeria	2000	Commodity
Others	402			
Total	3,800			

Source: SWF Institute, IFSL estimates

Global Imbalances

Current account surpluses and deficits narrowed as global trade declined and commodity prices fell. However, as the global economy recovers, imbalances are projected to grow again, but to remain lower than before the crisis. This is consistent with a drop in expected income growth in economies that ran excessive current account deficits before the crisis.



Source: IMF staff estimates.

¹CHN+EMA: China, Hong Kong SAR, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan Province of China, and Thailand; DEU+JPN: Germany and Japan; OCADC: Bulgaria, Croatia, Czech Republic, Estonia, Greece, Hungary, Ireland, Latvia, Lithuania, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Turkey, and United Kingdom; OIL: Oil exporters; ROW: rest of the world; US: United States.

II. The Fletcher School's Sovereign Wealth Fund Initiative (SWFI)

- **The Fletcher School at Tufts University and its Center for Emerging Market Enterprises (CEME) have created the Sovereign Wealth Fund Initiative (SWFI)**
- **The SWFI offers an informal environment for SWFs to have open discussion on key issues that they face, without pressures of “enforcement”**
- **The SWFI focuses on critical issues such as risk management, asset allocation, transparency and accountability**

SWFI Objectives

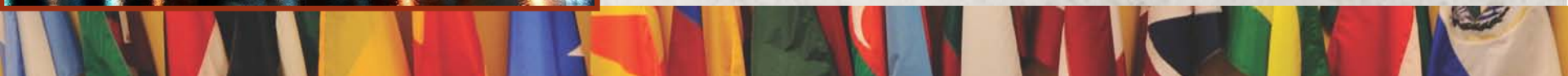
- **Focusing on practical public policy needs of SWFs and other long-term investors**
- **Capacity building including following-up with executive and providing mid-level training programs both in Boston and abroad**
- **Consensus building and sending messages under the Fletcher umbrella**



Recent Trip to the Gulf Region

As a result of ongoing discussions with high-level SWF decision makers and managers, the SWFI has identified critical issues faced by SWFs and LTIs:

- ✓ Managing socio-political risk as asset allocation diversifies beyond traditional geography and asset classes
- ✓ Assessing and managing regulatory risk in recipient countries with increasingly global and diverse portfolio, and;
- ✓ Developing context-appropriate levels of transparency and accountability that respond to sensitivities of recipient countries, as well as those of the SWF domestic constituent groups.

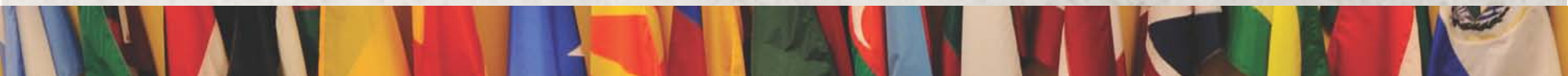


III. Asset Allocation Diversifies beyond Traditional Geography and Asset Classes

Many SWFs noted during our discussions that they are increasing their asset allocation in emerging and frontier markets, as well as in new investment vehicles.

Factors driving diversified asset allocation:

- Purpose of SWFs
- Impact of global financial crisis
- Global asset allocation trends



SWFs – Not a Homogenous Group

Stabilization Funds

Insulate Budget/Economy (e.g. Chile, Kazakhstan, Azerbaijan, Algeria, and Venezuela)

Savings Funds

Inter-generational transfer (e.g. Kuwait, Qatar, U.S., Alaska)

**Reserve
Investment
Corporations**

Part of Reserves; Increasing Returns (e.g. Korea)

**Development
Funds**

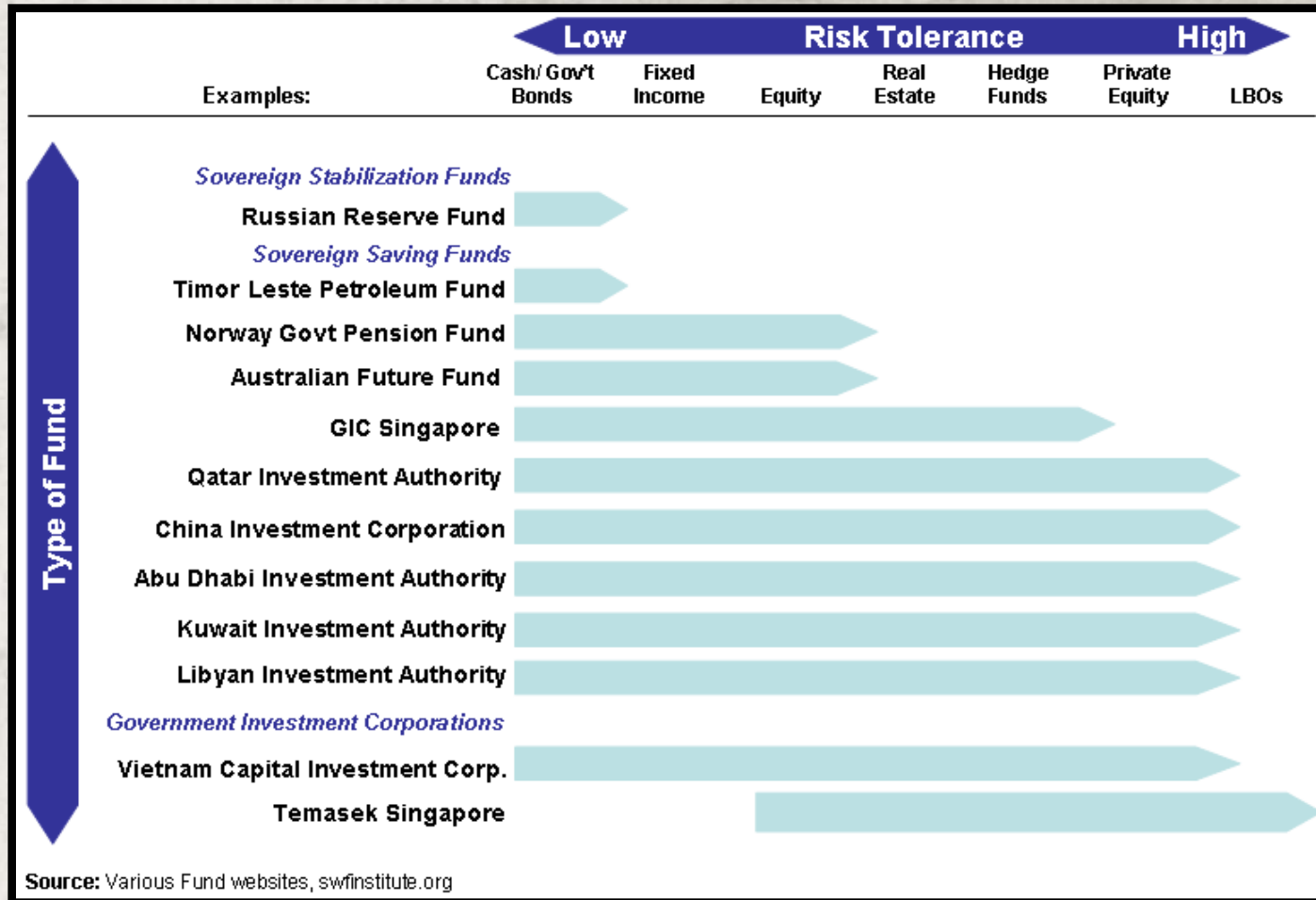
Socio-Economic Objectives

**Contingent Pension
Reserve Funds**

Finance unspecified; contingent pension liabilities of governments (Australia, New Zealand)

