A Survey of Sovereign Wealth Funds (SWFs) in the Gulf Cooperation Council (GCC) Countries

Hamid Talebi

Submitted to the
Institute of Graduate Studies and Research
in partial fulfillment of the requirements for the Degree of

Master of Science
in
Banking and Finance

Eastern Mediterranean University
January 2014
Gazimağusa, North Cyprus

Approval of the Institute of Graduate Studies and Research

Prof. Dr. Elvan Yılmaz
Director

I certify that this thesis satisfies the requirements as a thesis for the degree of Master of Science in Banking and Finance.

Prof. Dr. Salih Katırcıoğlu
Chair, Department of Banking and Finance

We certify that we have read this thesis and that in our opinion it is fully adequate in scope and quality as a thesis for the degree of Master of Science in Banking and Finance.

Prof. Dr. Cahit Adaoğlu
Supervisor

Examining Committee

---

1. Prof. Dr. Cahit Adaoğlu ______________________________
2. Prof. Dr. Salih Katırcıoğlu ______________________________
3. Assoc. Prof. Dr. Bilge Öney ______________________________

ABSTRACT

Sovereign Wealth Funds (SWFs) are the largest state-owned investment vehicle with more than $6 trillion assets under management by the end of 2013. SWFs control a pool of state capital, and they are owned and managed by the government. They hold foreign currency-denominated assets with long-term investment horizon. The operation and governance structure of the funds are separated from the official foreign exchange reserves. The main objectives of SWFs are to preserve the state's fund for the future generation and to seek a return above the government-owned securities return via investing in high-risk long-term assets.

Recent sharp rise of oil and gas price caused the emersion of new fast growing fund in Middle East rich oil exporter countries. The Gulf Cooperation Council (GCC) countries, which solely manage more than 37% of total SWFs in the world, play a vital role in global financial markets. Since, they have tried to acquire a stake in western companies, lots of concerns have raised pointing their political motivations behind the curtain.

The finding based on this thesis shows that the SWFs with a high level of transparency and regulation, such as Norway's SWF, are the most successful and less target of criticism in the world.

Keywords: Sovereign Wealth Fund, Gulf Cooperation Council, Transparency

ÖZ

2013 yılsonu itibarı ile devletler tarafından yönetilen Ulusal Servet Fonları 6 trilyon doları aşan portföye sahiptirler. Ulusal Servet Fonları uzun dönemli yabancı para cinsinden olan varlıklara yatırım yapmaktadırlar. Bu fonların yönetimi ve kontrolü, resmi döviz rezervlerinden ayrı tutulmaktadır. Ulusal Servet Fonlarının temel amacı devlete ait olan fonların gelecek nesiller için yönetilmesi ve uzun dönemli riskli yatırımlar yaparak devlet bonolarından daha yüksek bir getiri elde etmektir.

Son yıllardaki petrol ve gaz fiyatlarında yükseliş, Orta Doğu'da bulunan petrol ihracatçısı ülkelerin hızla büyüyen Ulusal Servet Fonlarına sahip olmalarına neden olmuştur. Ulusal Servet Fonlarının toplam %37'ini yöneten Körfez İşbirliği Konseyi ülkeleri dünya finans piyasalarında önemli bir yere sahiptirler. Özellikle, bu fonların yabancı batı şirketlerine yatırım yapmaları politik amaçları konusunda tartışmalara neden olmuştur.

Yapılan incelemeler sonucunda, yüksek seviyede şeffaf yönetime, şeffaf portföye ve kurallara sahip Ulusal Servet Fonları en başarılı olanlarıdır. Buna örnek olarak Norveç Ulusal Servet Fonu gösterilebilir.

Anahtar kelimeler: Ulusal Servet Fonları, Körfez İşbirliği Konseyi, Şeffaflık

To My Loving Parents, Masoumeh and Motalleb

ACKNOWLEDGMENT

I would like to express my deepest gratitude to my patient supervisor, Prof. Dr. Cahit Adaoglu, who has helped me from the initial phase of this thesis till the end with his experiences and knowledge. He tried to correct all of my mistakes step by step, and encouraged me to do my thesis with a high level of quality and standards. He provided the best guidelines and motivations which put me back on track whenever I confused.

Special Thanks to my family who has supported me through all of my life. My lovely parents, I love you so much. You have provided all I needed in my life with no expectations. I would like to thank my loving brothers, Hamed and Hesam, who have been the best friends of mine and supporting me in spite of miles away distance. I wish to thank my best friends, Sanaz, Mehdi, Hesam, Hadi, Kasra and Kaveh because of their continuous care and support.

It was a precious gift for me to study in Banking and Finance department. I would like to appreciate all my friends and instructors during my career including Prof. Dr. Glenn Jenkins, Assoc. Prof. Dr. Hatice Jenkins, Assoc. Prof. Dr. Mustafa Besim and Prof. Dr. Salih Katircioglu.

It was a long story to finish this thesis. Thanks God.

TABLE OF CONTENTS

ABSTRACT iii

ÖZ iv

DEDICATION v

ACKNOWLEDGMENT vi

LIST OF TABLES ix

LIST OF FIGURES x

LIST OF ABBREVIATIONS xi

1 INTRODUCTION 1

1.1 Background 1

1.2 Aim of the study 3

1.3 Methodology, Date and Limitations 3

2 FUNDAMENTALS OF SOVEREIGN WEALTH FUNDS 6

2.1 Different Types of Sovereign Investment Vehicles 6

2.2 What is a Sovereign Wealth Fund? 12

2.3 Different Types of Sovereign Wealth Funds 14

2.3.1 Stabilization Funds 14

2.3.2 Saving Funds 14

2.3.3 Reserve Investment Corporations 14

2.4 A Portfolio Analysis of Sovereign Wealth Funds 15

2.4.1 Diverse of SWFs Based on Their Origins 15

2.4.2 SWFs Aims and Investment Objectives 19

2.4.3 Strategic Asset Allocations (SAAs) of SWFs 29

2.5 Should Not Sovereign Wealth Funds Be Regulated? 39
2.5.1 Santiago Principles 41
3 A SURVEY OF SWFS IN GCC COUNTRIES 43
3.1 Date, Methodology and Limitations of SWFs in GCC Countries 43
3.2 SWFs in GCC Countries 43
3.2.1 United Arab Emirates (UAE) 45
3.2.2 Saudi Arabia 60
3.2.3 Kuwait 65
3.2.4 Qatar 73
3.2.5 Bahrain 76
3.2.6 Oman 79
3.2.7 Iran 83
3.3 Analysis the Objectives of SWFs in GCC Countries 87
4 CONCLUSION 93
REFERENCES 97

LIST OF TABLES

Table 2.1 Comparisons of Different Sovereign Investment Vehicles ……... 11

Table 2.2 Different types of SWFs based on their main source of funds …. 20

Table 2.3 Top Ten Foreign Exchange Reserves Holders ………...…......... 21

Table 2.4 Example of Sovereign Wealth Funds Sources and Purposes …… 24

Table 2.5 Classification of SWFs Based on Their Policy Purposes ………. 28

Table 2.6 Investment Strategies, Governance Structure and Public Investment Asset Allocations of Top Sovereign Wealth Funds ... 35

Table 3.1 Sovereign Wealth Funds of United Arab Emirates ……..………. 46

Table 3.2 The Major Sovereign Wealth Fund of Gulf Cooperation Council Countries ……………………………………………………... 87

LIST OF FIGURES

Figure 2.1 Sizes of Sovereign Investment Vehicles during 2008-2012 ……. 9

Figure 2.2 Sovereign Wealth Funds' assets under management …………… 17

Figure 2.3 Sovereign Wealth Funds Strategic Asset Allocation, 2007 to 2009 …………………………………………………………... 31

Figure 3.1 Sources of Funds from Government of Abu Dhabi …………….. 49

Figure 3.2 ADIA Employees by Nationality …………………………...... 50

Figure 3.3 Investment Process of ADIA ……………………………………. 51

Figure 3.4 Portfolio Diversification of ADIA Based on Asset Classes …….. 53

Figure 3.5 Globally Investment Targets of ADIA Around the World ……... 54

Figure 3.6 Governance Structure of ADIA …………………………………. 56

Figure 3.7 Ten-Year Government Bond Yield of ADIA …………………… 59

Figure 3.8 Organizational Structure of Saudi Arabia Monetary Agency … 64

Figure 3.9 Organizational Structure of KIA ……………………………... 69

Figure 3.10 Asset Under Management of OSF ……………………………… 84

Figure 3.11 NDFI Organization Chart ……………………………………….. 85

Figure 3.12 Currency Compositions of GCC Funds ………………………… 90

LIST OF ABBREVIATIONS

ADIA	Abu Dhabi Investment Authority
ADIC	Abu Dhabi Investment Corporation
CIA	Central Intelligence Agency
CIC	Chinese Investment Corporation
CME	Chicago Mercantile Exchange
EED	External Equities Department
FGF	Future Generation Fund
GAPP	General Accepted Principles and Practices
GCC	Gulf Cooperation Council
GIO	General Inspection Office
GPF	Government Pension Fund
GFPG	Government Pension Fund Global
GOC	Government Owned Corporation
GRF	General Reserve Fund
IAD	Internal Audit Department
IED	Internal Equities Department
IMF	International Monetary Fund
IWG	International Working Group
KCIC	Kuwait China Investment Corporation
KIA	Kuwait Investment Authority
KIO	Kuwait Investment Office

MD	Managing Director
NDFI	National Development Fund of Iran
OIF	Oman Investment Fund
OSF	Oil Stabilization Fund
PPRF	Public Pension Reserve Fund
QIA	Qatar Investment Authority
QSI	Qatar Sport Investment
SAA	Strategic Asset Allocation
SAMA	Saudi Arabia Monetary Agency
SGRF	State General Reserve Fund
SOE	State Owned Enterprises
SPC	Supreme Petroleum Council
SPRF	Sovereign Pension Reserve Fund
SSRF	Social Security Reserve Fund
SWF	Sovereign Wealth Fund
UAE	United Arab Emirates

Chapter 1

INTRODUCTION

1.1 Background

Sovereign wealth funds (SWFs) are new and growing class of funds composing large pools of assets. The funds' portfolios include financial and real assets such as stocks, bonds, property, precious metal, and other financial instruments. Sovereign wealth funds have their origin capital in commodities and non-commodities, which are created through commodity exports and/or transfers of assets from official foreign exchange reserves. The funds are established to control the volatility of resource prices, the unpredictability of extraction and the exhaustibility of resources.

Although the SWFs had existed for almost six decades, when the British administration decided to establish Kuwait Investment Board in its colonial territory to preserve a portion of country's oil revenues for future generation in 1953, the phrase Sovereign Wealth Fund was first to used in 2005 by Andrew Rozanov of the Official Institutions Group at State Street Advisors.

In order to make the SWFs regulated and transparent the International Working Group of Sovereign Wealth Funds has been established in 2008. This group of countries has provided (2008) a general definition for SWFs as below:

> Special purpose investment funds or arrangements, owned by the general government. Created by the general government for macroeconomic purposes, SWFs hold, manage, or administer assets to achieve financial objectives, and employ a set of investment strategies, which include investing in foreign financial assets. The SWFs are commonly established out of balance of payments surpluses, official foreign currency operations, the proceeds of privatizations, fiscal surpluses, and/or receipts resulting from commodity exports. (p. 27)

Some of the most prominent characteristics of SWFs are their high foreign currency exposure, no explicit liabilities, high risk tolerance and long-term investment horizon while the central banks are investing on short-term and low-yielding liquid assets. Typically, the most important objectives of SWFs are to protect and stabilize the budget and economy from excess volatility in revenues/exports, to diversify from non-renewable commodity exports, to earn a greater return than on foreign exchange reserves, to assist monetary authorities dissipate unwanted liquidity, to increase savings for future generations, to fund social and economic development, to sustain long-term capital growth for target countries and to achieve political objectives.

Nowadays, SWFs are large size of assets and will likely grow very rapidly in the coming years. The necessity of allocating government sources as a SWF is to mitigate the risk exposure mainly due to global economic and political fluctuations. By collecting data about successful SWFs and by using their experiences, new SWFs could be recommended more accurately, especially those countries which are placed in GCC countries and Iran. The bottom-line is to find out the ideal investment purposes, investment horizons and strategies, as well as the ideal organizational structure.

1.2 Aim of the study

Due to the similarities among SWFs and the other sovereign investment vehicles, such as State-Owned Enterprises, Public Pension Reserve Fund, and Sovereign Pension Reserve Funds, the main differences between each of them are evaluated, and the countries' aims to invest in each of them are investigated.

One of the biggest proportion of the SWFs is concentrated in the Middle East oil exporter countries. Middle East countries, which own the largest natural resources of the world, have allocated 37% of all SWFs. This thesis aims to evaluate the objectives of sovereign wealth funds, as an important and growing part of global assets, in Gulf Cooperation Council (GCC) countries namely, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates plus Iran.

The thesis determines the amount of wealth each GCC countries invest in SWF. Afterward, it focuses on each of these countries' portfolio and finds out their investment objectives, investment horizons, level of transparency, independence and governance structure. Finally, it evaluates the investment patterns and strategies of the funds' portfolio.

1.3 Methodology, Data and Limitations

There are only few books published about Sovereign Wealth Fund. For example, as of October 2008, it had not been published even a single book about this subject. Specially in low-democratic GCC countries with poor level of transparency, it is harder to find accurate information about the funds. Even, some of the funds, such as Oman Investment Funds (OIF), have been legally forbidden to disclose their investment

strategies or asset allocation to the public by their governors. Therefore, most of the information is scattered in the form of research papers, journal articles, official documents, industry reports, newspaper, press report, and the annual report and the official websites of the funds.

The thesis will be using secondary data from the funds' websites and other sources, and it will be looking at their performances if available on their websites and a survey of literature on SWF performances focusing on research that had proprietary access to their performances. One of the biggest limitations is low transparency of SWFs. Some sovereign wealth funds are non-transparent, meaning they do not report their holdings or strategies to the public. Some experts believe that the SWFs are passive investments while others fear they are a matter of national security. These are causes for concern for many people, investors, and governments; and will eventually fuel the fires of protectionism.

Finally, it is necessary to mention that during the recent years, especially after global financial crises in 2008, lots of countries have started to be more transparent in their commercial activities including the SWFs. For instance, the International Working Group (IWG) of Sovereign Wealth Funds, which have consist of 25 countries, have agreed to a list of voluntary principles, to make the Sovereign Wealth Funds regulated and transparent in their practices and principles.

The thesis organization is as follows: Chapter one explains the background of study, limitations of data acquisition, and aim of the study. Second chapter provides a

comprehensive prospective about the fundamentals of SWFs. Furthermore, different types of sovereign investment vehicles are evaluated, and all types of SWFs are categorized based on their funding sources, strategic asset allocation, and strategic aims and objectives. At the end of this chapter, the importance of SWFs' regulation and transparency is explained. Chapter three focuses on the SWFs which belonging to Gulf Cooperation Council (GCC) countries. In addition, this chapter highlights the importance of these funds in global financial market and illustrates their vital role to smooth the losses of financial crises in western countries. The last chapter makes a conclusion about this new player of financial market and provides some positive results of well regulated and high transparent SWFs.

Chapter 2

FUNDAMENTALS OF SOVEREIGN WEALTH FUNDS

2.1 Different Types of Sovereign Investment Vehicles

All different kinds of sovereign investment vehicles are government owned investment entities that seek to generate financial profits for nations. Nevertheless, their funding, operations, patterns, objectives and strategic asset allocations (SAAs) are different. This section sets out to provide a clear understanding of different sovereign investment vehicles and investigate their main objectives. The definitions and main differences are discussed in this section.

There is no single definition for State-Owned Enterprises (SOE) or Government-Owned Corporations (GOC) and they can be used interchangeably. Governments should generate revenues. Government Owned Corporation is a large entity that is created and owned by the government in order to participate in commercial activities on the government's behalf. These businesses act in accordance with the same regulations and procedures that non state-owned businesses do. However, the manner in which these funds are distributed or used will vary from one country to another. The most common examples of State-Owned Enterprises are strategic goods and services such as weapons and mail, natural resources and energy, politically sensitive businesses such as infrastructures, telecommunications, and railways.

The difference between a sovereign wealth fund and a state-owned enterprise is the fact that the first is funded by foreign exchange reserves, export revenues and investment returns and is held by the central government while the latter is funded by corporate profits and the government grants, and is governed by the central or local government. Moreover, in the benchmark of the legal structure, SOEs are companies regulated by the general company law while SWFs may take three forms: a legal entity under a specific public law, a legal entity under the general company law, or a pool of assets. Most SWFs take the first form and act strongly as a business entity.

Sovereign Wealth Funds (SWFs) are pools of assets owned and managed directly or indirectly by governments to achieve national objectives. They may be funded by (i) foreign exchange reserves; (ii) the sale of scarce resources such as oil; or (iii) from general tax and other revenues. Some of the most noticeable objectives of Sovereign Wealth Funds are: (i) To get a higher rate of return on reserves; (ii) to diversify assets; (iii) to provide funds for future payments in pension funds; (iv) to store funds for future generations when natural resources run out; (v) to promote industrialization; (vi) price stabilization schemes; and (vii) to promote strategic and political objectives (Blundell-Wignall & Hu & Yermo, 2008).

Public Pension Reserve Funds (PPRFs) are set up by social security institutions or the central governments. Their main objective is to financing related pay-as-you-go pension plans. They are directly granted by the governments' inflows. These funds are divided into two different groups. The first one is Social Security Reserve Fund (SSRF). Mainly, the manager of these funds is government sector, but in some cases, social security

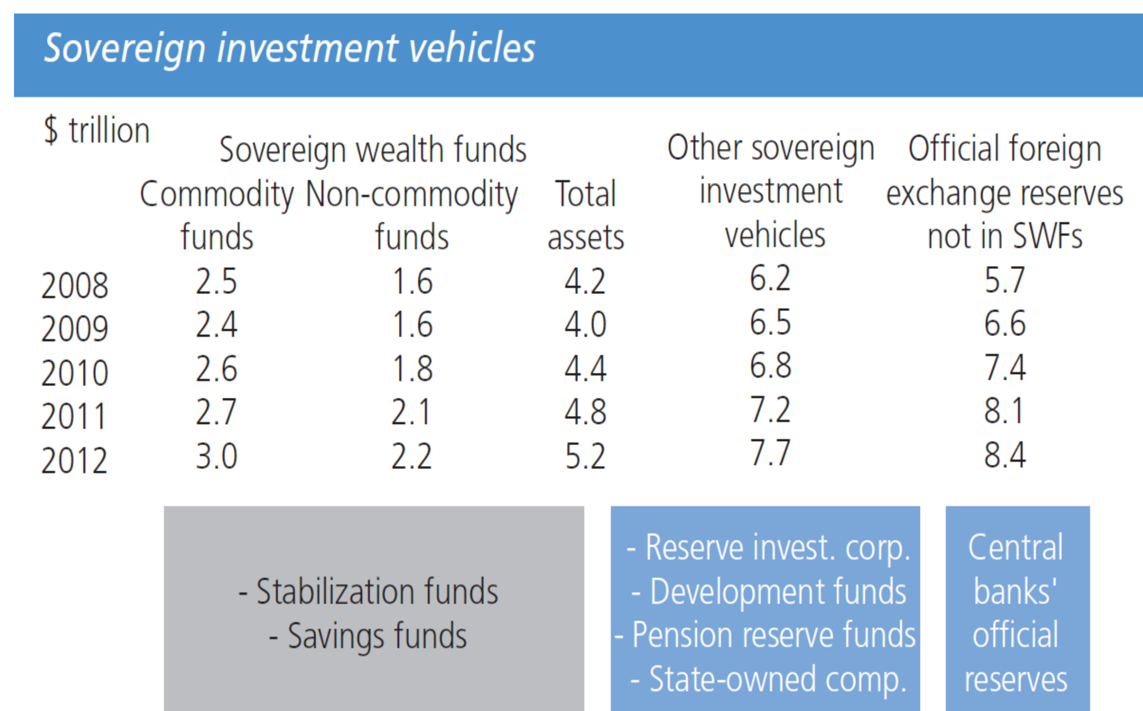
institutions or independent fund management entities operate these funds. Government supports these funds through fiscal transfer or other sources, but the main fund inflows are coming from contributions of employer and surpluses of employee. USA's social security trust funds and Japan's government pension investment funds are the best examples of these types.

Sovereign Pension Reserve Funds (SPRFs) are the second groups of PPRFs. These funds are directly established and are funded by the government. Funds on these groups have been set up to meet future deficits of the social security system, and some of them have not made any payouts for decades. According to some definitions, they have been considered as a Sovereign Wealth Fund. Norwegian Government Pension Fund, Australian Future Fund and Irish National Pension Reserve Fund are examples of these funds (Blundell-Wignall et al., 2008)

It is estimated that assets held by Non-SWFs sovereign investment vehicles have increased from $6.2 trillion to $7.7 trillion during the period 2008 to 2012. Countries, such as Japan, the US and Sweden which hold a big portion of these funds through social security institutions are willing to finance future payouts on pay-as-you-go pensions. Remaining funds include government development funds, government investment corporations and overseas investments of government-owned enterprises. Figure 2.1 represents a brief size comparison between different sovereign investment vehicles and official foreign exchange reserves. According to this figure, the total amounts of commodity-based Sovereign Wealth Funds are almost twice as big as non-commodities in 2012. In terms of source of funding, the SWFs have been classified into

Commodity and Non-commodity SWFs. Accordingly, the countries, with an outstanding SWF, fund it through two different methods: commodity exporting revenues or generating fiscal and trade surpluses and also domestic public saving such as privatization receipts (Drezner, 2008).

All different kinds of sovereign investment vehicles have increased after the global financial crisis at 2008. The growth of official foreign exchange reserves (excluding SWFs) is higher than the other funds. Probably, the most important reason is that the governments prefer to put their money in less risky and more liquid assets, following the crisis period.



Sovereign investment vehicles

$ trillion	Sovereign wealth funds: Commodity funds	Sovereign wealth funds: Non-commodity funds	Sovereign wealth funds: Total assets	Other sovereign investment vehicles	Official foreign exchange reserves not in SWFs
2008	2.5	1.6	4.2	6.2	5.7
2009	2.4	1.6	4.0	6.5	6.6
2010	2.6	1.8	4.4	6.8	7.4
2011	2.7	2.1	4.8	7.2	8.1
2012	3.0	2.2	5.2	7.7	8.4
	- Stabilization funds - Savings funds			- Reserve invest. corp. - Development funds - Pension reserve funds - State-owned comp.	Central banks' official reserves

Figure 2.1 Sizes of Sovereign Investment Vehicles during 2008-2012

Source: TheCityUK: Partnering prosperity, 2013, p. 2

The differences between various types of public funds and SWFs are not very clear. For example, it is not easy to differentiate a public pension fund such as the Hong Kong's Mandatory Provident Fund or the New York State Teachers' Retirement System from a SWF. Sovereign Wealth Funds, however, are created to manage wealth which has been cumulated through higher surpluses, whereas pension funds are created just to accumulate wealth. In other words, the key difference between official reserves and SWFs is that the former hold mostly riskless assets such as sovereign bonds while the latter may have equities, corporate bonds and other assets in their portfolios. The change in the currency and asset composition of the portfolios of SWFs is what makes them important for financial markets.

Some analysts believe that other types of state-owned or managed investment funds such as social security funds, state-owned companies, government-employee pension funds and state-owned development banks might also be considered as sovereign wealth funds. Although there are several common characteristics between SWFs and these entities, significant differences can be found as well. For example, majority of public pension funds are funded and denominated in local currency and have a high foreign currency exposure. Moreover, most of the state-owned companies do not substantially invest abroad (Singh, 2008).

Monetary authority is an entity which controls supply, cost and availability of money, and most of the time is considered as the central bank. The main purposes of this entity are to control inflation and value preserving of a given currency. In addition to the SWFs which have employed the external management models, monetary authorities are also

using the traditional model of control bank direct administration. Some of the monetary authorities such as Hong Kong Monetary Authority (HKMA) maintain a sovereign wealth fund which is called the Hong Kong Monetary Authority Investment Portfolio.

The most notable characteristics of Sovereign Wealth Funds, Government Pension Funds (GPF), Monetary Authorities and State-owned Enterprises (SOE) are compared together in Table 2.1:

Table 2.1 Comparisons of Different Sovereign Investment Vehicles

	SWF	**Traditional GPF**	**Monetary Authorities**	**SOE**
Owner	Central government	Members of the pension scheme	Central government	Central/local government
Source of fund	Forex reserves/ export revenues/investment returns	Contribution from community members	Forex reserves	Government grants/corporate profits
Investment purposes	Value enhancement (primary) or strategic goals (secondary)	Alleviate future pension funding pressure	Value preservation/currency stabilization	Value enhancement/ profit making/strategy
Investment portfolio	Diverse	Diverse	Monotonous	Industrial sector prone
Investment horizon	Long	Long	Possibly short	long
Government holding stake	Complete	Not obvious	Complete	Significant but not complete
Information disclosure	Varied (mostly non transparent)	Highly transparent	Non transparent	Varied (listed companies need to meet disclosure requirements

Source: Peng and Chao, 2008, pp. 6-7

2.2 What is a Sovereign Wealth Fund (SWF)?

While Sovereign Wealth Fund is a new term in global financial market, it has existed for six decades and the first fund established by Kuwait in 1953. With the sharp and possibly permanent rise in oil prices in recent years, these funds have been converted from Stabilization Funds to Wealth Accumulation or Preservation funds. There is no universally agreed upon definition of SWFs, but some of them are more reliable. The U.S. Treasury Department (2007) defines it as follows: "a government investment vehicle which is funded by foreign exchange assets, and which manages those assets separately from the official reserves of the monetary authorities" (p. 1). According to International Monetary Fund (IMF) (2008), "Sovereign Wealth Funds (are) special investment funds created or owned by the government to hold foreign assets for long term purposes" (p. 45).

Some exports provide a more expanded and detailed definition of SWFs. Stephan Jen, an analyst at Morgan Stanly provides a wider definition to understanding SWFs and how they differ from official foreign reserves and other sovereign funds. According to Jen (2007), "There are five key traits of SWFs. They are (1) sovereign government entities with (2) high foreign currency exposures, (3) no explicit liabilities (such as a national state pension fund), (4) high-risk tolerances, and (5) long investment horizons (p. 15)." Another definition of SWF is given by Truman (2010):

> Sovereign wealth funds (SWFs) are large pools of government-owned or -controlled funds that are invested in whole or in part outside their home countries. They have existed for nearly five decades but began to attract international attention only a few years ago. Their rapid growth was seen as a threat in many countries receiving SWF investments. On the other hand, SWF investments assisted some major Western financial institutions that were under financial stress weather the recent global financial crisis. (p. 216)

Balding (2008) states that: “A Sovereign Wealth Fund is a pool of capital controlled by a government or government related entity that invests in assets seeking returns above the risk free rate of return.” (p. 10)

Finally, the Sovereign Wealth Fund Institute (2009) provides the following definition:

> A Sovereign Wealth Fund (SWF) is a state-owned investment fund composed of financial assets such as stocks, bonds, real estate, or other financial instruments funded by foreign exchange assets. These assets can include balance of payments surpluses, official foreign currency operations, the proceeds of privatizations, fiscal surpluses, and/or receipts resulting from commodity exports. Sovereign Wealth Funds can be structured as a fund, pool, or corporation. The definition of sovereign wealth fund exclude, among other things, foreign currency reserve assets held by monetary authorities for the traditional balance of payments or monetary policy purposes, state-owned enterprises (SOEs) in the traditional sense, government-employee pension funds, or assets managed for the benefit of individuals.(para. 1)

Sovereign Wealth Funds are pools of assets owned and managed directly (or indirectly) by the governments that are invested in whole or in part outside their home countries. Seeking to insulate the value of wealth and to transfer massive amounts of revenues caused the emersion of Sovereign Wealth Funds. These funds are one of the government investment vehicles which invest in foreign currency denominated assets with a long-term horizon and non-standard liabilities. Sovereign Wealth Funds are managed separately from foreign exchange reserves. The key difference between SWFs and official reserve is that the former has assets with less liquidity and higher expected returns such as corporate bonds and equity while the latter may hold mostly riskless assets. Therefore, many Asian central banks are investing a significant part of their foreign reserve through SWF in assets with higher expected returns.

2.3 Different Types of Sovereign Wealth Funds

The International Monetary Fund (IMF) (2007) divides Sovereign Wealth Funds into three different categories based on their stated goals, but many SWFs combine features of these groups:

2.3.1 Stabilization Funds

Stabilization funds are set up by some countries which have massive amounts of natural resources to provide budgetary support and stabilize (or insulate) the local economy from unexpected fluctuations of international commodity prices. These funds are usually built up in times of boom economy prices and then drawn upon when commodity prices decline, or there are some shortages of reserves. The best example of these funds is the Reserve Fund of Russia.

2.3.2 Saving Funds

Saving Funds are set up by governments to preserve wealth for a longer term and respond future fiscal deficits. For rich natural resource countries which have lots amounts of commodity exporting, saving funds will help to make present and future generation beneficiary by converting non-renewable assets (such as oil) into financial assets. There are few withdrawals on these funds which are invested over a longer-term compared to stabilization funds. One prominent example of saving fund is the Kuwait Investment Authority, whose money comes from the Kuwait oil revenues.

2.3.3 Reserve Investment Corporations

Reserve Investment Corporations are funds established to reduce the opportunity cost of holding excess foreign reserves and/or to seek investment plans with higher returns. Reserve investment corporations have more aggressive investment strategies such as

taking direct equity stakes. These funds typically seek higher returns than other SWFs and use leverage in their investments. Historically, theses vehicles tend to be more secretive than other SWFs that are normally portfolio investors. Examples of such funds are Abu Dhabi's Mubadala, Qatar's Investment Authority, and Singapore's Temasek.

At the end of this section, we should mention that based on some definitions of SWFs' Government Pension Reserve Funds are categorized as the SWFs. Most of the funds in this category are as the non-commodity SWFs including Chile's Pension Reserve Fund, Ireland's National Reserve Fund, Australia's Future Fund, Russia Federation's National Pension Reserve Fund, and New Zealand's Superannuation Fund.

2.4 A Portfolio Analysis of Sovereign Wealth Funds

This section aims to address the investment targets of SWFs. Their fund sources will be distinguished, and the Strategic Asset Allocation (SAA) of these funds which are seeking some explicit and implicit objectives will be defined at the end.

2.4.1 Classification of SWFs Based on Their Source of Funds

In an effort to improve reserve returns, to avoid boom and bust cycles, to smooth long term consumption and investment and to sterilize foreign currency inflows, a lot of countries have started to establish Sovereign Wealth Funds in recent years to manage their holdings (Balding, 2008). They have invested huge amounts of money in big-name companies and assets all around the world. The estimation of experts shows that total amounts of Sovereign wealth funds, including more than 50 different SWFs, hold more than $5 trillion in assets in 2012, and this number has been growing . As such, it is very critical to understand their source of funds (Wilson, 2012).

The origin of SWFs is coming from two main categories, which are the commodity and the non-commodity Sovereign Wealth Funds. As the name suggests, the commodity funds are established through exporting the commodities such as oil and gas. They follow a wide range of goals including inter-generational saving, stabilization of fiscal revenues, and balance of payment sterilization (U.S. Department of Treasury, 2007). During the recent sharp rise in commodity export revenues, lots of sovereign funds have turned from being only as a stabilization fund into saving funds. Therefore, they would be able to invest in wider less-liquid asset classes with higher level of returns. Some non-commodity exporter countries have start to establish SWFs through transferring the excess assets from foreign exchange reserves. These funds, which known as non-commodity funds, are the products of large current or capital account surpluses.

Figure 2.2 shows the combination of assets under management of SWFs based on their origins during 2002 to February, 2013.

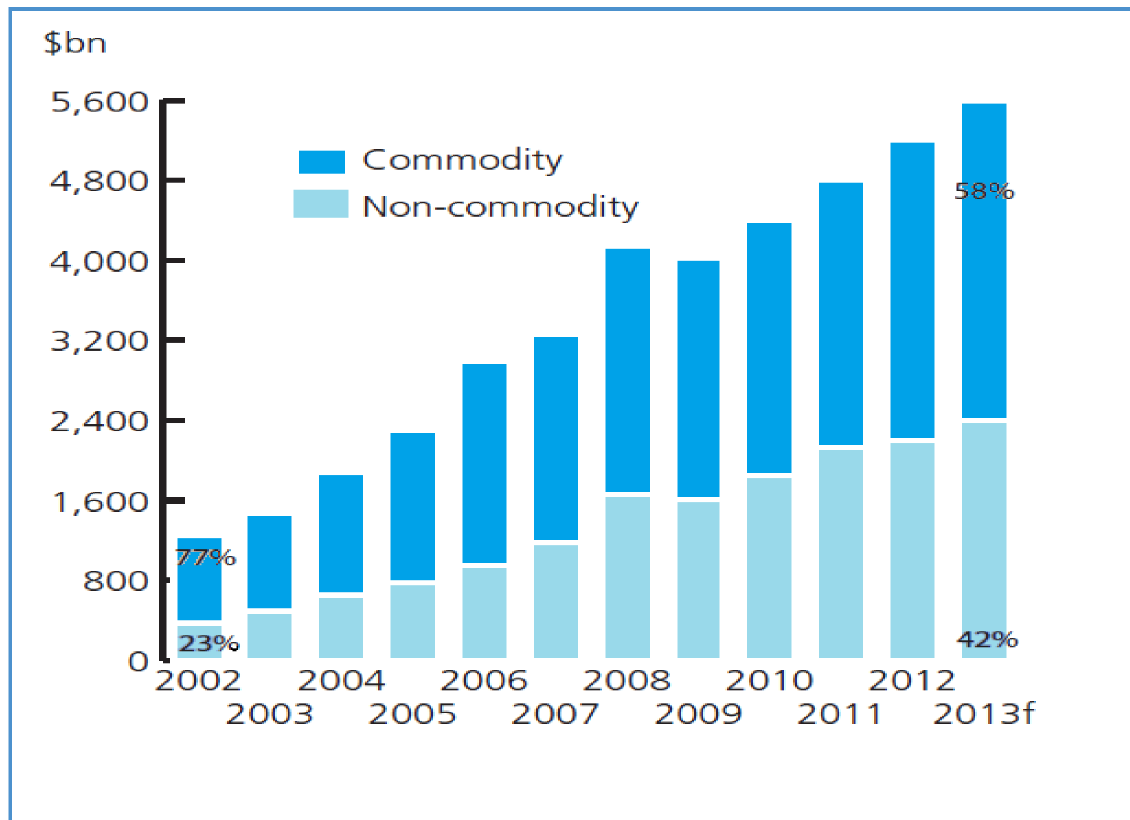


Figure 2.2 Sovereign Wealth Funds' assets under management

Source: TheCityUK: Partnering prosperity, 2013, p. 1

Based on Figure 2.2 the percentages of non-commodity's Sovereign Wealth Funds have increased from 23 percent of the total amounts of established SWFs in 2002 to 42 percent in 2013. Reversely, during the same period, the commodity SWFs have fallen down from 77% to 58% of the total amounts of established SWFs.

Commodity SWFs are financed by exporting commodities such as oil and gas and recently metals or minerals. Of the world's top 20 sovereign wealth funds, 14 are funded from commodity revenues (Singh, 2008). Nations which are typically rich in natural resources have established commodity SWFs to reserve their excess revenues of exporting when the price of a commodity rises. Conversely, when the price of that

commodity falls, those SWFs will help to minimize the adverse effects of deficits on the economy by diversifying the countries' wealth in other investment areas. Oil exporters such as Norway, Russia, the United Arab Emirates, Saudi Arabia, and Kuwait are the most prominent commodity based Sovereign Wealth Funds holders (Balin, 2008). Recently, the new oil and natural resources boom caused emersion of new SWFs in countries such as Iran, Venezuela, and Algeria. (Balin 2008). Commodity sovereign wealth funds have had high growth as oil and gas prices increased between 2000 and 2012. In 2013, commodity financed funds totaled more than $3.5 trillion (SWFs Institute, 2013).

Non-commodity Sovereign Wealth Funds are established from the excess amounts of foreign currency reserves in current accounts, proceeds from privatization, fiscal surpluses and direct transfers from state budgetary resources. Non-commodity SWFs have grown rapidly during the last decade and had reached $2.5 trillion at the end of 2013 (SWF Institute, 2013). For example, Singapore and China derive their Sovereign Wealth Funds from foreign reserve accumulation and continued fiscal surpluses. For the case of China, the government diverted foreign currency reserves from the central bank to provide adequate funds for Chinese Investment Corporation (CIC) to start their fund and seek higher returns.

Table 2.2 shows different categories of the main SWFs in more details, based on their main source of funds. In this table, the current sizes and date of establishment of funds are shown, as well. The main origin of funds in rich natural resources countries, specially oil exporters, is commodity. More developed countries SWFs are mostly based

on non-commodity and fiscal surpluses origins such as Australia, South Korea, France, and China.

2.4.2 Sovereign Wealth Funds' Aims and Investment Objectives

International Monetary Fund (IMF) (2008), notes "SWFs are a heterogeneous group and may serve various purposes" (p. 5). Therefore, their investment objectives and Strategic Asset Allocations (SAAs) keep changing over time. Sovereign Wealth Funds are essentially set up to diversify investments and manage surplus foreign exchange reserves. The total amount of foreign exchange reserves has increased from $2.1 trillion to $6.2 trillion during 2001 to 2007. Therefore, the number of SWFs which are creating from the accumulation of foreign exchange reserves increased dramatically (Singh, 2008). For instance, China's foreign exchange reserves surpassed $3.3 trillion at the end of 2012 (Central Intelligence Agency, 2012). They have the biggest and fastest growing foreign exchange reserves in the world, so they can inject part of these funds to their sovereign wealth fund which is called China Investment Corporation (CIC). Table 2.3 lists the largest foreign exchange reserves holders in the world.