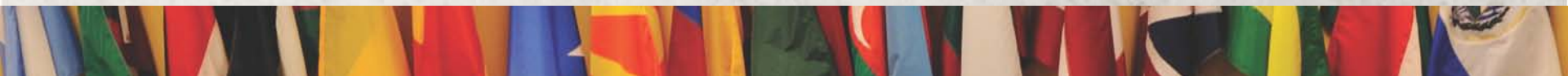


Portfolios Reflect Investment Horizons and Purpose

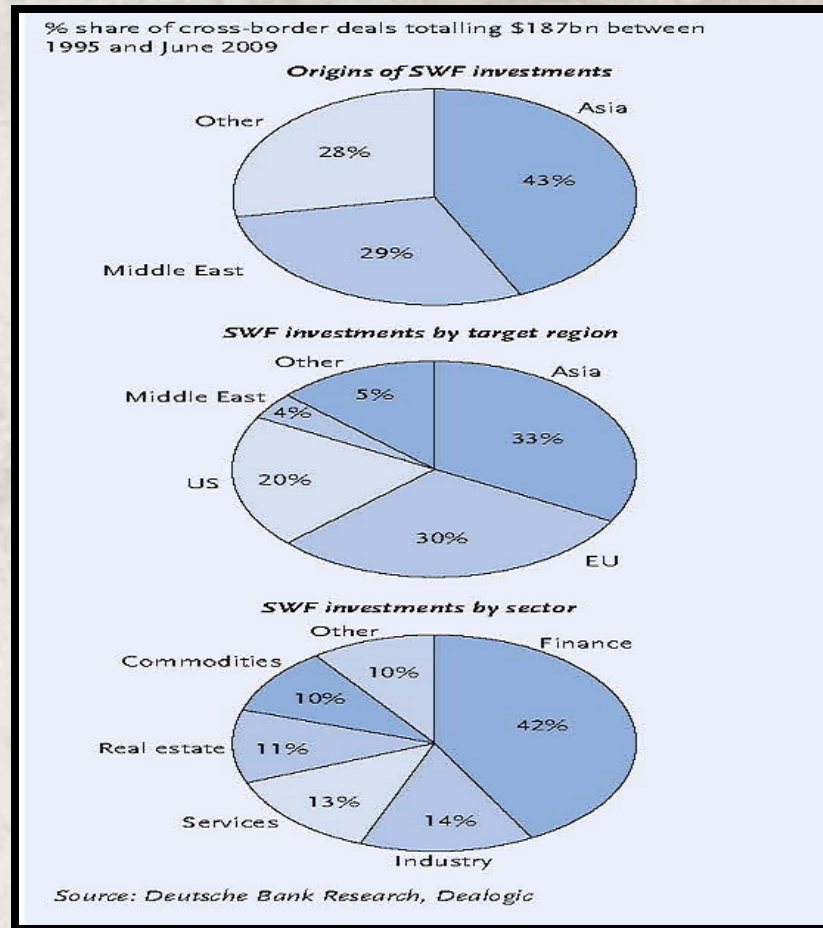


Impact of Global Financial Crisis on Asset Allocation to Emerging Markets

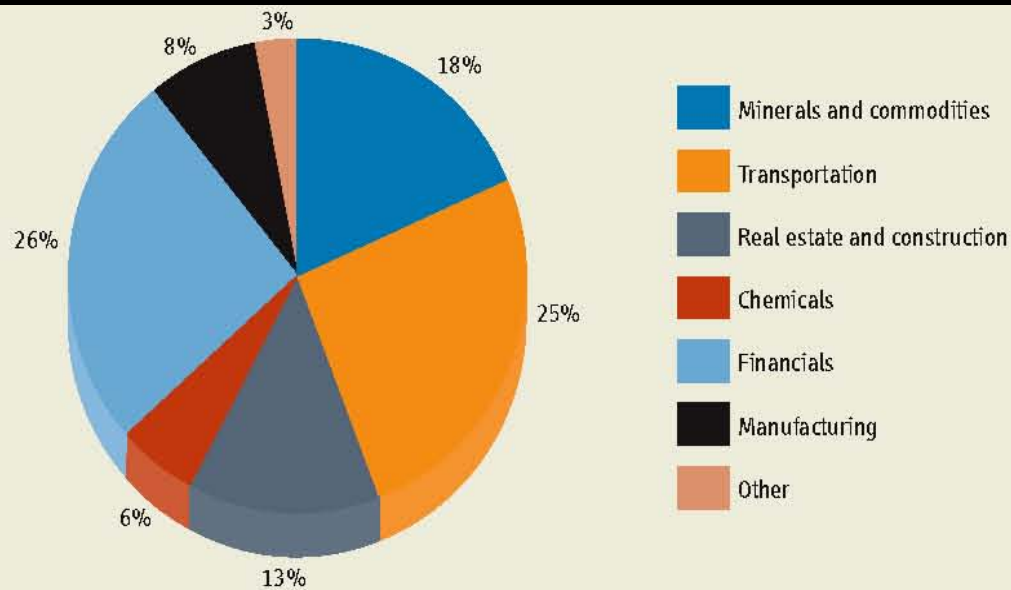
- Reinforcing the secular shift of financial and economic power away from the traditional centers of the U.S. and Western Europe and towards emerging markets with varying structure, transparency and accountability
- Ridding investors of the perception that developed markets in the West are less risky and more secure than emerging markets
- Gradual shift of asset allocation to alternative assets and emerging market debt and equity to meet public policy objectives
- Asset allocation to Latin America is expected to increase from low levels; Asia should see significant increases as well