Table 2.2 Different types of SWFs based on their main source of funds

Name	Country	Year Founded	Main Source of Funds	Current Size (US$ bn)
Abu Dhabi Investment Authority	United Arab Emirates	1976	Commodity	875
Alaska Permanent Fund	United States	1976	Commodity	29
Alberta's Heritage Fund	Canada	1976	Commodity	16
Australia Future Fund	Australia	2004	Fiscal surpluses	44
Brunei Investment Agency	Brunei	1983	Commodity	30
Canada Pension Plan	Canada	1966	Employee Contributions	121
China Investment Corporation	China	2007	Forex reserves	200
Economic and Social Stabilization Fund	Chile	2006	Natural resources	15
Government of Singapore Investment Corporation	Singapore	1981	Forex reserves, fiscal surpluses, employee contributions	330
Government Pension Fund of Norway	Norway	1990	Commodity	301
Investment Corporation of Dubai	United Arab Emirates	2006	Commodity	82
Kazakhstan National Fund	Kazakhstan	2000	Commodity	38
Khazanah National	Malaysia	1993	Fiscal surpluses	26
Korea Investment Corporation	Republic of Korea	2005	Forex reserves	30
Kuwait Investment Authority	Kuwait	1953	Commodity	265
Libyan Investment Authority	Libya	2006	Natural resources	50
Oil Income Stabilization Fund	Mexico	2000	Natural resources	5
National Pensions Reserve Fund	Ireland	2001	Noncommodity	31
Qatar Investment Authority	Qatar	2005	Commodity	60
Revenue Regulation Fund	Algeria	2000	Commodity	47
Saudi Arabian Monetary Agency	Saudi Arabia	1952	Natural resources	270
Stabilization Fund (and National Welfare Fund)	Russia	2004	Commodity	225

Source: Wharton Leadership Center, 2010, p. 6

Table 2.3 Top Eleven Foreign Exchange Reserves Holders

Rank	Country	Foreign Exchange reserve (Millions of US$)	Figures as of
1	China	3,557,006	June 2013
2	Japan	1,276,751	October 2013
3	Euro zone	792,413	September 2013
4	Saudi Arabia	703,733	September 2013
5	Switzerland	530,570	September 2013
6	Russia	522,580	September 2013
7	Taiwan	417,816	September 2013
8	Brazil	364,505	October 2013
9	South Korea	336,922	September 2013
10	Hong Kong	303,503	September 2013
11	India	283,572	November 2013

Source: Wikipedia, 2013, para. 4

There are some important reasons demonstrate why developing countries prefer to accumulate large amounts of foreign exchange reserves. After 1997 financial crisis in the south-East Asia, especially in Indonesia and Thailand, governments decided to protect the economy from volatile capital flows and trade shocks. Singh (2008) states “In fact, higher reserves became the policy to meet the challenges posed by financial liberalization” (p. 15). Furthermore, the new trend of developing countries, especially in Asia, is to use higher levels of foreign exchange reserves as a part of self-insurance against crisis.

However, huge amounts of foreign exchange reserves have created new risks and challenges such as creation of higher inflation and asset price bubbles. They have also negative effects on the competitiveness of exports and other sectors. Typically, central bank reserves invest in short-term low-yielding assets such as treasury bills and bonds which have had less than 1 percent annually real rate of return in the past 60 years (Kern, 2007). In contrast, the rate of return of a portfolio consisting of 40 percent bond and 60 percent stock, has been 6 percent. By establishing SWFs, countries have been able to seek more investment opportunities with a higher rate of return over longer periods, and preserve the wealth for the future generation.

Since the non-renewable and finite natural resources such as oil, gas and copper have been rapidly extracted in commodity exporting countries during the recent years, international financial institutions such as International Monetary Fund (IMF) have encouraged these countries to establish Sovereign Wealth Funds. Most of these funds are stabilization funds, which set up to stabilize volatile commodity prices and reduce the boom and bust tendency of commodity dependent economies. Moreover, the imbalances of trade in global trade market, especially in countries such as Japan, South Korea, Hong Kong, Singapore and China which have had steady export's revenues in recent years, played an important role to appear new Sovereign Wealth Funds in Far East (Gieve, 2008). At the same time, countries of Eastern Europe, United States, United Kingdom and Italy have been faced to huge amounts of current account deficits. Therefore, China, Japan and other oil-exporting countries have utilized SWFs as a mean to finance these deficits via buying treasury securities, agency bonds and equity instruments. For

example, Japan and China were been the largest holder of long-term securities in the United States by investing $644 Billion and $350 Billion, respectively (Singh, 2008).

Sovereign Wealth Funds can be distinguished based on their objectives. First, rich countries in natural resources establish stabilization funds to protect the budget and economy from volatile commodity prices. They are saving the fiscal revenues at boom cycles to prepare for leaner years. Second, rich countries are using saving fund as a mean to channel non-renewable assets into a diversified portfolio of international financial assets to provide long-term objectives. Third, some sources of funds can be dedicated to infrastructure projects by running through development funds. Fourth, to pursue a higher rate of return, reserve investment corporations have been established. These entities are seeking lower negative cost of carry of holding reserves at the same time. They will need to consider the possible repercussions of balance of payments risks, and will want to hold a portion of their portfolio in liquid assets. Fifth, as the name of pension reserve funds suggests, they have been created to insurance the transfer of funds for the future generations.

Table 2.4 represents the main sources and purposes of some SWFs which have been distributed around the world. Based on this table some countries follow different purposes through establishing more than one SWFs. For Instance, Russia seeks its economy's stabilization aims via establishing Russia Reserve Fund funded by oil exporting revenues. At the same time, the other Russian SWF, National Welfare Fund, tries to accumulate the countries excess revenue on behalf of future generation.

Table 2.4 Example of Sovereign Wealth Funds Sources and Purposes

Purposes/Sources	Commodity Revenues	Fiscal Sources	Foreign Reserves
Revenue stabilization	Russia: Reserve Fund Kuwait: Reserve Fund Mexico: Oil Stabilization Fund		
Future generations / public pensions	Russia: National Welfare Fund Norway: Government Pension Fund - Global	Australia: Future Fund New Zealand: Super Fund	
Management of government holdings	Mubadala	Singapore: Temasek Malaysia: Khazanah	China: Bank holdings managed by CIC
Wealth or risk/return optimization	Abu Dhabi Investment Authority (ADIA) Qatar Investment Authority (QIA)	Singapore: Government Investment Corporation (GIC)	Singapore: Foreign reserves managed by GIC Korea: Foreign reserves managed by KIC China: Foreign reserves managed by CIC

Source: JPMorgan, 2008, p. 6

As the most important objective of establishing Sovereign Wealth Funds, they have been established to invest in capital seeking a return in excess of the government risk free rate of return securities. The decision to seek returns above the risk free rate of return can be categorized into three different factors.

First, holding huge amounts of capital imposes governments and SWFs to pay the cost of capital. Therefore, to protect the economy against the holding of low yielding government securities and depreciable foreign exchange reserves which are not able to cover the mentioned cost of capital, investing on some higher rate of return securities is necessary. For example, the State Administration of Foreign Exchange of the People’s Republic of China and their newly established Chinese Investment Corporation (CIC) have faced a high cost of capital which is between currency and inflation costs. Considering that governments previously put money in low risk fixed income securities

and global banks, the decision to pursue higher returns stems to cover the cost of capital for countries with large foreign currency holdings.

Second, countries treat their foreign exchange reserves or accumulated financial capital as fund that needs to earn higher rates of return than cash and government securities. Therefore, they are less considered as low risk capital or currency reserves to cover international trade requirements. Cooperation with private equity firms, hedge funds and investment banks leads SWFs to seek higher yielding investment opportunities. There are some instances indicate that countries with huge amounts of foreign exchange reserves are willing to seek the higher levels of returns, and they are not interest to invest in low yielding money market returns. China has diverted foreign currency reserves from the Central Bank to provide $200 billion initial fund for the CIC to start their fund recognizing seeking higher returns and covering their high cost of capital. Kuwait Investment Authority (KIA) (2013) states: "KIA aims to achieve a rate of return on its investment that, on a three-year rolling average, exceeds its composite benchmarks" (para. 10). The Singaporean SWFs announced their passion to achieve good long term returns on Singapore's foreign reserves. Therefore, an important change in the investment strategy of stabilizations fund and central banks has occurred, and this made the difference between central bank and SWFs blurry and subsequently, the importance of this shift to seek higher return higher risk assets by SWFs cannot be underestimated.

Third, most of the countries have utilized SWFs to invest in their local and regional economy. They have invested on infrastructure projects to diversify their economy away from a commodity dependent economy. Whereas some smaller countries such as UAE

and Qatar are importing world class experts to improve the quality of financial management and domestic human capital. None of the countries with its outstanding SWF is content to put its capital in assets that earn a negative real return in foreign markets.

It should be remarked that SWFs are mainly created to yield investment returns. The returns can decrease the volatility of national income across different time periods and provide funding guarantee for future generations. Hence, SWFs seek maximized returns within an acceptable risk range and thus, have a higher risk tolerance and invest in a professional and the market-oriented way. Therefore, government bodies such as the reserve management functions of the monetary authorities, which simply use reserves as a currency stabilizer, should not be considered as SWFs. The state's government sets SWFs apart from the rest pure profit-seeking financial institutions as SWFs do play a certain role in assisting the country's economic strategic development and currency stabilization. The Temasek Holdings of Singapore, for example, has controlling stakes in more than 50% of Singapore's domestic companies and through effective supervision and commercial and strategic investment, has promoted a number of world class companies for Singapore and amplified the country's strategic development.

As the conclusion, SWF is a market-oriented and professional investment body owned and managed by a state's central government, which uses foreign exchange reserves and export/commodity revenues to make overseas investment and seeks to maximize long term return. The management of this fund should be independent of the passive foreign

exchange reserve management to stabilize the currency. Balding (2008) states some implicit aims and management of Sovereign Wealth Funds:

> Countries generally place the fund far enough from the potential meddling of political pressures but do not go so far as to exercise no control over such a potentially powerful body. Governments typically appoint key positions such as managing directors, key executives, board members, or auditing functions but also tap private sector players, in some instances including foreigners, to provide management or corporate expertise. (p. 12)

In Table 2.5, the major Sovereign Wealth Funds have been categorized based on their policy purposes which are including macro stabilization, saving, pension reserve and reserve investment. This table shows how SWFs which are stemming from different sources of funds can pursue different aims of investments. Based on this table, majority of the world's SWFs have been established to act as a macro stabilization or saving funds. Interestingly, most of these funds have been established through oil and other commodity exporting revenues. Kuwait Investment Authority, Government Pension Fund of Norway, Abu Dhabi Investment Authority, and State General Reserve Fund of Oman are examples of this type of SWFs. On the other hand, most of those SWFs which have been established via fiscal surpluses or foreign exchange reserves acting as a pension reserve or reserve investment fund. The far-east countries of Asia such Singapore, South Korea, and China have started to establish SWFs in order to diversify a significant portion of their foreign exchange reserve.

Table 2.5 Classification of SWFs Based on Their Policy Purposes

Source	Year Establishment	Country	Policy Purpose			
			Marco Stabilization	Saving	Pension Reserves	Reserve Investment
Oil and Stabilization	1963	Kuwait	Kuwait Investment Authority. General Reserve Fund	Kuwait Investment Authority Future Generations Fund		
	1976	Canada		Alberta Heritage Saving Trust Fund		
	1976	United Arab Emirates		Abu Dhabi Investment Authority		
	1976	United State		Alaska Permanent Fund		
	1980	Oman		State General Reserve Fund		
	1983	Brunei Darussalam		Brunei Investment Agency		
	1996	Norway	Government Pension Fund Global	Government Pension Fund Global	Government Pension Fund Global	
	1999	Azerbaijan	State Oil Fund	State Oil Fund		
	2000	Iran, Islamic Republic of	Oil Stabilization Fund			
	2000	Mexico	Oil Revenues Stabilization Fund			
	2000	Qatar		Qatar Investment Authority		
	2000	Trinidad and Tobago	Heritage and Stabilization Fund	Heritage and Stabilization Fund		
	2001	Kazakhstan	National Fund			
	2002	Equatorial Guinea		Fund for Future Generation of Equatorial Guinea		
	2004	Sao Tome and Principe		National Oil Account		
	2005	Timor-Leste	Petroleum Fund	Petroleum Fund		
	2006	Bahrain	The Future Generations Reserve Fund	The Future Generations Reserve Fund		
	2006	Libya		Libyan Investment Authority		
	2008	Russian Federation	Reserve Fund		National Wealth Fund	
Other Commodity	1956	Kiribati		Kiribati, Revenue Equalization Fund		
	1996	Botswana		Botswana, Pula Fund		
	2006	Chile			Pension Reserve Fund	
	2007	Chile	Economic and Social Stabilization Fund (ESSF)			
Fiscal Surpluses	1974	Singapore		Singapore, Temasek		
	1981	Singapore				Government of Singapore Investment Corporation
	1993	Malaysia		Khazaneh Nasional BHD		
	2000	Ireland			Ireland, National Pensions Reserve Fund	
	2001	New Zealand			New Zealand Superannuation Fund	
	2004	Australia			Australia, Future Fund	
	2005	Korea, Republic of				Korea Investment Corporation
FX Reserves	1981	Singapore				Government of Singapore Investment Corporation
	2005	Korea, Republic of				Korea Investment Corporation
	2007	China				China Investment Corporation

Source: IMF, Monetary and Capital Markets Department, 2011, p. 4

2.4.3 Strategic Assets Allocations (SAAs) of SWFs

One major factor, distinguishing SWFs from the central bank reserves, is their investment patterns and strategies. In order to participate in foreign exchange market, the foreign exchange reserve have historically invested in sovereign fixed income notes. Nevertheless, SWFs are more interested to take longer-term, less-liquid, risky investment horizons via investing in commodities, real estate, international equities, and private fixed income securities (Balin, 2008).

Different types of SWFs, which are seeking various objectives, will also have multiple investment horizons. Strategic Asset Allocation (SAA) of SWFs aims to lead the capitals under its management toward the potential aims and objectives. Since different targets have existed in establishing SWFs, their combinations of asset allocations are differing consequently. As Dutta (2012) states "even though SWFs may appear to be similar with regard to their type and funding, some notable patterns can be discerned between different types of SWFs and intrinsic fund allocations may be quite different even among similar funds" (p. 3). Strategic Asset Allocation can be affected by the policy purpose of SWF, its funding source, investment horizon, and other balance sheet characteristics (Das et al., 2010).

As it has mentioned at the previous section, different purposes of establishing SWFs, which are including saving funds, pension reserve funds, stabilization funds and reserve investment corporations, have important differences in their objectives and behavior. Figure 2.3 illustrates a portfolio comparisons between different SWFs have followed varying purposes during 2007 to 2009. According to the funds creators' required

objectives, the composition of each SWFs has dedicated to alternative assets, equities, fixed income, and cash. For example, saving funds are created to preserve wealth over a longer term and help to convert non-renewable assets into financial assets in behalf of future generations. Therefore, most of these funds have composed of fixed income assets and equities in their portfolios.

As the figure 2.3 shows, the stabilization funds such as Russian Federation Reserve Fund and Azerbaijan consist of only fixed income securities in big portion and cash, as the small part, in their portfolio. Moreover stabilization SWFs usually do not invest in alternative assets. In the case of Australia pension reserve fund, the composition has changed from holding cash and equities to a well diversified portfolio including alternative assets, fixed income mixed with cash and equities during 2007 to 2009. Reserve investment funds, such as Korea Investment Corporation, have to hold a big portion of their portfolio in liquid fixed income assets to be prepared for the possible repercussions of balance of payment risks (Kunzel et al,. 2011).

The figure 2.3 obviously illustrates that the 2008 global financial crisis has affected all SWFs' structures around the world. The huge amounts of losses occurred because of the sharp downturn in equities value and asset prices. These enormous losses have affected the strategic asset allocation of SWFs around the world in different ways. For example, the funds with stabilization objectives have decreased their cash reserves either because of moving to fixed income assets such as Australia, and Trinidad and Tobago, or because of using cash to compensate the occurred losses in their portfolio such as Chile. Moreover, the countries with no share of investing in alternative assets, such as South

Korea, have started to add these assets to their portfolio, alongside with the growth of these assets' portion into the portfolio of those SWFs which had it before such as United States and Canada.

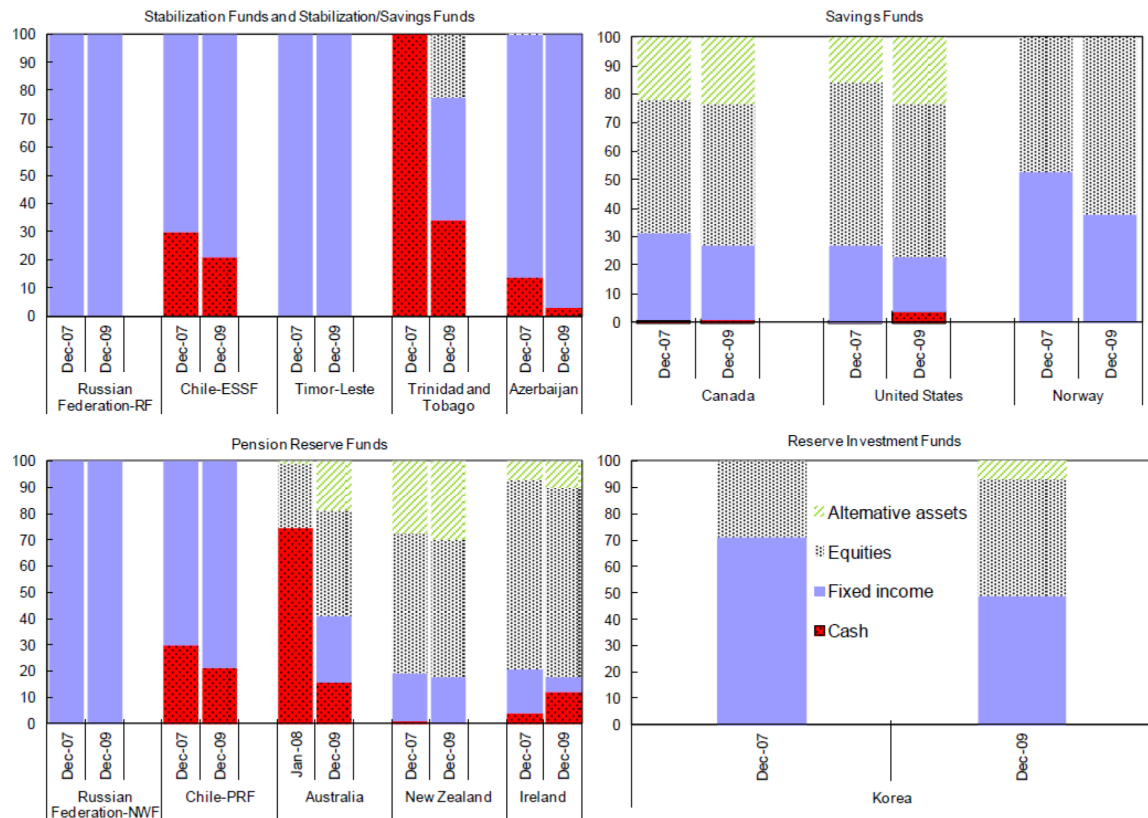


Figure 2.3 Sovereign Wealth Funds Strategic Asset Allocation, 2007 to 2009

Source: International Monetary Fund, 2010, p. 147

There are some reasons which have caused the primary differences in the asset allocations of SWFs with the homologous objectives. For example, expected performances of asset classes over different horizons are not same. Different SWFs have varied tolerance of unexpected losses, which depend on institutional factors and financial literacy of the public and their owners. Moreover, small SWFs, in the case of

assets and funding inflows, should hold larger parts of their capital in liquid assets to be able responding urgent liquidity needs (Scherer, 2012).

Investment horizon is the other factor which affecting the asset allocation of SWFs. In the case of long investment horizon, which is seeking illiquid and risky assets, the illiquidity premium is awarded to investors. Long-run asset classes such as real state, private equity, and infrastructure projects will provide a higher rate of returns in compensation of high risk tolerances. A larger share in equities for investors with long investment horizons is appropriate because of at least two reasons. Firstly, on long-term investment horizons, the volatility of equities is less than short-term investment because of the reinvestment risk of short-term investment. Moreover, historical data prove a fairly constant equity return premium over longer horizons (Das et al., 2010).

Conversely, a portfolio of short term investment horizon, such as stabilization SWFs, mostly has been filled by liquid bonds and cash to be able to meet unexpected outflows and potential suddenly withdrawals with the minimum possible losses. As a result, the strategic asset allocation of these funds are similar to central bank reserves. Although the stabilization SWFs have allocated a part of their portfolio to equities, but they have to consider the risk of having a divest portfolio at fire sale price when the liquidity requirement comes up (Das et al., 2010). Therefore, the stabilization funds specially those which are small in size, dedicate a significant part of their portfolio to low-risk equities and bonds to secure their economy against the worldwide economic slumps because only low-risk securities maintain their value during the depression times (Balin, 2008).

Finally, the sources of funds which are flowing into SWFs are the last factors affects the strategic asset allocations of SWFs. If a countries' SWF is based on a specified commodity exporting, the asset allocation should put a part of SWFs' capital on those assets which have adverse volatility regarding to that commodity (Dutta, 2012). According to portfolio theory, the saving or stabilization funds, which have been created by the commodity exporting revenue, try to diversify the dependency to a single commodity via investing in financial asset with low or negative correlation with that real asset (Brown et al., 2010).

As it has been mentioned before, some notable differences can be found in strategic asset allocation of SWFs following same objectives due to the difference in funding source, investment horizons, and other liability and asset consideration such as having more than one SWF in a country or following multiple objectives. Moreover, the existence of varying views on relative performance of asset classes caused by the lack of having a unified investment horizon has to be considered. Finally, the other consideration factors are including; (1) the ability of SWF to tolerate huge amounts of unexpected losses within the investment horizon; (2) the maturity of the SWF and its level of integrity, and (3) the amount of unexploited natural resources or commodity reserves in the establisher country of SWF (Das et al., 2010).

In order to achieve the highest possible return, the majority of SWFs organize their portfolio based on countercyclical strategies. According to this pattern, the SWFs tend to invest in countries and industries that perform best when their domestic economy suffering the poor economy's condition. The Saudi Arabia and Norway are the most notable example of this strategy where they try to invest in technology, banking entity,

and industrial companies. On the other hand, Malaysia and Singapore tend to invest in natural resource entities. Moreover, the countries such as South Korea and Singapore, which try to transfer new technology into native firms and develop special industries, take the stake of companies that can carry out their objectives (Balin, 2008).

At the end of this section table 2.6 represents a quick summery of investment patterns, governance structure, and strategic asset allocation of top SWFs including the Abu Dhabi Investment Authority, Government Pension Fund of Norway, China Investment Corporation, State Administration of Foreign Exchange Reserve of China, and Government of Singapore Investment Corporation.

Table 2.6 Investment Strategies, Governance Structure and Public Investment Asset Allocations of Top Sovereign Wealth Funds

Country/ fund	Strategy	Governance	Top public foreign investments, ownership percentage, country
UAE/ Abu Dhabi Investment Authority	• Invests in a variety of asset classes. • Benchmarks can range from the MSCI Index to the S&P 500 Index • As much as 75% of assets are administered by external managers.	BOD, comprised of a Chairman, Managing Director and their board members, all of whom are senior government officials appointed by Ruler's Decree. Key decisions are made by various committees	• Eastern European Trust Plc, 16%, UK • Macquarie International Infrastructure Fund Ltd, 9.8%, Bermuda • Egyptian Financial Group Hermes Holding Company,8.3%, Egypt • Suez Cement Company, 7.6%, Egypt • Ziopharm Oncology Inc, 5.1%, U.S. • Citigroup, 4.9%, U.S. • Toll Brothers, not provided, US
Norway:/ Government Pension Fund-Global	• Objective of high return subject to moderate risk.. • Invests a large portion of assets in fixed income and equities. • Does not invest in private equity.	Norwegian Ministry of Finance is responsible for the management of the Fund, and has delegated responsibility for the operational management of the Fund's international assets to NBIM, Norges Bank Investment Management, a division of the Norwegian Central Bank.	• Owns 1 percent of all global stocks • Equity investments by region: euro 50%, Asia 15%, Americas and Africa 35%

(Continued)

Table 2.6 Investment Strategies, Governance Structure and Public Investment Asset Allocations of Top Sovereign Wealth Funds

Country/ fund	Strategy	Governance	Top public foreign investments, ownership percentage, country
China/CIC	• Maximize return at acceptable risk tolerance. • Indirect equity holdings through various investment funds. • Uses external money managers.	BOD which has decision-making authority	• GCL-Poly Energy Holdings Limited, 20%, Hong Kong • Teck Resources Limited, 17.2%, Canada • AES, 15%, U.S. • The Noble Group, 14.9%, Hong Kong • JSC KazMunaiGas Exploration Production, 11% Kazakhstan • Blackstone Group, 9.9%, U.S. • Morgan Stanley, 9.9, U.S. • Visa, not provided, U.S.
China/SAFE Investment Company	• Significant investments in the UK Equity Market	The State Administration of Foreign Exchange (SAFE) is responsible for managing China's foreign exchange reserves. The SAFE Investment Company is organized as a privately held firm; however, SAFE officials serve on its board.	• Total, 1.3%, France • Aviva, .097%, UK • BP, 1%, UK • Royal Ductch Shell, .9%, UK • BG Goup, .7%, UK

(Continued)

Table 2.6 Investment Strategies, Governance Structure and Public Investment Asset Allocations of Top Sovereign Wealth Funds

Country/ fund	Strategy	Governance	Top public foreign investments, ownership percentage, country
Singapore/GIC	• Outperform the Morgan Stanley Capital International (MSCI) Indices and Lehman Aggregate Bond Index. • Facilitate government savings necessary	The Ministry of Finance of Singapore represents the dominant authority of the GIC. The Government of Singapore and Monetary Authority of Singapore set the risk tolerance parameters and expected returns for the long term of the GIC. Three board committees are responsible for ensuring that the GIC operates in an ethically and fiscally positive manner. These committees include: Investment Committee, Risk Committee, and Remuneration Committee.	• Beijing Capital International Airport Co, 21.1%. China • Gravity Co Ltd - Dep .Rcpt, 18%, South Korea • Beijing Capital Land Ltd, 16.2%, China • Thakral Holdings Group, 13.9%, Australia • AEI, 11%, Unites states • Brixton, 10%, UK • Li Ning Co Ltd, 10%, Hong Kong • Rreef China Commercial Trust, 9.9, Hong Kong • Shanghai Prime Machinery Co Ltd, 9%, China • Dev Property Development Plc, 8.6%, UK • Edelweiss Capital Ltd, 8.3%, India • Bengang Steel Plates Co Ltd, 8.2%, China • Citic 1616 Holdings Ltd, 8%, Hong Kong • UBS, 7.9%, Switzerland

(Continued)

Table 2.6 Investment Strategies, Governance Structure and Public Investment Asset Allocations of Top Sovereign Wealth Funds

Country/ fund	Strategy	Governance	Top public foreign investments, ownership percentage, country
			• GPT Group Ltd, 7.85, Australia • Kingsoft Corporation, 7.6%, Hong Kong • Syniverse Holdings Inc, 7.6, United States • British Land Co Plc, 7.1%, UK • Sinopec Shanghai Petrochemical Co Ltd, 7%, China • Dongfang Electric Corp Ltd, 6.9, China • Anant Raj Industries Ltd, 6.3, India • China National Building Material Co Ltd, 6.2%, China • Lonking Holdings Ltd, 6.1%, China • Lianhua Supermarket Holdings Co Ltd, 6%, China • Champion Real Estate Investment, 5.7% Trust, Hong Kong • Tripod Technology Corp,5.6%, Taiwan • Liberty International Plc,5%, UK • Great Portland Estates Plc, 4.95%, UK

Source: SWFInstitute.org, 2009, December

2.5 Should not Sovereign Wealth Funds be Regulated

As same as the other market players, the SWFs are subject to concerns in terms of their financial stability, governance and market integrity. These concerns got increased when the structural weaknesses of the global financial architecture faced with lots of difficulties, caused by credit crises, during the recent years. What makes a private or state-owned financial institution, such as SWF, trusty and reliable is its loyalty to regulation and to be subject to supervision by the domestic and host countries audits. Although SWFs, sometimes, have been supposed as the threat for the host countries in public believes, but as Singh (2008) states that: “the overwhelming majority of sovereign funds are passive investors. In cases where SWFs undertake direct investments, they do not seek controlling interests” (p. 30).

Recently, the SWFs have started to raise their investment in strategic industries such as infrastructure, energy, and high technology companies. Although there is no evidence to prove the political and strategic interfering of SWFs in host countries till now, but there are lots of suspicious and criticism claim that foreign SWFs, especially those from Russia, China, and Middle East, following the strategic and non-commercial objectives in their investments.

In order to control the political impacts of SWFs, some regulations have restricted the involvement of government to determining the investment framework, general objectives and governance structure of the funds. All SWFs try to organize the accumulated capital under their management on behalf of their citizens. Therefore, the citizens of the state, which are the real owner of funds, demand for the regulation of

SWFs to be as transparent as possible. Moreover, the host countries of SWFs should have a regulatory framework for these funds (Singh, 2008).

Developed countries such as France, Germany, and UK have appointed some rules to control any threat of foreign investors to national security. For example, all SWFs have obligated to operate according to the host country's corporate governance, legal, disclosure and competition rules. Furthermore, the Middle East SWFs have been restricted to invest in casino, liquor and tobacco companies by their governments(Singh, 2008).

Since one of the most important objectives of SWFs is to preserve fund for future generation, the regulation and supervision of SWF have to be followed in domestic level with more caution. In order to provide public accountability of SWFs in low democratic countries, part of the fund should be used in education, health, and infrastructure projects inside the state. Moreover, allocating a small portion of SWF to initiating monetary cooperation mechanisms and creating development banks in developing countries are good strategies to make the funds regulated (Jones & Ocampo, 2008).

The list below illustrates the most important reasons which make the regulation of SWFs essential and request them a greater level of disclosure. If a SWF applies a greater disclosure strategy, any lack of capital or volatile supplement of its fund will be warned quickly. The possibility of financial crises caused by unexpected capital withdrawals decreases when the fund's supervision increases. Furthermore, with an explicit investment strategy, domestic fiscal policy of the SWFs tends to be more transparent,

and the commercial objectives of funds are placed in priority of policy ones. As a result, the regulation of SWFs provides a cover for nascent protectionism (O'Brien, 2008). In order to ensure compliance to a substantive code that has the potential to deliver meaningful transparency and accountability, the Santiago Principle has been set up.

2.5.1 Santiago Principles

In October 2008, the International Working Group (IWG) of SWFs has published a list of 24 voluntary principles, known as Santiago Principles in Santiago, Chile to ensure the best practices for the SWFs operations. The Santiago Principles, which also known as Generally Accepted Principles and Practices (GAPP), have been as an important part of SWFs' development in terms of transparency, investment decisions, and accountability. These principles illustrate regulation and political context of SWFs pursuing their future strategies formulation (Wharton Leadership Center, 2010).

International Monetary Fund in cooperation with the IWG of SWFs has set up the Santiago Principles to follow at least two major objectives. First, they try to demonstrate the SWFs efforts to improve their communication with the host countries. Second, to prove that the SWFs investment decisions do not follow political motivations and are with the consideration of financial risk and returns (IWG of SWFs, 2008).

International Working Group of SWFs, which has consisted of different countries around the world with at least one established SWF, consists of Australia, Azerbaijan, Bahrain, Botswana, Canada, Chile, China, Equatorial Guinea, Iran, Ireland, Korea, Kuwait, Libya, Mexico, New Zealand, Norway, Qatar, Russia, Singapore, Timor-Leste, Trinidad & Tobago, The United Arab Emirates, and The United States. Among all of

these funds, the Kuwait Investment Authority and Abu Dhabi Investment Authority played the leadership role in organizing Santiago Principles (International Working Group of SWFs, 2008).

The main objective of Santiago Principles is to motivate all SWFs to increase their level of transparency and disclosure their main regulation and investment objectives. Furthermore, SWFs have been obligated to let the foreigner expert auditors to monitor and supervise their operations. Therefore, all SWFs member either implement or try to implement the best practices and principles of this group.

Three different frameworks, which are covered with the Santiago Principles monitoring, are (1) institutional framework and governance structure; (2) legal framework and objectives in coordination with macroeconomic policies, and (3) investment policies and risk management framework (International Working Group of SWFs, 2008). The members of International Working Group of SWFs (2008, October) have defined the main objectives of Santiago Principles as bellow:

> (1) To help maintain a stable global financial system and free flow of capital and investment; (2) to ensure compliance with applicable regulatory and disclosure requirements in the countries in which SWFs invest; (3) to ensure the investment of SWFs on the basis of economic and financial risk and return-related considerations, and (4) to have in place a transparent and sound governance structure that provides for adequate operational controls, risk management, and accountability. (para. 11)

Chapter 3

A SURVEY OF SWFS IN GCC COUNTRIES

3.1 Date, Methodology and Limitations

The GCC Countries play an important role in the global financial market through investing the huge amounts of their oil revenues via establishing SWFs. The sharp rise of oil prices, alongside with its unexpected volatilities, have forced the GCC countries to dedicated a big portion of their oil exporting revenues on SWFs. In GCC region, the most important goals of establishing SWFs is to stabilize domestic economy and preserve excess oil revenues for future generation.

This chapter aims to introduce different types of SWFs in GCC region. These funds are categorized based on their owner country. The source of funds are addressed, and strategic asset allocation of them are evaluated. Lots of funds remain nearly opaque because of low level of transparency and regulation. At the end of chapter all different funds will be compared to each other and some recommendation will be added to GCC funds in order to optimize their performance.

3.2 SWFs in GCC Countries

As it has been mentioned before, the GCC countries are the pioneers of the world in establishing Sovereign Wealth Funds when Kuwait established Kuwait Investment Fund in 1953. The Kuwait had decided to save a portion of windfall oil revenues for future

generation and to smooth its temporary expenditure. The GCC countries got more motivation to establish new SWFs and allocate more funds to them since sudden increase of the oil prices in 2002 which continued until mid 2008 (El-Kharouf et al., 2010).

The GCC countries had the option of putting all their oil revenues on low-return safe assets in the form of foreign exchange reserves. As a result, they had no choice to bear lost in their capital caused by high and rising opportunity costs in such low-return investment and also lost in terms of the dollar-denominated assets during rapidly declining dollar versus euro and other currencies (Rodrick, 2006). The government of these countries has decided to dedicate some of their oil export revenues oversea into global investment financial markets. The states have tried to ensure their economy's stability against oil price fluctuation which has happened frequently during the last decade. According to Setser and Ziemba (2007), "The large GCC investment funds almost certainly reduced the dollar share of their portfolio in recent years" (p.1). Nowadays, this group of countries owns and manages over half of the total assets under management of the SWFs in the world (Diwan, 2009).

The emerging and development of SWFs among the GCC countries was an integral part of an overall prescription for the cyclical economic and financial imbalances of their oil-dependent economy. The GCC's economies have faced with lots of challenges and difficulties caused by their oil export revenues' volatilities. They have tried to smooth these damages via foreign investments in non-oil-based assets. Especially, the recent

global financial crisis caused the acceptance of GCC's SWFs in western economies (El-Kharouf et al., 2010). Diwan (2009) states that:

> The past several years of unprecedented high oil prices have announced the arrival of the Gulf region as a serious player in global finance. The six member states of the GCC – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE) – have been using the oil windfall to remake their domestic economies and to reconfigure their position in the global economy. A key component of this effort has been the creation of sovereign wealth funds (SWFs).(p. 345)

The common point of investment between these funds is their goal to reach a return higher than the conservative return of foreign exchange reserves. Despite of the official reserve which invest in state and marketable short-term low-yielding assets, the GCC's SWFs put their money into high-return long-term assets such as private equities, asset-backed and fixed-income securities, corporate bonds, real estate, foreign direct investment, derivatives and alternative investments (Aizenman et al., 2008).

This chapter provides a comprehensive information about the establishment of SWFs in GCC countries. Moreover, the governance structure, main objectives and strategic asset allocation of each fund will be evaluated in more details. At the end of chapter, a list of recommendation goes to GCC countries to reach more success in their enterprises based on their loss and profit experiences.

3.2.1 United Arab Emirates (UAE)

There are seven different major Sovereign Wealth Funds in the UAE. Their funds are wholly supplied by oil export revenues. The total asset under management of these funds

is about $816 billion (SWF Institute, 2013). Table 3.1 shows all of the UAE's SWFs, which have been established as of June, 2013.

Table 3.1 Sovereign Wealth Funds of United Arab Emirates

Name	Total asset (Billions of US$)	Establishment Date
Abu Dhabi Investment Authority (ADIA)	627	1976
Abu Dhabi Investment Council	N/A	2007
Emirates Investment Authority	N/A	2007
International Petroleum Investment Company	65.3	1984
Investment Corporation of Dubai	70	2006
Mubadala	53.1	2002
Ras Al Khaimah Investment Authority	1.2	2005

Source: SWF Institute, 2013

According to Table 3.1, the ADIA's asset is much bigger than the total amount of the other six SWFs. Therefore, we focus on ADIA in more detail, and we believe that ADIA is representing more accurate policies of the government of UAE.

The United Arab Emirates (UAE) government established Abu Dhabi Investment Authority (ADIA) in 1976. The ADIA is the second most strategic institution of UAE after the Supreme Petroleum Council (SPC) (Singh, 2008). Employees and managers of ADIA have been hired as the key officials in different ministries of UAE. One of the biggest corporations, which has been established by the ADIA in 1984, is the International Petroleum Investment Company of Abu Dhabi. The IPIC has been playing

an important role in the global oil markets and invest in large-scale of enterprise in East Asia, North Africa and Euro (Singh, 2008).

The ADIA (2011) states that: “The mission of ADIA is to invest funds on behalf of the Government of the Emirate of Abu Dhabi to make available the necessary financial resources to secure and maintain the future welfare of the Emirate” (p. 3). The official reports of ADIA indicate that the most significant objective of ADIA is to have a sustainable long-term financial returns and not to play an active role in the management of those companies. Finally, the ADIA demonstrates its main values into three different categories which include prudent innovation, effective collaboration and disciplined execution. As ADIA’s management team (2012) states “We encourage our people to be innovative and generate new ideas, as well as support change and improvement initiatives” (p. 7).

The transparency level of ADIA was very poor before 2006, but since then, it has started to disclose its asset size, investment portfolio and returns during the recent years. The main investment targets of ADIA were foreign assets, and nowadays, they have been shifted to both domestic and foreign assets. ADIA is the largest shareholder of two biggest domestic banks of UAE, Abu Dhabi Commercial Bank and National Bank of Abu Dhabi.

The size of ADIA’s capital has never been published by the UAE’s government, but the estimations represent that the size of capital under management of ADIA is between $300 billion to $875 billion (Roy, 2006). According to some unapproved estimations,

the size of ADIA was around $875 billion in 2008. Based on Sovereign Wealth Fund Institute estimations, ADIA is the second largest SWF in the world with more than $627 billion in assets in May 2013, placing it behind the Government Pension Fund of Norway with almost $716 billion in capital (SWF institute, 2013). The portfolio size of ADIA is growing by 10 percent annual compounded rate (Roy, 2006). The annualized rate of returns of ADIA's portfolio for 30-year and 20-year investment horizons were 8.2% and 7.6% in USD respectively, as of 31 December 2012 (Annual Review of ADIA).