Overview of SWF Investments



Allocation of SWF Investments by Sector in 2009

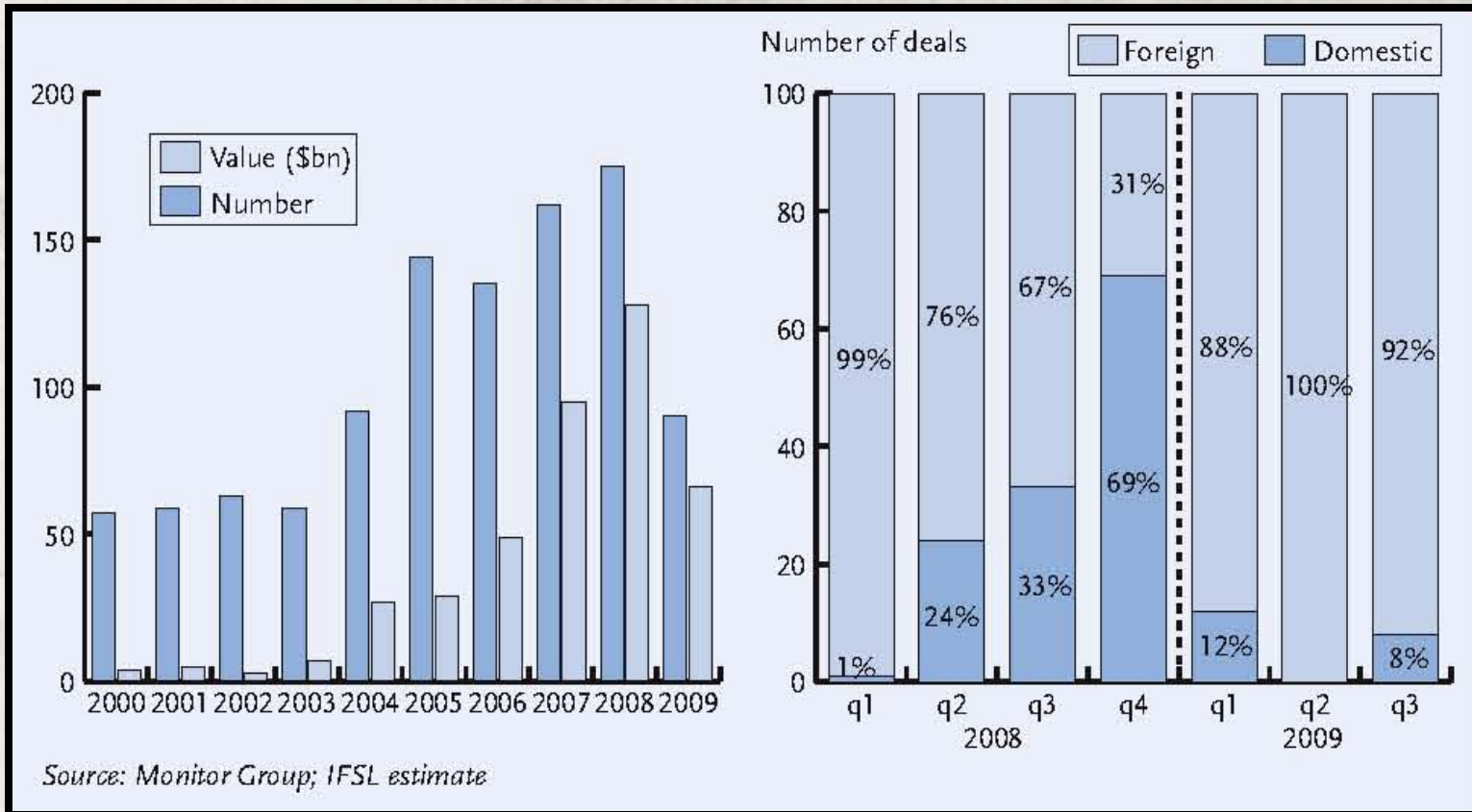


Note: Data represented here is based on TR SWF transaction database for transactions in 1 Jan 2009 – 1 Oct 2009, involving at least one SWF on the acquirer side, as either direct investor, or an immediate or intermediate parent. The figure reports all publicly disclosed investments. The reported transactions are likely to present only a fraction of de facto undertaken investments by SWFs, and should be seen as a tentative indicator of broad trends.

Source: TR SWF transaction database

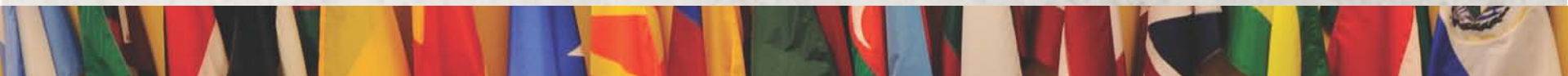
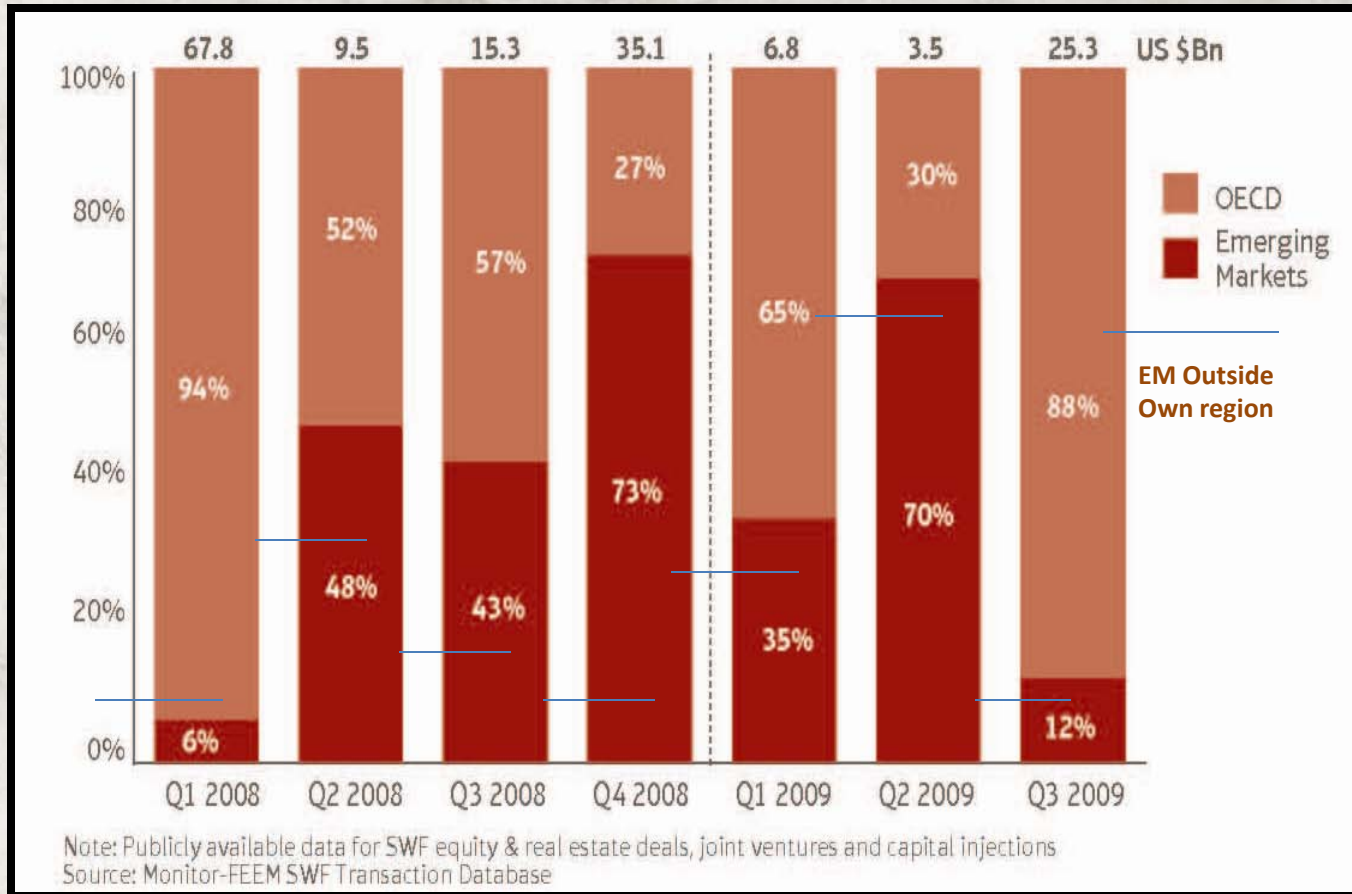
Value of SWF Deals by Location of Target