The origin of ADIA's fund is the government of Emirate of Abu Dhabi. The government also provides the budget surplus and other funding commitments. Adversely, the revenues of ADIA can be streamed to the government budget whenever it is compulsory. Such withdrawals have occurred infrequently and usually during periods of budget shortfalls or extreme weakness in commodity prices. Despite of dependency of ADIA's fund on the government sector, it carries out its investment patterns independently and without reference to the government or other entities. ADIA's managing director has the authority and responsibility for implementing ADIA's policy, making decision related to investment and acting as its legal representative in dealings with third parties. The budgetary support circumstance of ADIA has been shown in Figure 3.1 as a cycle.

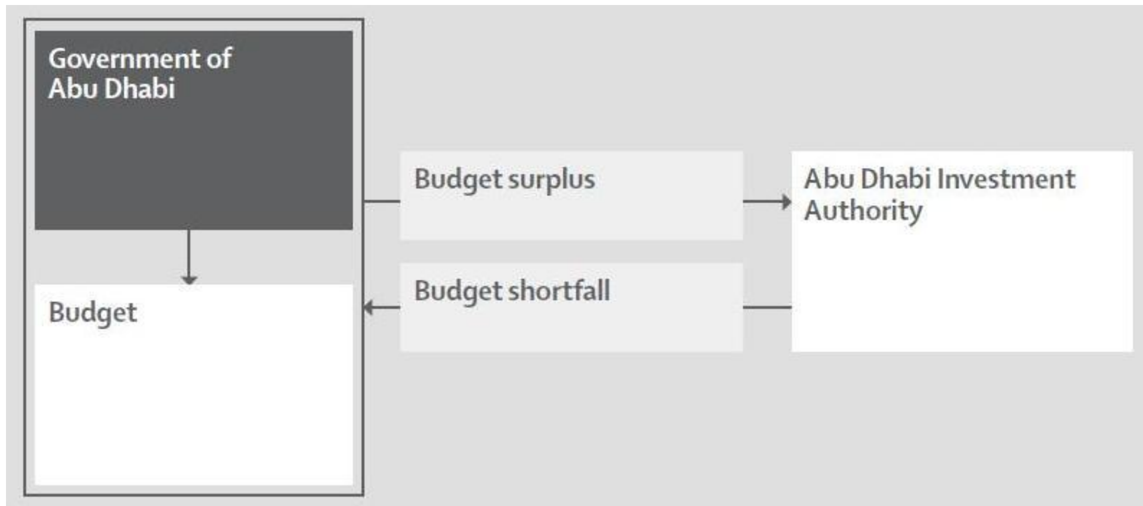


Figure 3.1 Sources of Funds from Government of Abu Dhabi

Source: The Annual Report of ADIA, 2012, p. 43

This fund is completely owned by the government of Abu Dhabi, and all citizens of UAE have the right over their country's natural resources including this fund. The chair of ADIA is the president of UAE, who has the authority of appointing the members of Board of Directors. They make decisions about the fund's management, and the internal or external managers control the investment patterns and strategies of ADIA. The Abu Dhabi Investment Council has the responsibility of ADIA's operation, and the executive arm of the fund is put on the Abu Dhabi Investment Corporation (ADIC). ADIA has hired more than 1,400 talented experts from UAE having 40 more different nationalities for investment decisions and strategies. ADIA's Annually Report (2012) states "Approximately 75% of ADIA's assets are managed by external fund managers, subject to careful oversight by internal ADIA teams." (p. 9) "ADIA is keen on identifying real management skills and real talent and is not prepared to pay the usual fees charged by hedge funds for strategies that can be replicated in an index." says Al-Hajeri, AIDA's executive director.

The figure 3.2 shows the ADIA employees' diversification from all around the world.

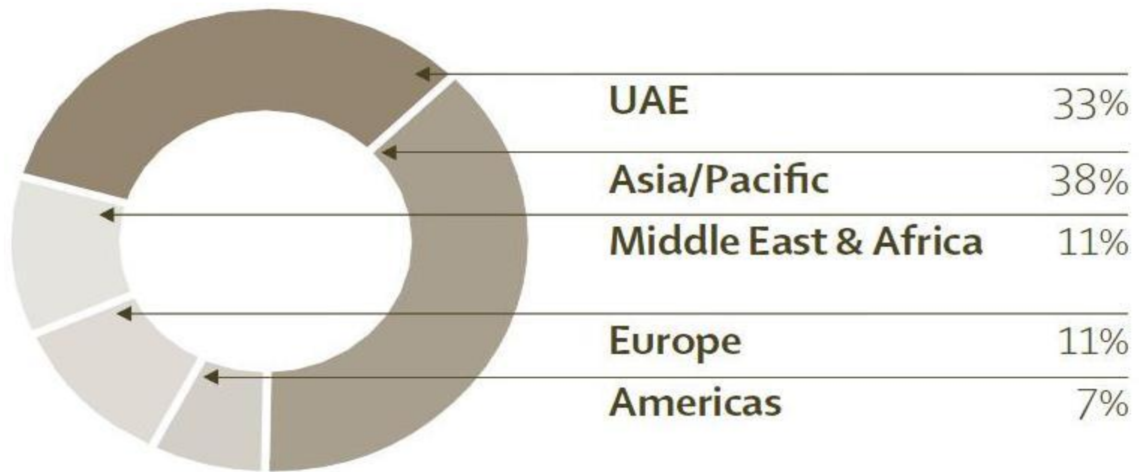


Figure 3.2 ADIA Employees by Nationality

Source: The Annual Report of ADIA, 2012, p. 9

Bill Schwab who is the manager of the real estate investments in ADIA (2012) states:

> ADIA selects very thoughtful people, highly well educated people. People are dedicated to ADIA's mission. I think the seals points to people are the incredible resources and flexibility of the organization. The people are coming and create the platform. They can create the inducement base. They can create the portfolio in a manner that it can be tough do elsewhere.

Investment process of ADIA circulates like an orbit. Different parts of the process are connected to each other to make the final decision. These processes include the investment objective, asset allocation, create mandates within an asset class, define the benchmark, execution and create guidelines. Figure 3.3 shows this investment process circle. Each part of this process has its own important role to make the decision process complete. For example, investment objective represents the strategic aims of Abu Dhabi's government to secure and maintain the welfare of future generation in the

Emirate. Asset allocation defines the appropriate level of assets mixture to increase the expected returns with rational risk exposure. Finally, the execution entity of ADIA selects the appropriate investment team which is needed to implement the overall investment strategy.

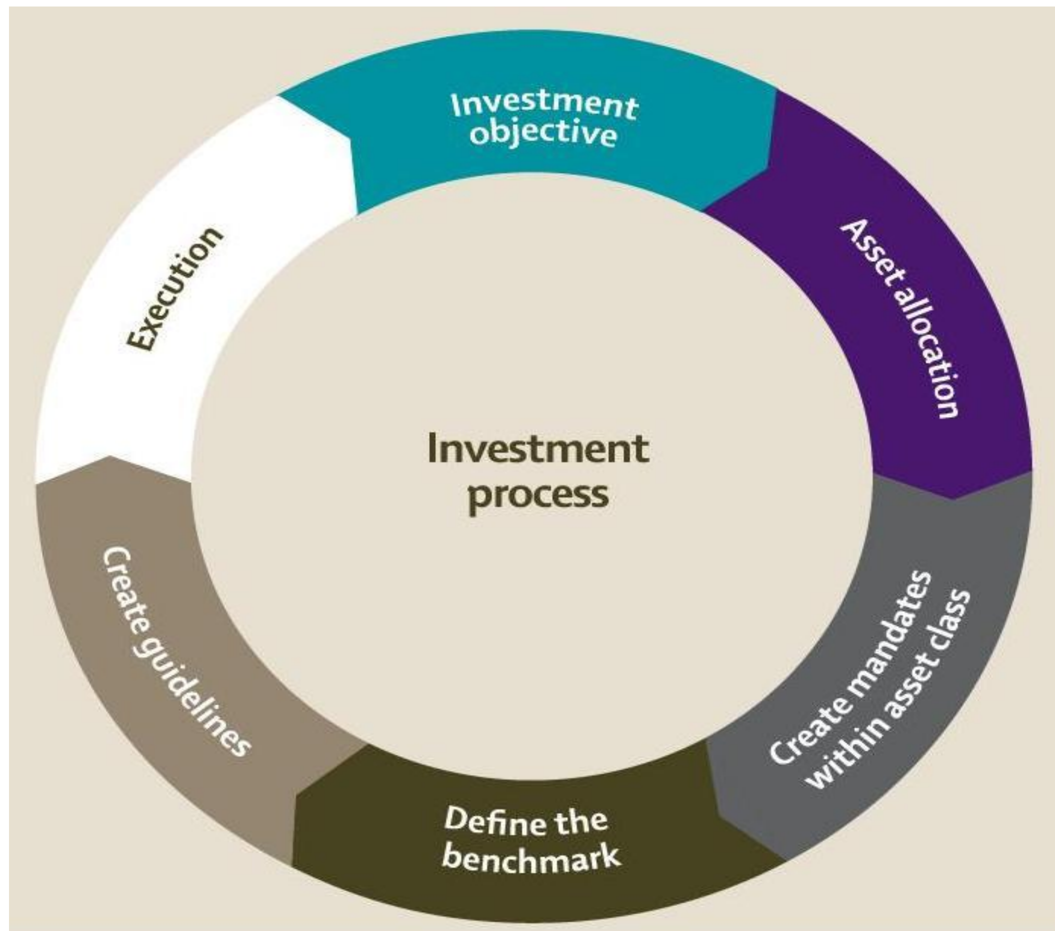


Figure 3.3 Investment Process of ADIA

Source: Annual Review of ADIA, 2011, p. 13

The portfolio analysis of ADIA can be evaluated from two different points of view. First one is the asset class and the other one is the geographic region which the fund invests in. Figure 3.4 illustrates the asset classes of ADIA covering a broad range of investment

alternatives. For many years, ADIA just invested in low-yield conservative assets like U.S. treasury securities and government bonds; but currently, it invests about 34 percent of its capital into risky assets such as private equity funds, hedge funds, emerging markets and infrastructures (Thornton et al., 2008).

Unlike the traditional approach of investing in fixed income instruments, the ADIA invests in a wide range of asset classes including equities, real estate, fixed income, hedge funds and private equities. According to market resource estimation, ADIA invests 60 percent of its total funds in equities, 25 percent in fixed income and the rest of in alternative assets. Nowadays, ADIA is one of the biggest investors in private equity and hedge funds in the world.

It should be noted that the level of risk-tolerance of ADIA had decreased substantially in recent years mainly due to the enormous losses incurred during the 2008 crisis. For example, ADIA has lost 90% of its $7 billion investment in Citigroup as of November 2009 (Wikipedia, 2013).

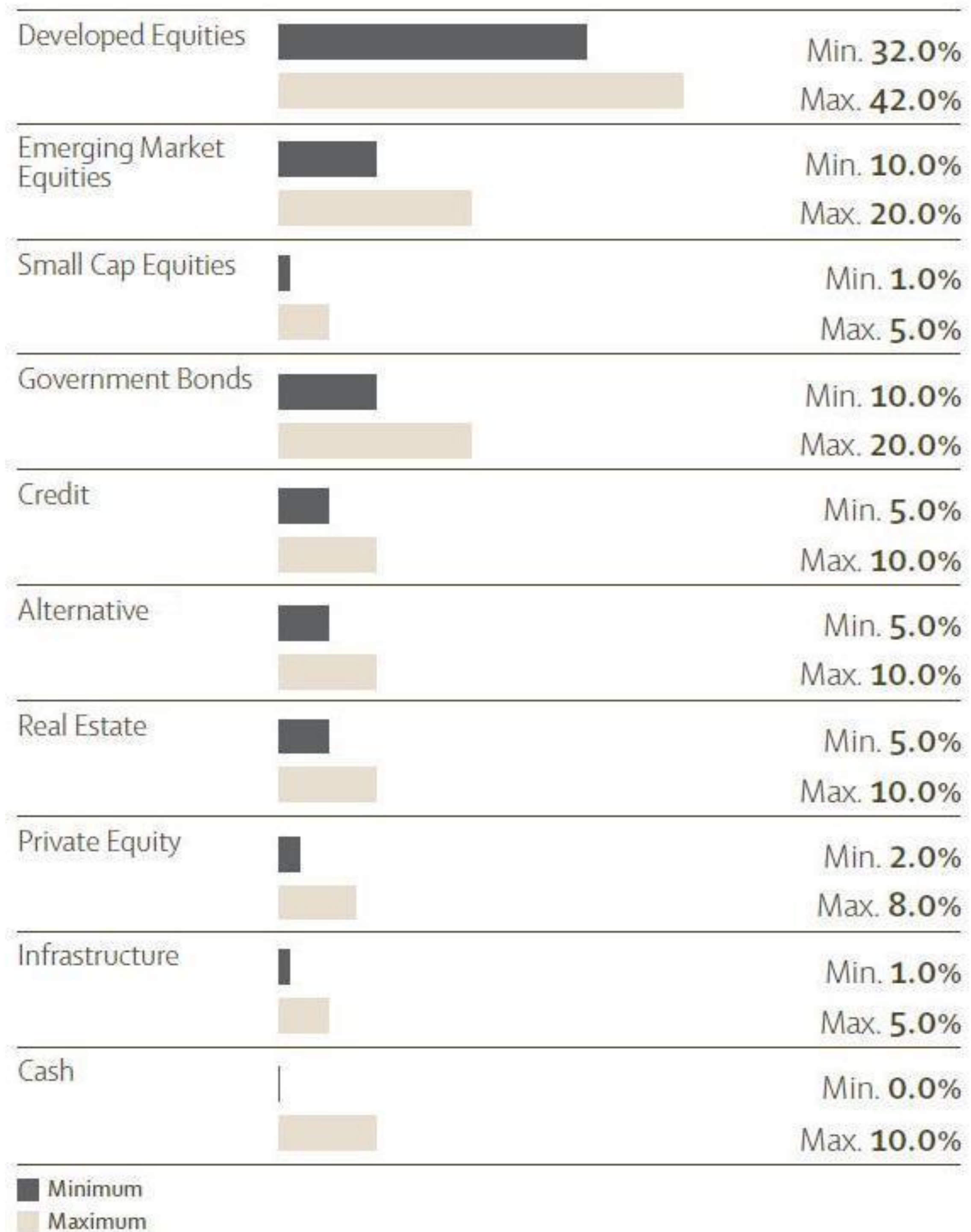


Figure 3.4 Portfolio Diversification of ADIA Based on Asset Classes

Source: Annual Review of ADIA, 2012, p. 20

ADIA, as one of the biggest international investor in the world, has started to invest in high potential emerging markets based on their demographic fundamentals and positive economies. Therefore, ADIA has conducted an open dialogue with all stakeholders in the market, including relationship-building meetings with corporate leaders, financial institutions, trade bodies, government officials, research analysts, and the media across Euro, India and the other key economies of South East Asia (Al Nahyan, 2012). According to Figure 3.5, ADIA has a wide range of investment targets around the world. Developed and emerging economies have been the destinations of ADIA's investment portfolio.

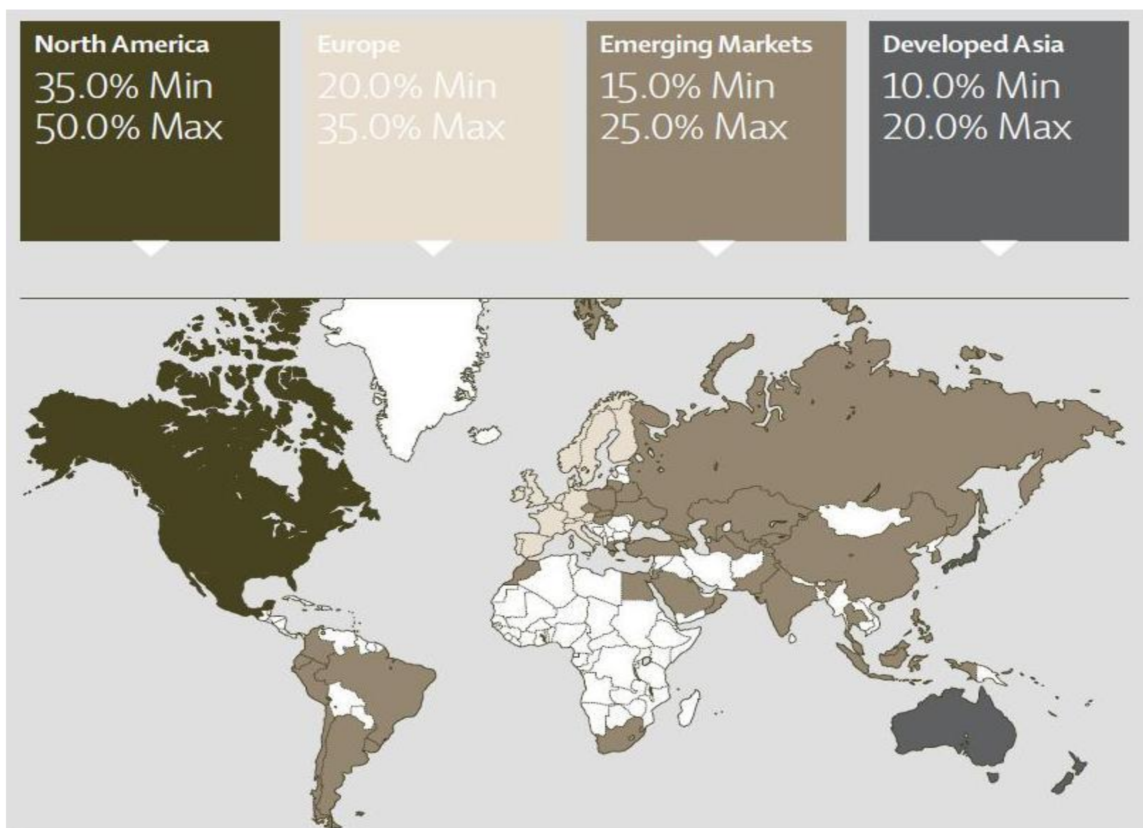


Figure 3.5 Globally Investment Targets of ADIA Around the World

Source: Annual Review of ADIA, 2012, p. 21

Some of the most prominent foreign investment targets of ADIA are Citigroup, Egyptian investment bank and Ferrari (the Italian carmaker), Advanced Micro Devices (the US-based chip maker), and Carlyle (the US-based private equity firm) via the investment partnership with Mubadala Development Corporation.

ADIA has an accurate governance structure which is shown in Figure 3.6. This structure has been established with defined processes, systems and policies. The chairman, managing director and other board of director members have been elected by a decree of the ruler of Emirate. According to law (5) of 1981 of the Emirates of Abu Dhabi, the board of directors is responsible for the accomplishment of ADIA's strategies. To achieve this aim, the investment committee assists the board of directors.

Some other committees and departments within the governance framework are the management committee, the strategy committee, the risk management committee, the investment guidelines committee and the audit committee. Every part of ADIA's structure, even the board of directors, is under close attention and monitoring of the audit committee. Moreover, it helps the board of directors by overseeing the financial reports and controlling the internal processes and managing the ADIA's relationship with external auditors. Risk management committee, as one of the major ADIA's committee, has the responsibility of implementing ADIA's risk management framework and ensuring that all explicit risks are acted upon in a timely manner. Figure 3.6 indicates all of these committees and their interactions in the form of the governance framework of ADIA.

As it has been mentioned before, the governance structure of ADIA have defined two different kinds of departments: the investment and support departments. The sub-categories of these departments have been shown in Figure 3.6. Investment department performs the investment activities of ADIA's capital. Different investment decisions have been relegated to their own departments, and each department has experienced experts and advisor to make the best investment decision in each available beneficial opportunity. These departments should act in accordance of some parameters which have been set through the asset allocation process. They invest across multiple assets and geographies by the origination and recommendations of investment proposals.

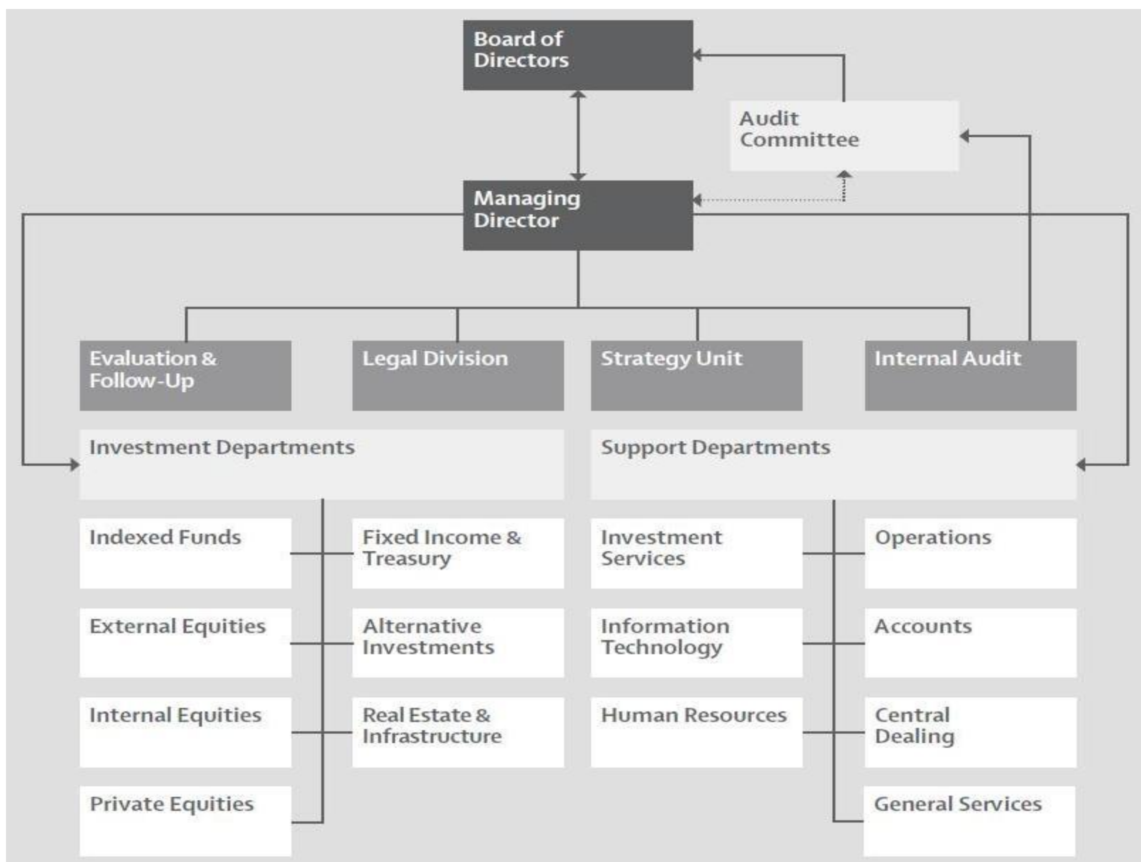


Figure 3.6 Governance Structure of ADIA

Source: Annual Review of ADIA, 2012, p. 45

Figure 3.6 shows that the board of directors has been placed at the top of the governance structure of ADIA, and all departments should work under the supervisory of managing director. The managing director involves four categories including the evaluation & follow-up, the legal division, the strategy unit and internal audit. These are the arms of the board of directors and are responsible for providing the advisory and analytical recommendations on all investment proposals generated by ADIA's investment departments to managing director and other investment departments.

According to Figure 3.6, the investment departments of ADIA are divided into indexed funds, external equities, internal equities, private equities, fixed income and treasury, alternative investments and real estate and infrastructure. Each of these sub-categories focus on the predetermined asset allocations in order to achieve the highest level of possible return. The Indexed Fund Department (IFD) includes both external and internal investment teams which monitor and manage the indexed funds activities to achieve more effectively indexed returns on their allocated asset in both developed and emerging markets. The External Equities Department (EED) invests in the global equity market through external investment managers. The trading activities of all managers are monitored on a daily basis. They seek to identify the best globally opportunities to generate sustainable rate of return. The Internal Equities Department (IED) invests directly in the world equity market. The main purpose of the department is to generate returns above its benchmark through disciplined execution.

ADIA's equities department, including the indexed funds, external and internal equities, is one of the most active investment departments of ADIA. They invest in equities

market of the developed markets of Euro and the US, as well as the emerging market of Indonesia, China, Mexico, Turkey, Poland, Japan and Brazil. This wide range of investment targets has gained a total return of around 18 percent in USD in 2012 which significantly exceeding the return of both government bonds and cash.

Similar to equities department, the fixed income and treasury department have separated groups of internal and external managements. These departments mandate the portfolios of investments across a broad range of fixed income securities. Different types of global bonds such as government, emerging market, inflation-linked, investment grade credit, non-investment grade credit and money market make up the fixed income portfolio of ADIA. The objectives of fixed income department are to manage the ADIA's cash and liquidity needs, to respond the urgent liquidity requirements and to obtain the returns equal or above its respective fixed income benchmarks through disciplined accomplishment with an adequate level of risk. Moreover, the treasury team is responsible for the liquidity needs of ADIA on a daily or short-term basis. Figure 3.7 shows the bond fixed income return of the ADIA's portfolio over 2003 to 2012 based on different benchmarks.

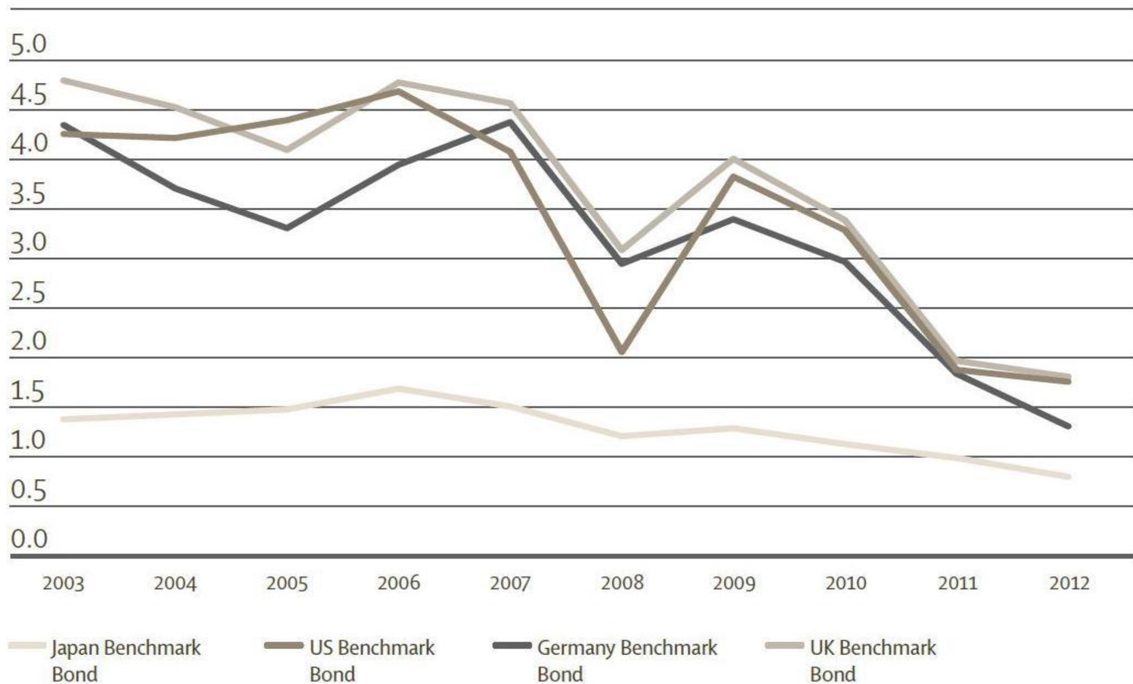


Figure 3.7 Ten-Year Government Bond Yield of ADIA

Source: Annual Review of ADIA, 2012, p. 21

The alternative investments' department of ADIA focuses on three different liquid and non-traditional funds which include commodity trading advisers, active commodities and hedge funds. This policy aims to make diversification on ADIA's portfolio and enhance the risk-adjusted returns. The managers of this department recognize and engage those investment managers who can be the best performer of the department, and continuously evaluate their performance and progress.

The real estate and infrastructure departments of ADIA have portfolios with varying types of real estate and infrastructure assets, each with their own allocated teams. The professionals, which work in these departments, aim to provide ADIA with

diversification benefits of infrastructure projects and real estate by an effective portfolio management.

Since 1989, the ADIA has started to invest globally in the equities of those private companies which would be able to make the risk-adjusted returns above the other public equity markets. The private equity department invests across Europe, North America and emerging markets through primary fund investing. Moreover, principal and secondary investment activities perform on a global platform. As a result, the portfolio of these activities will be well-diversified by industry, geography, size, stage and time frame. To achieve the best performance, all the external managers' performances are closely monitored and measured against medium and long-term benchmarks.

3.2.2 Saudi Arabia

There are two SWFs in the Kingdom of Saudi Arabia which include the Saudi Arabian Monetary Agency (SAMA) Foreign Holding and the Public Investment Fund (PIF) with the total size of $532.8 billion and $5.3 billion, respectively (SWF Institute, 2013). Although the PIF had commenced to be in the market since 1971, but it has started to manage a SWF by investing in the long-term enterprises from 2008. The origin of PIF's fund is oil revenues and because it is much smaller than SAMA; it is not considered as the benchmark SWF in Saudi Arabia (SWF Institute, 2013).

The Saudi Arabia Monetary Agency (SAMA), which has been established in 1953 by the decree of King Abdulaziz, is considered as the central bank of the Kingdom of Saudi Arabia. According to the sovereign wealth fund institution report, the level of SAMA's transparency is 4 out of 10 and; therefore, just little information of this fund has been

published yet. In 1961, SAMA started to propagate a currency for Saudi Arabia, the Saudi Riyal, and replaced it with Saudi silver coins. Moreover, it promoted the growth of Saudi's national banking system. Early in 1980s, the SAMA tried to control the inflation, managing foreign exchange reserves, expanding the banking system and introducing financial market reforms (SAMA, 2013).

The main objectives of SAMA's organization include the following: (1) issuing the national currency of Saudi Arabia and trying to stabilize and enhance its value, domestically and internationally, through performing the monetary policies; (2) taking the responsibility of the governmental bank of Saudi Arabia and kingdom's foreign exchange reserves; (3) playing the key supervisory role on the money exchangers and commercial banks; (4) trying to ensure the growth of the financial systems and secure financial stability by applying banking law and cautious regulations; (5) most recently, it entrusting with the function of supervising insurance business based on the Cooperative Insurance Companies Control Law, by the Royal Decree No. (M/32), and finally (6) the SAMA is allocating the funds under its management to securities like equities to increase the fund's return (SAMA, 2013).

The main objectives of central bank in performing monetary policy are to maintain the stability of currency exchange rate and domestic price level via taking some procedures and measures to achieve the monetary and financial stability, sustainable economic growth in various sectors and creating an appropriate environment for optimized investment. The SAMA pursues these monetary policy objectives via several

instruments such as reserve requirements including statutory and liquid reserves, Repo agreements and foreign exchange swap in foreign exchange market (SAMA, 2013).

The SAMA's Board of Directors consists of the chairman, Dr Farhad Almubaak, the vice-governor and three other members which have been nominated from the private sector. All of the SAMA's investing decisions are under supervisory of the Board members. The deputy governors assist the Board of Directors based on the framework which has been shown in Figure 3.8. These governors have been categorized into five entities including administration, investment, banking operation, research and international affairs and supervision. Each of these deputy governors has the responsibility of his own department, and internal audit is monitoring their performing.

The Internal Audit Department (IAD) works as an independent entity of SAMA which includes professional experts. It reviews, appraises, evaluates and measures the operations of all other SAMA's departments via computer systems. The IAD assists all management teams of SAMA to make as efficient performing as possible by furnishing management with appraisals, analysis, recommendations and explanations concerning their activities. The Audit Department's activities are in accordance with these scopes; (1) Securing of assets via accurate accounting and their existence verification; (2) monitoring the SAMA's operations to ensure their compliance with procedures, policies, plans, regulations and SAMA internal laws; (3) reviewing the completeness and reliability of SAMA's operating, financial and management information system; (4) examining the SAMA's resources to reveal whether they have been used efficient and

economical, and (5) reviewing all operations to ensure if their results are consistent with settled goals and objectives (SAMA, 2013).

In 2004, the SAMA has categorized its activities over the last five decades into four eras in accordance with some classified main features. During the 1960 to 1972, the SAMA focused on assigning the basic regulations of commercial banks. Finally, the Saudi Riyal has been fully and globally accepted in 1961. The most important event over the 1973 to1982 period was the boom in oil prices which happened in 1974. This caused a massive growth of oil exporting countries revenues such as Saudi Arabia. The SAMA was extraordinary busy with the inflation pressure and substantial foreign exchange reserves, which have been accumulated by this event, and has managed the expansion of the banking system in all corners of the country. During 1983 to 2004 the SAMA had focused on advising the government in order to the public debt management and introducing the financial market reforms. During 2003 to 2004 concerns about SAMA raised because the national debt of the state increased to 100% of GDP. All the local commercial banks along with SAMA tried to introduce a broader range of financial products and to use new technologies in banking services such as electronic fund transfer, automated cheque clearing systems and transaction plus zero. Moreover, they made the local branches of foreign bank operating in the framework of Saudization. The last period of SAMA's circumstance started in 2005 and has continued until now. According to Ramady (2010), "SAMA raised its repo rates from 2.5% levels in early 2005 to 5.5% levels in 2007, and inflation considerations predominated the last years" (p.81). In 2009, SAMA decided to increase the cash revenues requirements. Therefore, SAMA reduced the repo rate to around 2% and injected the liquidity into banks by

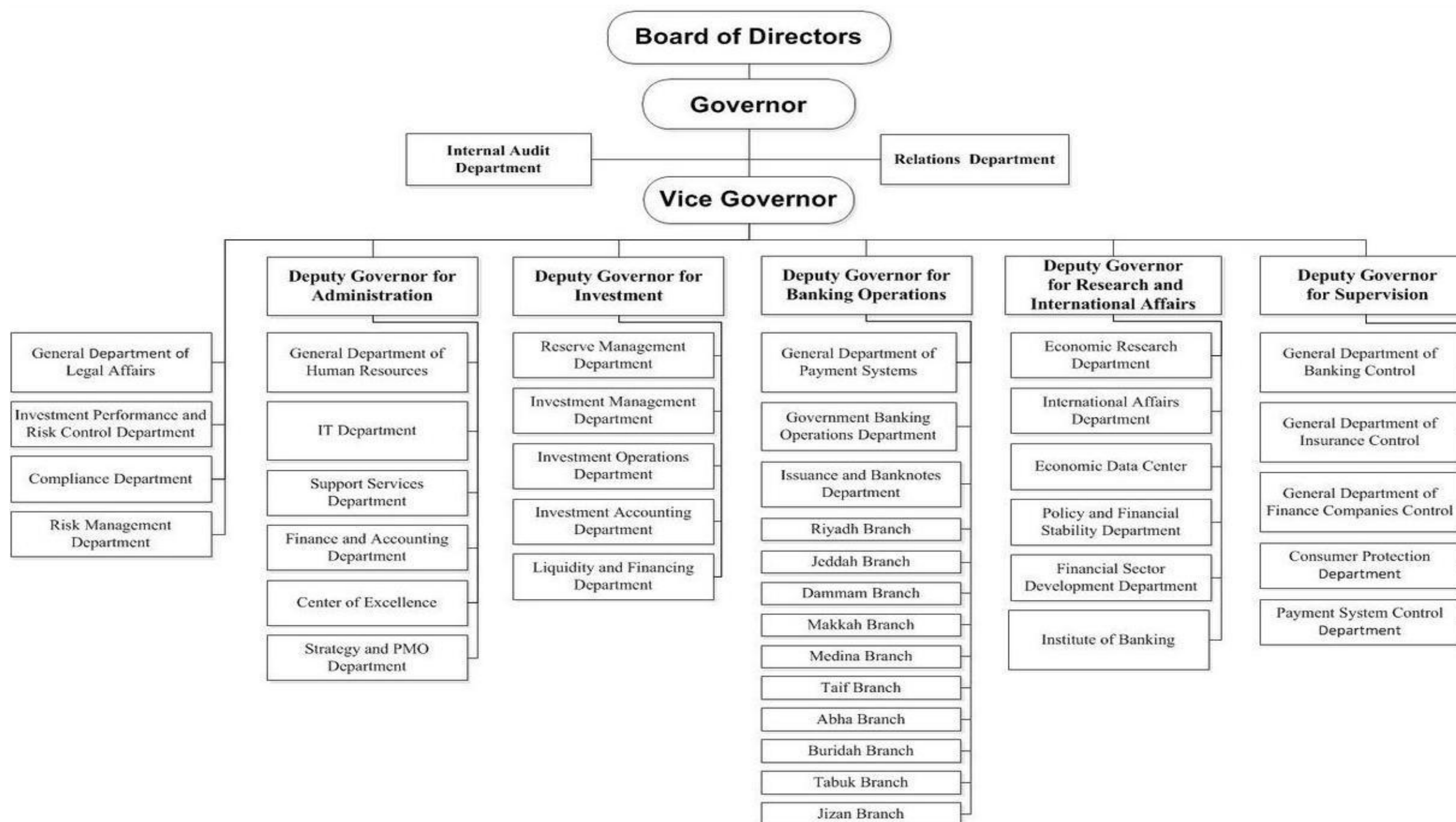


Figure 3.8 Organizational Structure of Saudi Arabia Monetary Agency

Source: SAMA’s Webpage (http://www.sama.gov.sa), 2013

lowering the cash-reserve ratio after the Lehman Brothers collapse in 2009. The SAMA made more intervention in the banking systems to be sure that it is not going to be affected by the global financial crisis of 2008. Moreover, SAMA has defined a regulatory framework for the insurance sector and oversaw its appropriate performance (Ramady, 2010).

A big portion of excess oil exporting revenues are invested in low-risk assets including the sovereign debt instruments (SWF Institute, 2013). Only little information of SAMA's Strategic Asset Allocation (SAA) has been released yet due to low level of fund's transparency.