A return to outward looking investment

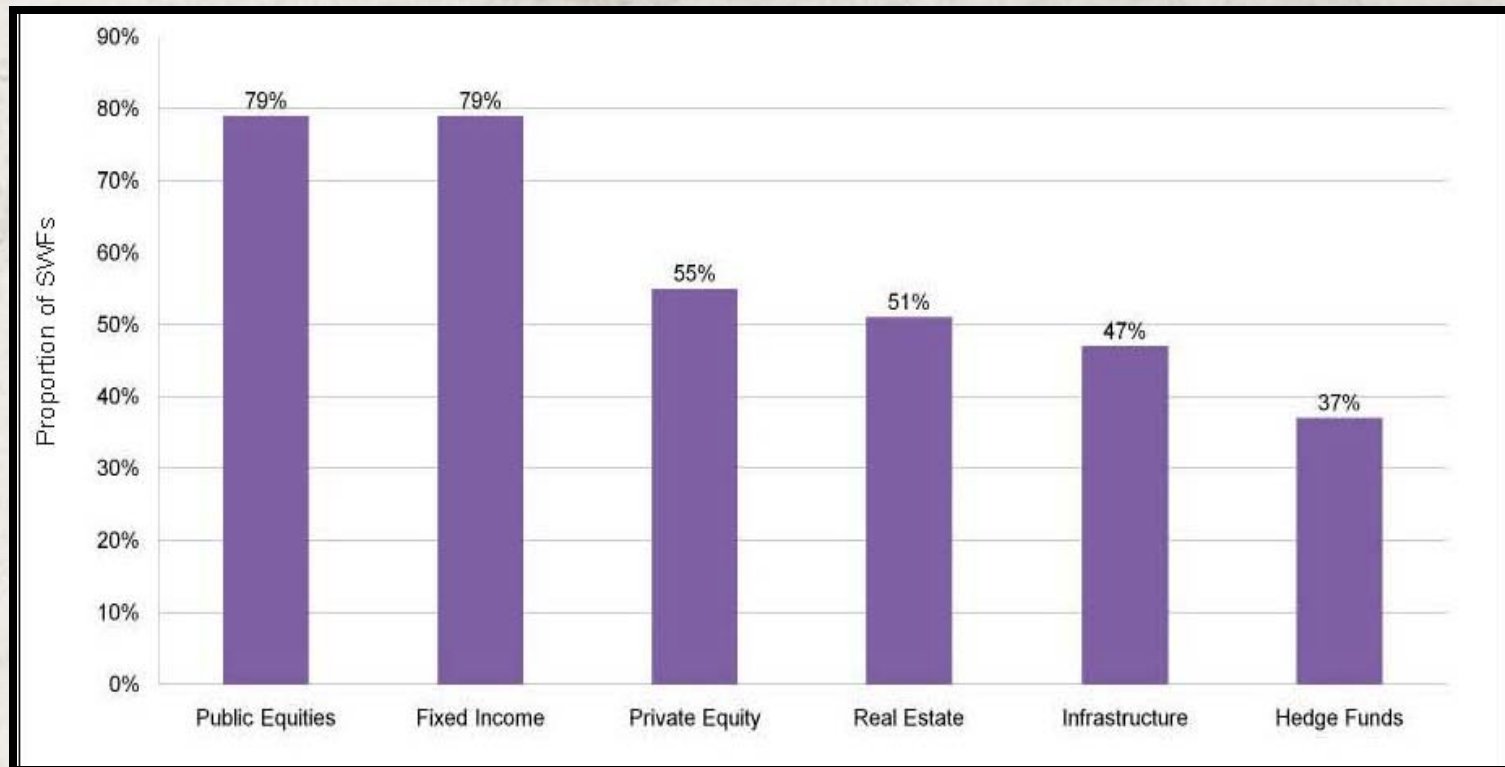


Value of SWF Deals by Location of Target

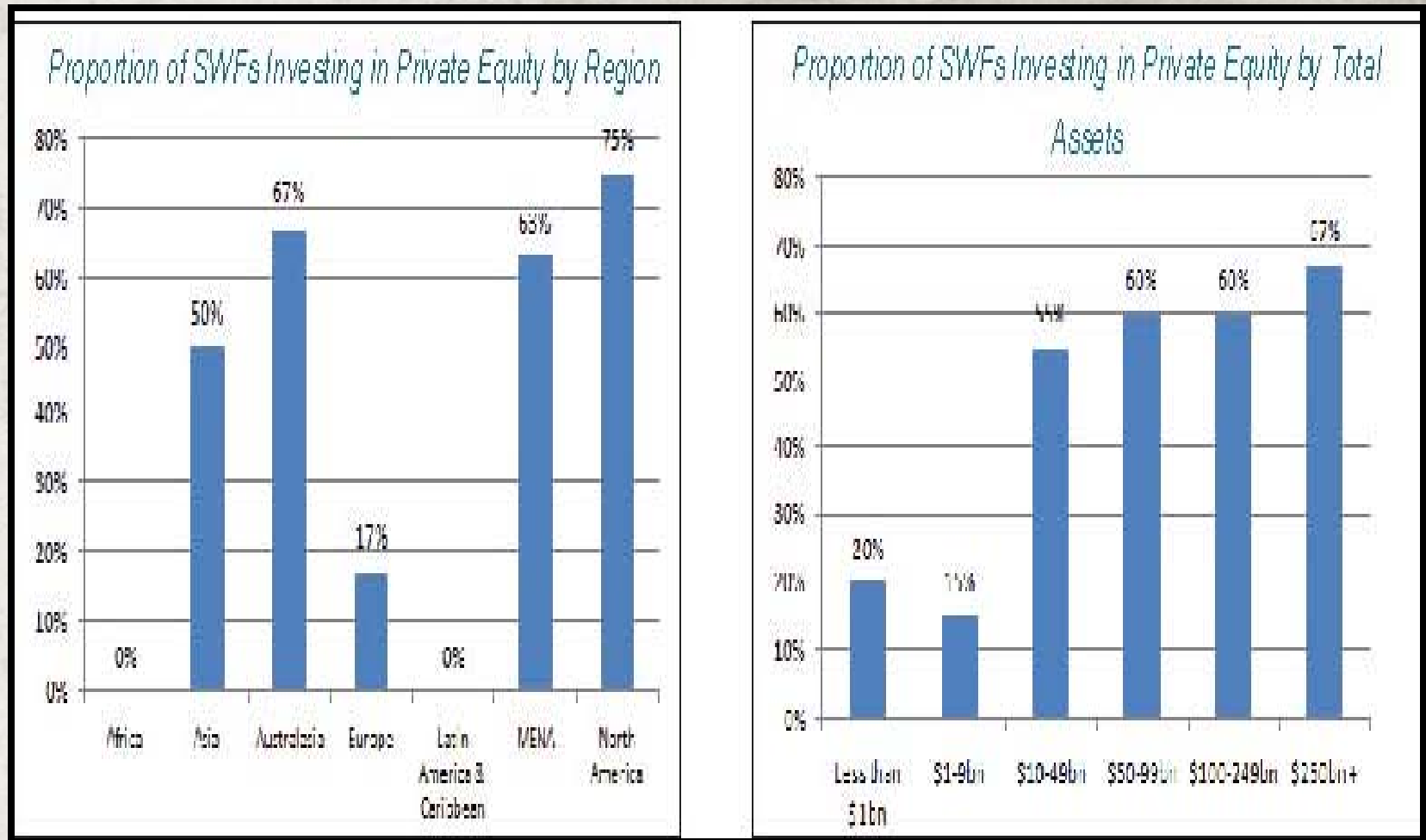
Increased investment in emerging markets



Proportion of Sovereign Wealth Funds Investing in Each Asset Class



Asset allocation to private equity increases as SWFs grow



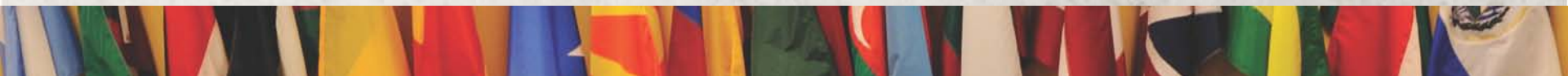
Detailed Sovereign Wealth Allocation by Asset Class

Country	Fund Name	Size of Assets (\$Bn)	% Traditional Assets	% Non-traditional Assets*
Norway	<i>Government Pension Fund – Global</i>	458.2	Equities and units (53.0%); Bonds and other fixed income (41.9%); Short-term loans	other assets (5.1%)
UAE-Abu Dhabi	<i>Abu Dhabi Investment Authority</i>	395	Developed Market Stocks (35-55%); Emerging Markets Stocks (10-20%); Government Bonds (10-20%);	Real Estate (5-10%); credit (5-10%); Small-Cap Stocks (1-5%); Alternative Investments (5-10%); Private Equity (2-8%);
China	<i>China Investment Corporation</i>	297.5	Cash and bank deposits (16.5%); Money market funds (11.4%); Held-to-maturity investments (5.1%); Short-term notes (4.7%)	Long-term equity investments (57.5%)
Kuwait	<i>Kuwait Investment Authority</i>	295	Equities (55-65%); Bonds (8-12%);	Real Estate (8-12%); Alternative Investments (3-7%);
Singapore	<i>Government of Singapore Investment Corporation</i>	179	Developed Market equities (28%); Nominal Bonds (19%); Developing market equity (10%); Cash (8%); Inflation-Linked Bonds (5%)	Real Estate (12%); Private Equity, VC & Infrastructure (11%); Natural Resources (4%); Absolute Return Strategies (3%);
Singapore	<i>Temasek Holdings</i>	119.3	Listed Large bloc shares [$\geq 20\%$] (38%); Other listed and liquid assets (34%)	Unlisted Assets (28%)
Australia	<i>Australian Future Fund</i>	49.16	Cash (36.5%); Debt securities (20.5%); Telstra holding (11.3%); Developed markets equity (11.9%); Australian equities (7.4%); Developing markets equity (2.8%);	Private equity (2.0%); Property (1.2%); Infrastructure (1.9%); Alternative assets (4.4%);
UAE-Dubai	<i>Investment Corporation of Dubai</i>	19.6	Financial companies (~20%);	Transportation companies (~40%); Industrial Companies (~20%); Real Estate Companies (~15%); Others (~5%)
Republic of Korea	<i>Korea Investment Corporation</i>	17.8	Government Bonds (34.1%); Stocks (28.3%); Corporate Bonds (12.9%); Agency Bonds (7.4%);	ABS (16.7%); Derivatives (3.4%);
UAE -Dubai	<i>Istithmar World</i>	11.5	0%	Real Estate (60%); Equity & Venture Capital (40%)