3.2.3 Kuwait

Kuwait Investment Authority (KIA) is the first and one of the largest SWFs in the world. The KIA was established eight years before the Kuwait's independence in 1953 by decree of Sheikh Abdullah Al-salem Al-sabah who had been the ruler of the Kuwait during 1950 to 1965 (SWF Institute, 2013). The KIA only plays the managing role for the Kuwait's assets and does not have any ownership claim for these funds (Al Sa'ad, 2008). Al Sa'ad (2008, April) defined the KIA's mission statement as below:

> The KIA's mission is to achieve a long term investment return on the financial reserves entrusted by the State of Kuwait to the Kuwait Investment Authority by providing an alternative to oil reserves, which would enable Kuwait's future generations to face the uncertainties ahead with greater confidence. (p. 2)

In 1982, according to Law No. 47, the KIA has gained the responsibility of managing the countries assets as an independent, governmental entity which had taken over this authority from Ministry of Finance (Kuwait Investment Authority, 2013). Moreover, this is the only SWF in Kuwait and the main objective is to manage the Kuwait's financial

surpluses after the oil discovery and reserve it for the future generations. At the beginning of KIA's establishment, as the parent institution, it had constituted the Kuwait Investment Board in London, but after a while it was replaced by the Kuwait Investment Office (KIO) in 1963.

The total amount of funds under management of KIA is about $342 billion which make it as the top 10 SWFs in the global market (SWF Institute, 2013). The KIA, as a long-run global investor, has the responsibility of managing the Kuwait Future Generation Fund (FGF), and the Kuwait General Reserve Fund (GRF). Moreover, the KIA is obligated to act on behalf of the State of Kuwait on any other fund which has assigned to it by the Minister of Finance.

The GRF is the storage of the Kuwait's revenues and income earned from GRF investment. In 1976, 50 percent of the GRF's funds has been allocated to the FGF establishment. Moreover, 10 percent of the Kuwait's oil exporting revenues, including the GRF's net income, are transferred to FGF in annual basis. GRF invests in Kuwait and other countries of Middle East and North Africa. Accordingly, It holds the government assets such as the Kuwait's public enterprises in Kuwait Petroleum Corporation and Economic Development, domestically. Moreover, the GRF invests in Arab Fund for Economic and Social Development, the World Bank, and International Monetary Fund, internationally. The FGF invests in the same investment destination with GRF based on the Board of Director's Strategic Asset Allocation.

KIA's activities are based on commercial considerations, and not based on foreign policy interests and political decisions. Since the KIA seeks the stability in financial markets through the long-term investment horizon perspective, it has high levels of risk-bearing and accommodate short-term volatility. Historical evidence proves the KIA's trend to act as a stable and reasonable shareholder. The KIA does not purchase majority or control interest in companies which it invests in, with the exception of investment holding companies and real estate entities. Therefore, the KIA's governance policies are based on the highest international standard of responsibility and transparency.

All Kuwaiti citizens having the age of 21 or older have the voting power to elect the members of Kuwait's parliament, the National Assembly. The annual performance of the KIA should be reported to the representatives of the Kuwait's parliament. Moreover, the KIA provides frequent reports to KIA's Board of Directors, Minister of Finance, the independent State Audit Bureau and the other concerned parties. To perform with high levels of transparency, the state of Kuwait has hired two of the world's leading external audits firm to monitor, review and approve the KIA's accounts.

In 1982, the Law No. 47 has defined three clauses regarding the KIA's transparency. According to Clause 5, the KIA is obligated to provide a report of the assets under its management to the Council of Ministers of Kuwait. The Clause 8 has forbidden public disclosure of KIA's performance data, and if it would happen, some penalties will be charged to delinquent entity based on the Clause 9 (Kuwait Investment Authority, 2013).

KIA believes that it has one of the strongest governance structures in the industry and is representing a high level of excellence and accountability. Figure 3.9 illustrates a brief arrangement of KIA's organizational structure and each sector's activities, which is under supervision of Managing Director (MD), has been mentioned in its own row. The responsibility of KIA's governance is put on the shoulders of four main governance entities: the Board of Directors, Chairman of KIA, Managing Directors and Executive Management (Kuwait Investment Authority, 2013).

The Board of Directors, which is placed at the top of the governance framework, has 9 members. Four of these members are ex-Officio members, which include the Minister of Finance, who is the chairman, the Minister of Energy, the deputy Ministry of Finance and the Kuwait's Central Bank Governor. The five other members, who are appointed by the Council of Ministers through the decree of Kuwait's Amir, are the representatives of private sector. The Board of Directors appoints an Internal Auditor to make direct report for the chairman of the Board. Moreover, two independent External Auditors, international accounting firms, have the responsibility of reviewing the FGF and GRF and the other funds which is being managed by KIA.

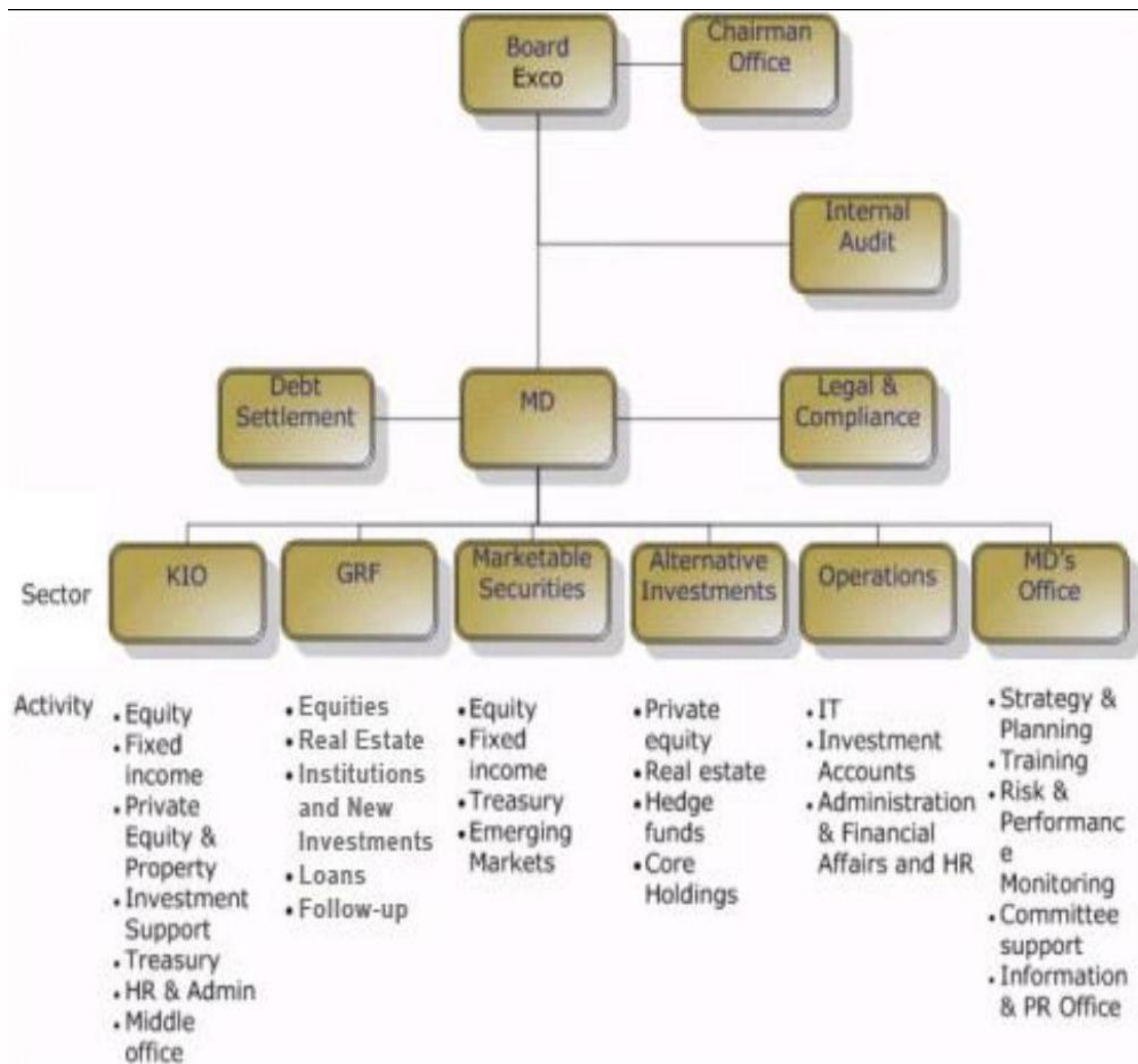


Figure 3.9 Organizational Structure of KIA

Source: KIA Webpage (http://www.kia.gov.kw), 2013

One of the most important entities which is established by the KIA's Board of Directors, is the Managing Director. Based on the Figure 3.9, the Managing Director (MD) is responsible for six sectors including the KIA Investment Office, General Reserve Fund, Marketable Securities, Alternative Investment, Operation and MD's Office. The MD's office provides advisory services and supports on behalf of the Board of Directors including; (1) administrative support and secretarial services for the Executive

Committee, Board of Directors, KIA's Management, GRF and FGF investment committees; (2) performing an external public relations strategy and an internal communications plan; (3) monitoring the performance and risk management of GRF and FGF, and estimating their possible cash flows over a month; (4) providing universal macroeconomic evolutions for the GRF and FGF, and (5) supervision of KIA's essential training to be served as well as possible. The executive committee, which is chaired by the Managing Director, is appointed by the Board of Directors. This committee has the responsibility of assisting the Board of Directors in defining the KIA's objectives and strategic goals (Kuwait Investment Authority, 2013).

The plan of KIA's investment teams is to achieve a return above the composite benchmarks, which is including a large number of indexes, equities or other factors combined in a standardized way, illustrating a useful statistical measure of entire markets or sector performance over time, over a three-year rolling average. To reach this aim, they have created an uncorrelated asset allocation which has been managed and monitored by the selected experts. In order to be beneficiary in emerging economies without fundamental changes in overall portfolio, they make tactical changes in asset allocations. KIA tries to improve itself as a world class investment organization. It endeavors to be comparable with other investment groups and pension funds around the world by adopting the best practice in the investment community. Therefore, the personnel have been trained and are motivated to seek improvements in the investment process. The KIA is obligated to improve the excellence of Kuwait's private sector. Towards this aim, KIA is trying to find, train and prepare the best investment experts from the young ambitious brilliants of Kuwait. Moreover, KIA is participating in the

growth of the investment sector of Kuwait by doing joint business ventures with the best performing and creative companies. Finally, KIA amplifies the importance of corporate governance, keeping high levels of transparency, fair businesses and ethical standard.

The KIA invests in both domestic and international markets with a wide variety of asset classes in different geographical areas through its different offices in Kuwait city as the main office, in London and Beijing as the branch offices to achieve its own objectives. These objectives include to gain an adequate return over the long-term investment horizons, preserving the value of the funds for the Future Generation Fund and to maximize its prestige as one of the more progressive and expert institution in the global financial markets.

In 2004, an international consultant was appointed to review KIA's Strategic Asset Allocation to analyze and provide a complete evaluation of KIA's organizational structure. One of the most prominent suggestions of consultant was the diversification of funds into uncorrelated assets. The new approach of investing has shifted from traditional assets, such as public equities and bonds, to non-traditional and uncorrelated assets such as private equities, alternative investments and real estate. These changes have resulted in having achieve higher returns and lower overall risk and volatility. Moreover, the consultant recommended KIA to seek new emerging markets other than the traditional and developed economies of western Euro, U.S. and Japan. The KIA's board of directors approved new strategic asset allocation in June 2005. Therefore, they established a risk profile and a target rate of return. In this proceed; they have changed the quality of fixed income instruments from AA to BBB+, shifting to high yield

emerging market debt and small and mid cap equities. The new Strategic Asset Allocation (SAA) identified the importance of alternative investments such as hedge funds, private equity, real estate and funds of funds investments.

The progress of phase two of KIA's new project continued in 2005 by creating a risk and performance measurement unit and reviewing the benchmarks and sub-asset classes of KIA. Finally, in 2006, the KIA has begun phase three by aligning the organizational structure and SAA. The KIA's Board of Directors decided to create the new sectors such as operation and administration, marketable securities, office of Managing Directors, alternative investment and general reserve.

Some of the most prominent enterprises of KIA are the Kuwait Investment Office (KIO) which is a fund management office in London. It has established in 1953 with the aim of managing the excess oil revenues to decrease the state's affiliation to finite energy sources. The St. Martins Property is an independent investment, development and asset management company with a global investing portfolio diversified in Europe, United Kingdom and Australia. Nowadays, the company is the arm of Kuwait's estate on real estate enterprises all around the world. 15 percent of Kuwait China Investment Company (KCIC) is owned by KIA. The main investment entities of the company are infrastructure, financial service, agriculture, property and energy sector. Nowadays, the KCIC is a Kuwaiti shareholder company which acts as an investment vehicle in Asian area on behalf of the Kuwait's state. Some other companies, which are owned completely or partly by the KIA, are Kuwait Real Estate Investment Consortium,

National Technology Enterprises Company of Kuwait (NTEC) and the Fosterlane Management.

One of the most important investment targets of KIA is USA. $15 billion Hudson Yards office in Manhattan, New York, which has been occupied as a retail and residential development is one of the most recent one (SWF Institute, 2013). Invesco Ltd., Citigroup and Merrill Lynch are the other examples of KIA's investment in USA.

According to Managing Director of KIA, Al Sa'ad (2013, June 28), " KIA has doubled its investment in the U.K. over the last 10 years to more than $24 billion" (Para. 1). As a result, the total amount of KIA's investment under management of London office has reached to more than $120 billion compared with $27 billion 10 years ago.

KIA has started to invest in car manufacturer companies since the 1970s, by investing at Daimler-Benz, the Mercedes-Benz's parent company, formerly known as DaimlerChrysler (Hutton, 2011). KIA has 6.9% of the total share of the Daimler company as the end of August, 2013 (Daimler Investors Relation, 2013).

3.2.4 Qatar

Qatar Investment Authority (QIA) is the only sovereign wealth fund in Qatar, which has been established in 2005 by the government of Qatar to strengthen the economy of state via investing into new domestic and international asset classes (Qatar Investment Authority, para. 1). Before the QIA's establishment, there was a small in-house team which had invested the budget surpluses under supervision of Qatar's Ministry of Finance (para. 1). According to Article 5 of Emiri decision No. 22 in 2005, the QIA's

mission is to develop, invest and manage the state reserve funds and other property assigned to it by the Supreme Council in accordance with policies, plans and programs approved by the Supreme Council (para. 2).

Qatar is one of the biggest liquefied natural gas exporter in the world. Therefore, QIA manages the surplus exporting revenues of oil and gas. According to SWF Institute, the total size of capital under management of QIA is $115 billion which has been expanded into different asset classes including properties, alternative assets, securities and private equities in all major capital markets and emerging economies.

Five major values which have been supported by QIA and its employees are; (1) integrity, QIA and its employees try to behave based on the highest levels of moral, ethical and professional standards in their undertakings; (2) mission focus, on behalf of people of the state QIA and its employees execute their daily responsibilities by firmly focusing on their mission; (3) excellence; (4) entrepreneurialism, and (5) respect for people (para. 3).

The QIA’s Board of Directors is responsible for the QIA’s implementation. Therefore, it provides a framework to guarantee the sufficient operation of QIA in terms of legal, compliance, management and investment policies. QIA’s executive management team assists the Board of Directors to take the responsibility of QIA’s business decisions. The QIA employs approximately 110 experts and investment professionals from around the world, and regularly attracts top class candidates from the world’s most successful financial institutions, to broaden its global investment resources (para. 3).

QIA invests billions of dollars overseas in companies, funds and real estate assets. Therefore, it has established different subsidiaries such as (1) Qatar Holding LLC, which consists of AL Gharrafa Investment Company and Qatar Holding Gold & Resources LLC; (2) Delta Two LTD; (3) Hassad Food, which is an agricultural investment company; (4) Qatari Diar, which is a $42 billion real estate investor and development company (para. 3-15).

What caused the QIA to be placed top in the news is its broad range of investments in different kind of companies such as sport clubs, petrochemical projects, car manufacturing, entertainment, real estate and banking sector. Some of the notable QIA's enterprises has been mentioned as below.

QIA is interested to invest in luxury companies. QIA has 5% of Tiffany & Co. stake, which makes it as the largest shareholder of this company as of April, 2013. QIA invests in Fisker Automotive Inc., and also owns 17% stake of the Volkswagen Group, the biggest European carmaker which owns the other automotive brands such as Bentley, Skoda and Audi. It also had bought 10% stake of the Porsche company 4 years ago which has sold its holding back to Porsche in June, 2013 (Porsche, Para. 1).

One of the QIA's investment in communication sector happened in 2007. According to El-Kharouf et al. (2010) "Qatar Telecom, a government-owned company, paid US$ 3.7 billion for a 51% stake in Kuwait's National Mobile Telecommunications Co. which operates wireless service from Iraq (the fastest-growing market) to Saudi Arabia and Algeria" (p. 129).

Since the QIA aims to minimize the risky reliance of Qatar on energy price, it mainly invests in international out of energy sector markets such as USA, Europe and Asian Pacific. QIA has increased its stake on Barclay's capital to 12.7% in 2008. Qatar Holding LLC, a sovereign wealth enterprises of QIA, purchased a 3% stake of Europe's largest oil company, the Royal Dutch Shell in 2012, and has a plan to raise it up to 7%.

The French Government has attracted Qatari's investors by offering them some grants such as tax exemption for the real estate investing in France which caused to $4 billion of Qatari's investment in the state. Qatar Sports Investment (QSI), a subsidiary of QIA, has bought 100% stakes of the famous French football club Paris. Saint-Germain F.C. (P.S.G) in a deal worth $130 million. Instantly, it has invested an addition $340 million in club to recruit more than 15 top players from different nationalities to be more successful in the following season. At the same time, the QIA has invested tremendously in French television. It has established two new TV channels under the name beIN sport. They have acquired the live broadcasting right of 80% of all football competitions in France and Europe League for $430 million per year (para. 8).

QIA has made bilateral infrastructure contracts with other countries such as South Africa in 2009, Indonesia in 2010. Qatar starts to invest into a petrochemical project in southern part of Malaysia which will help Malaysia to compete with its neighbor country, Singapore, to become the region's top petrochemical hub.

3.2.5 Bahrain

Mumtalakat Holding Company is the only Sovereign Wealth Fund of the Kingdom of Bahrain, a small island situated near the western shores of the Persian Gulf. The

Mumtalakat has been established in June, 2006 as an independent holding company by Royal Decree No. 64/2006 to diversify non-oil and gas related assets away from government-linked companies (SWF Institute, 2013).

The mission of Mumtalakat company comes with four major criteria; (1) a dedicated team consists of talented individuals which has been attracted, developed and well-empowered based on a unique disciplines of the company; (2) a well diversified and balanced portfolio has been created by investing on investment opportunities across industry sectors and asset classes; (3) value creation in strategic assets, and (4) a well governed institution which has formed with the highest standards of corporate governance and transparency (Mumtalakat Holding Company, 2013).

According to SWF Institute (2008, June), Mumtalakat has ranked as the most transparent SWF in Gulf region. As Chief Executive Officer of Mumtalakat (2008) stated “One of Mumtalakat’s clear strategic goals is to be open and transparent in its holdings and investment strategy. We intend to expand the company’s investments globally whilst demonstrating our commitment to international standards of transparency, corporate governance and accountability” (p. 1).

The main objectives of Mumtalakat are securing sustainable returns, preserving wealth for future generations and executing the government’s initiatives to pursue efficient investment opportunity with higher transparency, through reducing the economy’s affiliation to oil and gas income (Mumtalakat Holding Company, 2013).

Investment strategy of Mumtalakat has two strategic attitude. First one is developing and supporting new established investment initiatives which commit to create value over a short to medium period of time. Second is increasing the value of existing portfolio through developing and optimizing the potential growth of the portfolio companies (Mumtalakat Holding Company, 2013).