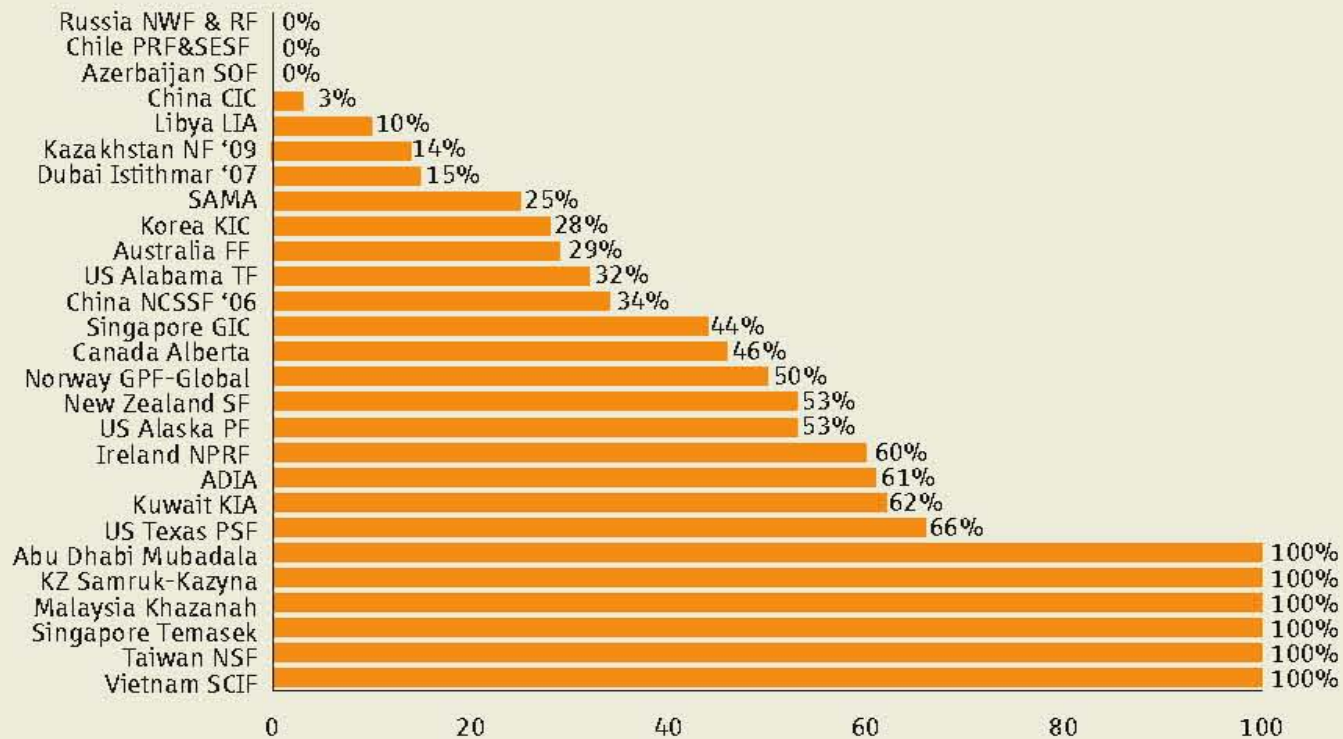


Detailed Sovereign Wealth Allocation by Geography

Country	Fund Name	Size of Assets (\$Bn)	Geographical Allocation				
			Domestic	Regional	OECD countries	Emerging markets	Outside the Fund's Region
Norway	Government Pension Fund – Global	458.2		Europe (54%)			Americas & Africa (35%); Asia/Oceania (11%)
UAE-Abu Dhabi	Abu Dhabi Investment Authority	395			North America (35-50%), Europe (25-35%); Developed Asia (10-20%)	Emerging Markets (15-25%)	
China	China Investment Corporation	297.5	≥50%				Global (≥50%)
Kuwait	Kuwait Investment Authority	295			United States & Europe [equal shares] (76-86%); Asia & Japan (13-17%)	Emerging Markets (4-6%)	
Singapore	Government of Singapore Investment Corporation	179		Japan (11%); China, Hong Kong, S. Korea & Taiwan (10%); Other Asia (3%); Australasia (2%)			United States (38%); Other North & South America (7%); United Kingdom (6%); France (5%); Germany (4%); Other Europe (14%)
Singapore	Temasek Holdings	119.3	31%	North Asia (27%); ASEAN [Excl. Singapore] (9%); South Asia (7%)	OECD (22%)	Latin America & Others (4%)	
UAE - Abu Dhabi	Mubadala Development Company PJSC	21.6	33%	Qatar (41%)			Others (26%)
UAE-Dubai	Investment Corporation of Dubai	19.6	100%				
UAE -Dubai	Istithmar World	11.5		Middle East (25%)	North America (40%); Europe (20%)	Sub-Saharan Africa (5%); Latin America (5%)	Asia Pacific (5%)



Share of Equity Investments in Select Funds' Portfolios

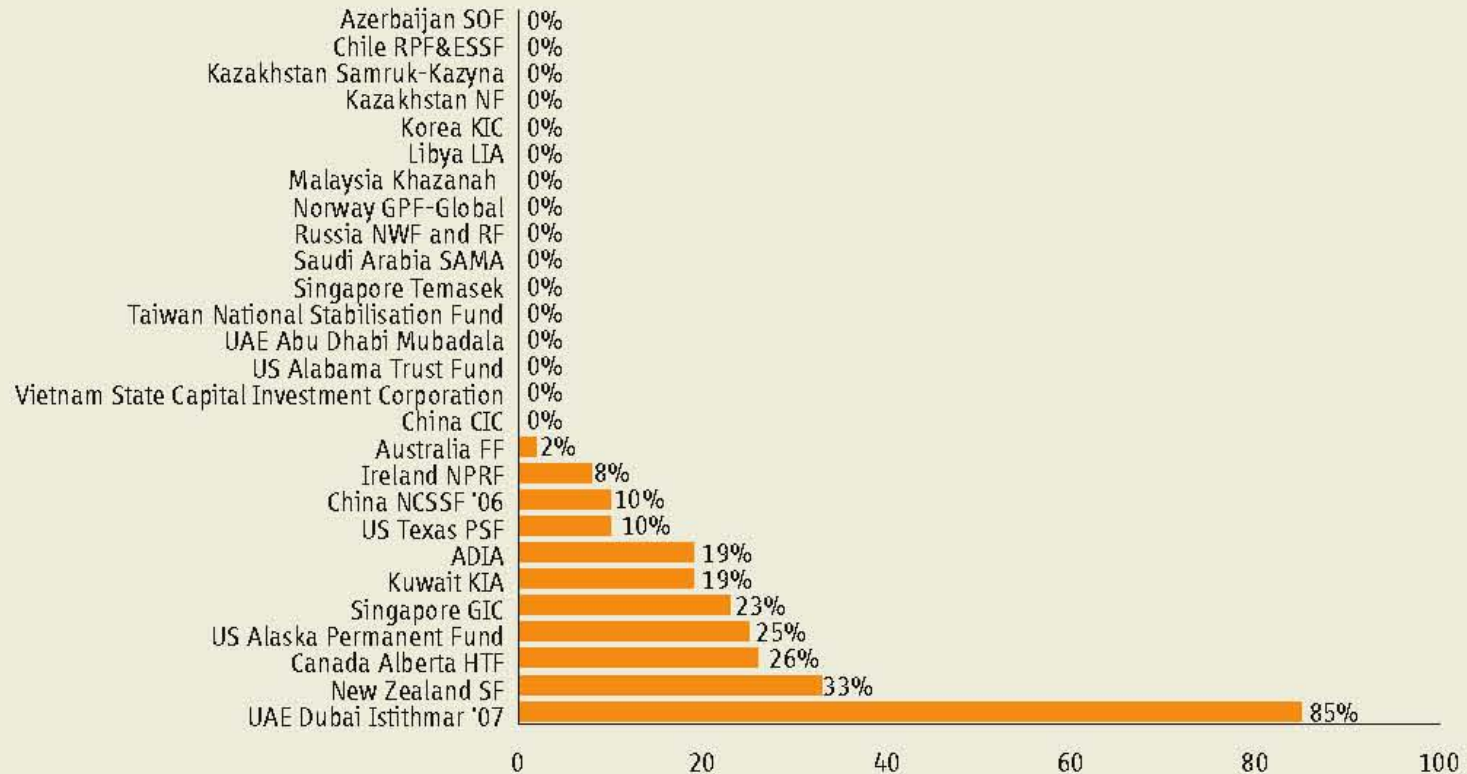


Notes: 1. data is for FY2008 (for some funds it is mid-year), unless otherwise mentioned.

2. Data for Australia - excluding Telstra.

Source: Funds' official data or media reports

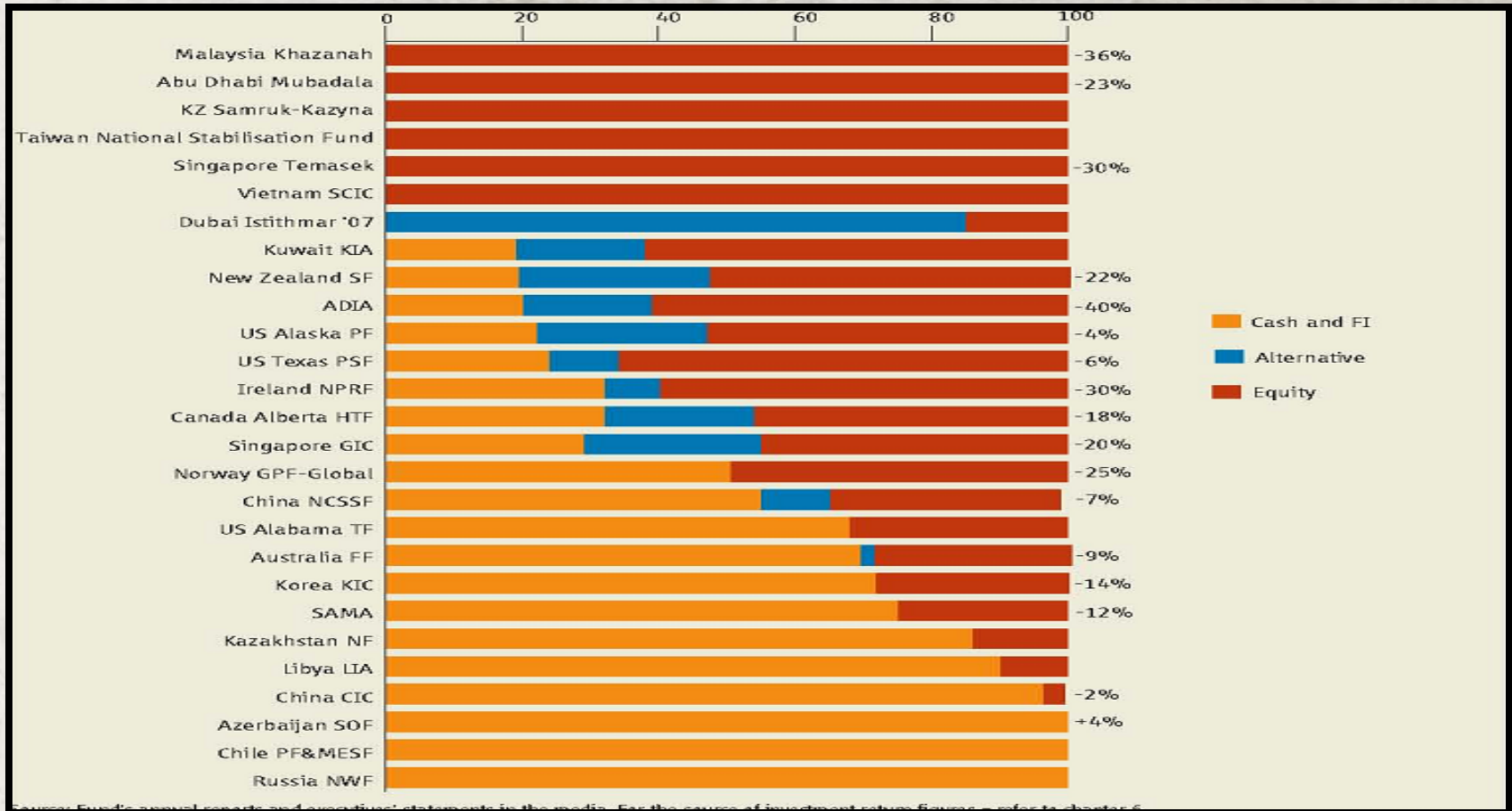
Share of Alternative Assets in Select Funds' Portfolios



Note: 1. Data is for FY 2008 (for some funds it is mid-year), unless otherwise mentioned. 2. Although CIC invested in Blackstone and set up a joint PE fund with JC Flowers, it reports its alternative investments as zero, probably including these particular holdings in 'equities'.

Source: Official funds' data and official statements in the media

Portfolio Composition and Investment Returns for Select Funds in 2008

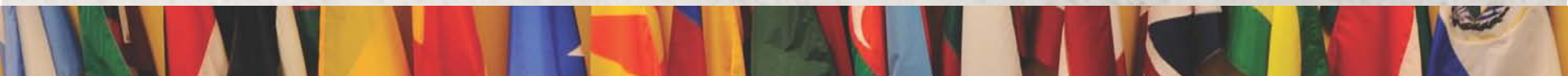


IV. Social-Political Risks Faced by SWFs with Diversification Beyond Traditional Geography and Asset Classes

These investments require organizational and leadership capabilities to effectively manage risk in potentially difficult socio-political environments, while at the same time ensuring that the SWFs' basic objectives are met.

Effective risk mitigation aimed at optimizing a successful investment outcome requires:

1. Incorporating social and political risk scenarios into the strategic plan
2. Gathering a deeper understanding of perspectives of recipient country and company
3. Developing strategies that align with stakeholder interests and priorities
4. Enhancing internal governance and implementing prudent operating practices
5. Creating architecture for managing multiple external relations
6. Incorporating risk mitigation considerations into actual operations



SWFI Offers Capacity Building Resources to Manage Socio-Political Risk

Fletcher's SWFI works with SWF executives and offers relevant expertise in three different areas:

Jointly looking at SWFs' leader development strategy against challenges, including: leader capability models, formal and informal leader development, networking and coaching, systems, processes, tools, and analytic approaches used

Jointly looking at SWFs' broader socio-political risk management practices such as: organizational and leader expectations and responsibilities; risk assessment tools, frameworks and approaches; risk management strategies; organizational systems, processes and capabilities for implementation

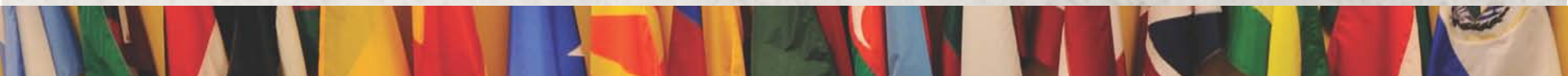
Ranking and scoring of 70 emerging economies with diagnostic explanation of the political-socio-economic factors that affect the investor ties for implementation

V. Approaches by SWFs to Recipient Country Discriminatory Practices

Recipient countries have voiced concerns about investment from SWFs that has resulted in wide-spread discriminatory practices.

Concerns have centered on:

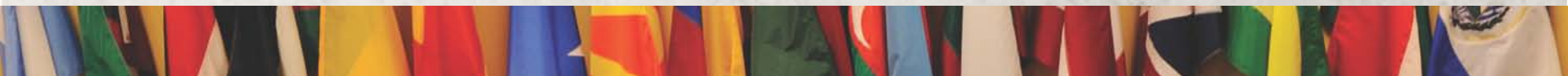
- Motivations behind SWF investment
- Excessive economic and political leverage of these funds
- Lack of transparency and accountability
- The efficacy of the Santiago Principles in achieving stated objectives due to the voluntary and non-binding nature of such principles and resulting unenforceability



Legal, Regulatory and Trade Based Discrimination

SWFI offers capacity building resources to help manage recipient country discriminatory practices through:

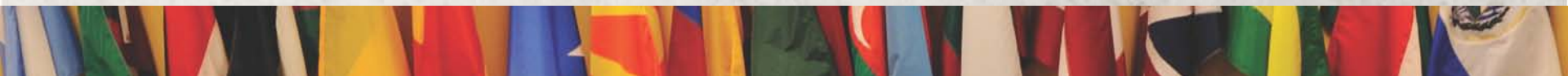
- Information on recipient country discriminatory practices and country-specific driving forces and motivations underpinning these practices
- Information on recipient country treatment of other public sector financial institutional investors with view to determine equivalency of treatment
- Strategies for SWFs to differentiate themselves from entities with politically-driven investments



Political Backlash and Local Resistance

SWFI offers capacity building resources to respond to political backlash and points of resistance in recipient countries through:

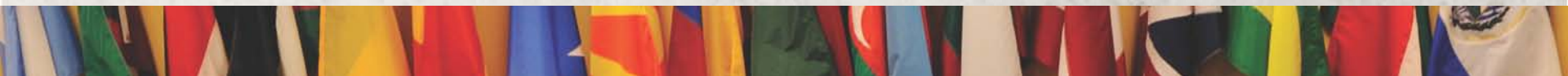
- Providing a sounding board of resources reflecting a complex and in-depth understanding of the legal, regulatory, and trade policy regimes faced by SWFs in recipient countries around the world
- Jointly identifying, defining, and analyzing points of local resistance and their intersection with the legal, regulatory, and trade policy regimes. This will allow SWFs to arm themselves with effective tools to address and overcome local resistance, anticipated political backlash, and other forms of discrimination
- Jointly examining the best practices of other international institutional investors, such as pension funds and large insurance companies, in order to craft appropriate responses to these points of resistance and other obstacles to foreign direct investment



VI. Determining Appropriate Levels of Transparency and Accountability

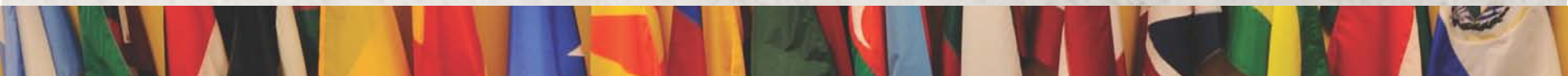
SWFs still have significant issues with the demands for increased transparency, noting that:

- External transparency is fine but the political pressures that come with internal transparency are unwanted
- SWFs are not publicly traded companies, without obligations to publish quarterly information to the public
- Indeed, this kind of quarterly disclosure has done more harm than good. It encourages management to seek short term, high profit, to the detriment of long term returns

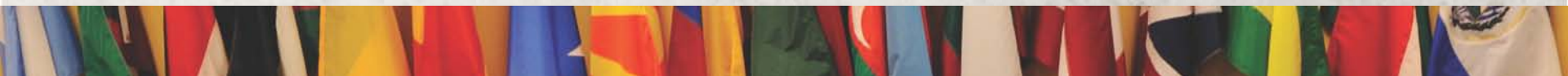


Fletcher's Capacity Building to Tackle the Challenges of Transparency and Accountability

- ❑ Providing a value-neutral forum to discuss context-appropriate levels of transparency and accountability, recognizing that transparency need not be uniform across SWFs, or across recipient countries
- ❑ Jointly developing an analytical framework to assist SWF decision makers in arriving at appropriate benchmarks of transparency and accountability across recipient countries
- ❑ Fostering a frank and open discussion of preferred practices with regard to transparency and accountability; the ultimate aim to establish a catalogue of methods and options from which SWFs can tailor their efforts to secure appropriate levels of transparency and accountability

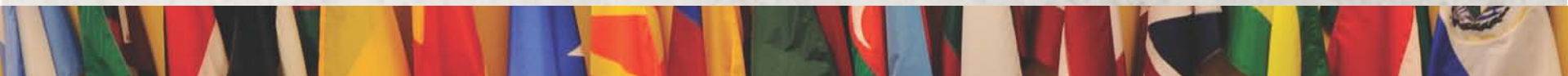


Appendix



SWF Asset Allocation (% of total at March 2010)

	Cash	Equities	Bonds	Alternatives				
				RE	PE	Infra	HF	Credit
Norway	--	53%	42%	5%				
UAE/ADIA	--	45-75%	10-20%	5-10%	5-10%	2-8%	--	1-2%
UAE/ADIC	--	--	--	active strategy				
China CIC		25-30%	5-10%	50-65%				
Kuwait KIA	3-7%	55-65%	8-12%	8-12%		3-7%		
Singapore GIC	8%	38%	25%	12%	15%	5%	--	--
Singapore Temasek	70%			30%			--	--
Australia	37%	33%	20%	1%	3%	2%	4%	--
UAE/Mubadala	--	--	--	100%				
Korea/KIC	3%	20%	70%	7%				
Bahrain	--	--	--	100%				
UAE Istithmar	--	--	--	60%	40%	--	--	--
Chile	30%		70%	--	--	--	--	--
Alaska	3%	54%	22%	10%	6%	4%	--	--
Canada/Alberta	3%	46%	25%	14%	8%	--	6%	--



Geographic Distribution

	Own-Region/Global	Europe	North America	Developed Asia	Emerging Markets
Norway		55%	35%	10%	
UAE/ADIA		25-35%	35-50%	10-20%	15-25%
UAE/ADIC	90/10%				
China CIC	50/50%				
Kuwait KIA		35-40%	35-40%	13-17%	4-6%
Singapore GIC		25%	40%	25%	10%
Singapore Temasek	30/70%	25%		65%	11%
UAE/Mubadala	74/26%				
Korea/KIC	0/100%				
Bahrain	100/0%				
UAE Istithmar	30%	20%	40%		10%
Chile		40%	50%	10%	