The Mumtalakat supports funding initiatives and strategic partnership, internationally or domestically, if it acts under one of these divisions; (1) development of a well-educated young generation in Bahrain; (2) those initiatives that provide employment opportunities in Bahrain, and (3) supporting poor communities of Bahrain to improve their well-being or social development (Mumtalakat Holding Company, 2013).

The governance framework of Mumtalakat has been structured in compliance with the Bahrain's code of corporate governance known as the "Code". This Code is the product of several years studying and contribution of a group of domestic government experts, academic people, bankers, accountants and other members of Bahrain's business community and international advisers (Mumtalakat Holding Company, 2013). The Mumtalakat Holding Company (2013) has mentioned the importance of the Code: "A principal purpose of the Code is to define the relationship between the board of directors, the managers, and the shareholders of a company to ensure transparency, accountability, fairness and responsibility in firms of all sizes" (para. 2).

The Mumtalakat Board of Directors consists of nine members including public officials and private sector experts (Investopedia, 2013). A group of auditors includes Ernst &

Young, external and internal auditors and the National Audit Offices of the Kingdom of Bahrain are responsible to supervise the Mumtalakat's operation. The Mumtalakat staff team includes 70 expert people from different nationalities.

According to Reuters report (2009, May) Mumtalakat focuses on domestic investment and looks forward for the global investments in sectors like tourism. One of these investments has happened in 2010, the Mumtalakat in the partnership with three other SWF has put 15 billion Dirhams on a tourism fund that aims to put Morocco among the world's top 20 tourist's destinations (SEF Institute, 2013). In addition, the Mumtalakat has moved from investing on private equity projects to stock and bond markets such as Islamic bonds. Also as Mumtaakat's CEO (2010, January) said, they diversify their funds toward liquid assets such as fix income equity markets (SWF Institute, 2013).

The total size of capital under management of the company is $7.1 billion as of November, 2013 (SWF Institute). Mumtalakat holds stake of at least 35 commercial enterprises in different sectors such as financial services, tourism, aluminum production, food production, real estate, transportation and telecommunications (Mumtalakat Holding Company, 2013). Some of the most important Mumtalakat's enterprises are as follows: Aluminum Bahrain B.S.C, Bahrain Airport Company, Arab Petroleum Investment Corporation, Bahrain Real Estate Investment Company, Gulf Air, Southern Tourism Company, Southern Area Development Company, and Gulf Aviation Academy.

3.2.6 Oman

The Sultanate of Oman has two Sovereign Wealth Funds: the State General Reserve Fund (SGRF) and the Oman Investment Fund (OIF). The total size of capital under management of these funds is $14.2 billion.

As a part of Ministry of Finance, the SGRF was established in 1980 by Royal Decree to act on behalf of the Government and invests the excess oil revenues of Oman in a diversified portfolio of non-oil international assets. The SGRF is the largest SWF of the state with $8.2 billion assets under its management (SWF Institute, 2013). The main responsibility of SGRF is to protect and raise the Oman's foreign reserve. The reserve would be invested in order to provide a stream of income to ensure the prosperity of the present and future generation of Oman. The SGRF undertakes its responsibility by following objectives such as achieving long-term returns for the government, acting as a stabilization fund for the government and provide enough liquidity to government when it becomes needed (Oman State General Reserve Fund, 2013).

The SGRF has recruit over 80 professionals in different units to follow its values such as integrity, mission focused, entrepreneurialism and value of people. The compliance, risk, legal and audit units ensure the adherence of the SGRF to best practice and international standards of governance and risk management. Administration, financing, liquidity management and multi-faceted teams are the other units of SGRF operation (Oman State General Reserve Fund, 2013).

The SGRF complies its mission by investing across a wide range of asset classes, industries and geographies. The SGRF's portfolio has two classes, the biggest class

includes long-term illiquid assets such as infrastructure, private equity, direct investment and properties. The second class, which is the small one, consists of the short-term liquid assets.

In June 2009, SGRF bought a 30% stake of Bulgarian Corporate Commercial Bank, and became as the largest shareholder of the bank. It also has started Joint-Venture (JV) enterprises with the State Bank of India in 2010, and made a $500 million JV deal with Libyan Government to invest in real estate, industrial, tourism, service and energy projects in Libya.

In 2009, the SGRF has signed a Memorandum of Understanding (MOU) with the VTB Capital, a strategic business arm of VTB Group which is one of the leading universal banks of Russia, to start a co-investment program focuses on making investment in the Russian real estate sector (Zawya, 2009).

Oman Investment Fund (OIF) has been established by Royal Decree of the Sultan of Oman in 2006. The fund has been appointed to act instead of the Oman Oil Fund which was formed in 1993 and was previous investor of Oman's domestic oil industry. The OIF received an addition billion dollars to expand its asset under management, which is now as big as $6 billion in 2013 (SWF Institute, 2013).

The government of Oman is the sole shareholder of the fund and its operation is under the supervision of the Ministry of Finance and Financial Affairs and Energy Resources Council. Because of governmental restrictions, there are only few information about

investment strategy and asset allocation of the OIF. The main objective of OIF is to generate economic growth in Oman through investing in domestic companies, assisting the foreign investors to expand their operation in Oman, and even trying to transfer the new technologies and knowledge into domestic entities (SWF Institute, 2013).

Most of the OIF's investment destinations are the high-growth emerging markets such as Middle East and India. The fund seeks above the average returns through investing in medium and long-term investments of domestic and global market in different entities such as Private Equity, Real Estate, Industrial Transportation and Engineering, Media and Entertainment, Financial Services, Telecom Infrastructure, Travel and Leisure and Utilities (Oman Investment Fund, 2013).

The Becton Property Group has started a partnership with OIF in 2009. The OIF has 29% stake in Dubai Mercantile Exchange (DME). In February 2012, the OIF and Chicago Mercantile Exchange Group (CME), the largest derivatives and future exchange company in the world, have declared the growth of their investments in DME. The OIF's CEO, Al Nabhani, (2012) stated "The DME continues to attract customers from among the key participants in the global energy industry. The OIF long-standing partnership with CME Group building the platform for the next phase in DME's development" (para. 13). The OIF also bought 9.7% stake in future exchange National Commodity & Derivatives Exchange Ltd. (NCDEX) in 2013.

In October 2013, The OIF has signed a non-binding MOU with Tri-star Resources, a mining and exploration company, and Castell Investments Limited, a subsidiary of

Dubai Transport Company, to create a Joint-Venture company which is called Strategic and Precious Metals Processing LLC. According to this contract the OIF holds 40% stake of the company. The Company obligates to build and operate an antimony roasting facility in Oman (SWF Institute, 2013).

3.2.7 Iran

National Development Fund of Iran (NDFI) is the only SWF in Iran which was established based on Article 84 of the Fifth Five-year Social, Economic and Cultural Development Plan of the Islamic Republic of Iran in 2011. According to this Article, 20% of the oil exporting income should be transferred into NDFI and this percentage increases 3% annually (Tehran Times, October 2011).

The NDFI was established to replace Oil Stabilization Fund (OSF), previous SWF of the state, which had been established in October 2000 by the Parliament confirmation as a part of Third Development Plan of Iran. Since Iran's economy had relied heavily on oil exporting revenues, the main objectives of OSF were stabilizing the annual budget, securing the economy against the globally fluctuations of oil price and preserving a portion of oil exporting income for future generation through making productive investments.

Figure 3.10 demonstrates the end of year asset balance of OSF during 2005 to 2010. The Dutch Disease and Resource Curse, alongside of the skyrocketing oil prices, had badly affected Iran's economy through mismanagement of resources and formation of rent-seeking governments. According to Figure 3.10, the OSF's capital increased up to $23 billion from 2005 to 2007, but it extraordinary fell down to only $24 million in 2010.

Subsequently, the OSF failed and was replaced by the NDFI in 2011. Afterwards, the OSF has remained with the only task of keeping the annual budget balanced.

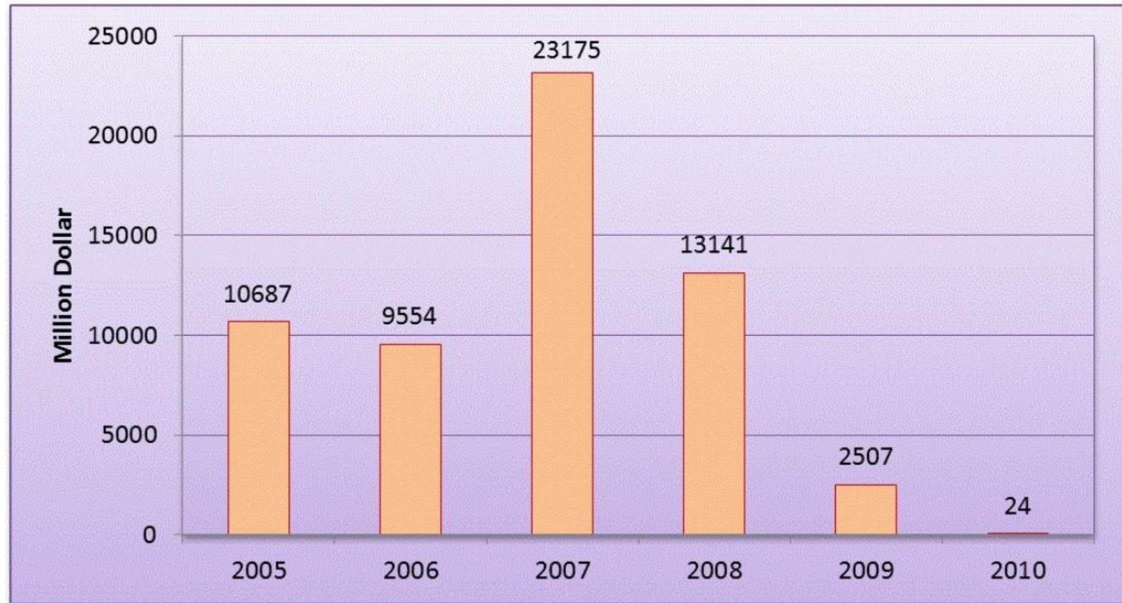


Figure 3.10 Asset Under Management of OSF

Source: National Development Fund of Iran, 2013, para. 2

Because of the poor transparency, especially during the last decade, the accurate size of the NDFI was not specified. Finally, after the last presidency election in 2013, the General Inspection Office of Iran (GIO) has announced the size of NDFI $54.5 billion (SWF Institute, 2013). The mission of the NDFI is to transfer a portion of the oil and gas exporting revenues into durable wealth, capital and productive investment, to create economic motivator for private sector development and to preserve it for the future generation, therefore, part of the money is deposited into domestic banks (NDFI, 2013).

The governance structure of NDFI consists of the Board of Executive Directors, the Supervisory Board and the Board of Trustees. In Figure 3.11, the organization chart of NDFI has been traced and all different departments have been placed under supervision

of the Board of Executive Directors. Iran's Ministry of Finance does not have any executive right about the fund and the State is the sole owner of the NDFI's assets. The Board of Trustees governs fund and all investment decision process are under supervision of Managing Board which acts as an executing arm of the NDFI (SWF Institute, 2013).

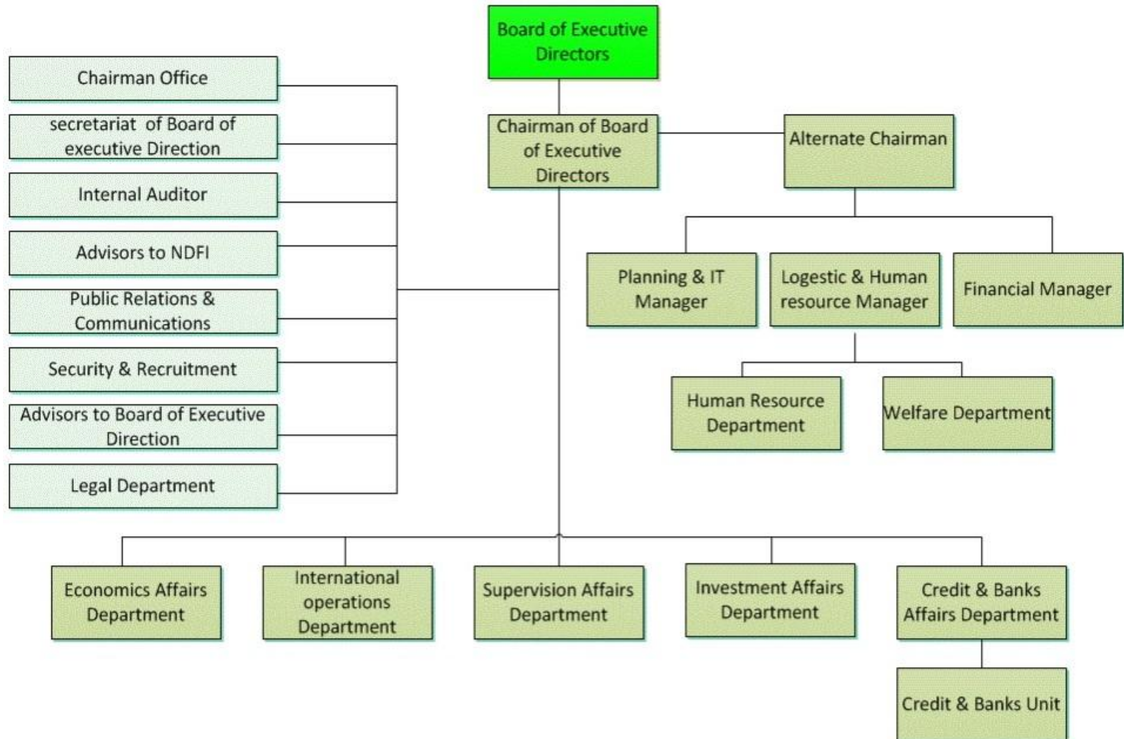


Figure 3.11 NDFI Organization Chart

Source: National Development Fund of Iran, 2013

In order to reach its goals, the NDFI follows some strategies including; (1) to develop economic infrastructure and to reduce the role of government via supporting and providing foreign currency facilities for private sector; (2) to make plans which would result to country's 2025 Vision Plan and Comprehensive Plan for Scientific achievable; (3) to find short and long-term investment opportunities in divested areas of the country; (4) to play an important role in foreign monetary and financial markets; (5) to make

decisions and dedicate measures to certify the NDFI's return and its maintenance for future generation, and (7) to give the priority of being beneficent from financial resources to energy consumption optimization plans.

The scope of NDFI's investment expands to various asset classes via making agency contracts with different financial institution such as domestic banks. According to Article 84 of the NDFI's foundation, 50% of the fund allocates to private, non-governmental and cooperative sector via providing financial facilities**.** In 2012, based on a contract with Sepah bank, Bank of Industry and Mine and the Exports Development Bank, the Banks have obligated to invest $9 billion of NDFI's capital in energy, industry and mine, cooperatives and agriculture sector. In November 2011, the NDFI dedicated 20% of its total capital to promote foreign investments. In addition, based on an agreement with Ministry of Petroleum (MoP), the NDFI has been obligated to invest $14 billion in domestic oil projects (Tehran Times, 2012).

In October 2013, the NDFI deputy of Foreign Investments and Operations declared the membership of NDFI in International Forum of Sovereign Wealth Funds (IFSWF) by accepting the Santiago Principles. He also added: "having recognized the importance and influence of sovereign wealth funds in financial and money markets, IMF developing a forum to harmonize the SWFs functions, setting principles and standard practices came into being" (para. 3).

3.3 Analysis the Objectives of SWFs in GCC Countries

GCC Countries are the owners of the biggest Sovereign Wealth Funds in the world which seek lots of joint objectives to boost their economies. Table 3.2 aims to illustrate and compare the most important characteristics of these funds to each other in a glance.

Table 3.2 The Major Sovereign Wealth Fund of Gulf Cooperation Council Countries

Country	Fund's Name	Date of Establishment	Size of Capital (US$ Billion)	Source of Fund	Transparency Rating	Investment Strategies and Strategic Asset Allocation (SAA)	Main Objectives
UAE	Abu Dhabi Investment Authority (ADIA)	1976	627	Oil	5	Major global investor which focus on long-term value creation	Investing funds on behalf of the Government
Saudi Arabia	Saudi Arabian Monetary Fund (SAMA)	1953	675.9	Oil	4	Investing in low-risk assets: sovereign debt and fixed income	Ensuring the growth and soundness of financial system
Kuwait	Kuwait Investment Authority (KIA)	1953	386	Oil	6	Investing in local Arab and International Financial Markets	Reserve for future generation and achieving fair long-term return
Qatar	Qatar Investment Authority (QIA)	2005	115	Oil	5	Out of energy sector investing internationally or domestic	Develop, invest and manage state reserve funds
Bahrain	Bahrain Mumtalakat Holdings	2008	7.1	Non-commodity	9	Diversify away from government-link companies	Grow the wealth of Bahrain
Oman	State general Reserve Fund (SGRF)	1980	8	Oil and Gas	4	Long-term illiquid and short-term liquid assets	Investing in order to benefiting the local economy
Iran	National Development Fund (NDFI)	2011	54.5	Oil and Gas	5	50% domestic private sector, 20% foreign investment	Transfer oil revenues to productive investment for future generation

Source: Public Information from Fund's Official Websites; IMF; SWF Institute. 2013

The composition of a portfolio's fund is based on its distinctive objectives. Since the SWFs roughly follow common objectives, their portfolios are similar to each other. They are same in terms of having two different portions but are various caused by different weights of combinations of these two parts. One section has dedicated to low-risk liquid assets such as sovereign debt instruments. The other portion consists of high-risk assets with higher levels of return.

Long-term investment approaches and conservative policies, which have been followed by SWFs, changed after international financial crisis over the past decades. Since the economic objective of GCC SWFs is to reach and secure the best possible return for future generations while reducing the affiliation on oil revenues, the funds start to increase stability more than uncertainty in the market. Accordingly, although the GCC governments concern about the political impacts of their decisions on how best to manage their accumulated wealth and oil returns to benefit their own citizens, the SWFs try to secure their domestic and oversea investments are independently taken, competitive and profitable in medium and long-term horizon (Smith, 2009).

The GCC's SWFs are exceptions in the world not only because of their size, also because of their portfolios' composition. These SWFs, as a whole, are more interest to invest in risky assets rather than the other SWFs. Therefore, they hold equities as a big portion and invest more frequently in emerging markets (Seznec, 2008). Ziemba (2008) believes that despite the diversity of the Gulf SWFs' assets, they have a clear attitude to public and private equities: "GCC funds in aggregate allocate 15–20 percent to fixed

income assets, 50–60 percent in equity, and 15–20 percent in alternative investment vehicles such as private equity and hedge funds" (p. 2).

The GCC countries are aggressive to diversify and enlarge their domestic economy through SWFs. In order to achieve this goal, they become partners with or acquire direct equity stakes of technological and strategic industries' companies and also as Diwan (2009) states "they have embarked on an aggressive strategy of economic diversification through infrastructure development, industrialization, and improving conditions for foreign investment and private capital" (p. 347). Therefore, the abundant oil revenues of the states has been invested internationally to rebuild their domestic economies and to reconfigure their prominent role in global financial market.

As a tradition, the majority of investment destinations of GCC SWFs are the US and UK markets. Recently, they have increased their direct investment in emerging markets such as Asia and broader Middle East. As a result, the funds have to bear more risk to enjoy greater return; for example the ADIA puts 14% of its portfolio into emerging market which is greater than the only 5% of US pension funds investment into same geography (Ziemba, 2008).

The shift to high-risk high-return emerging market has changed the currency composition of Gulf SWFs. Although the funds has remained dollar denominated yet, but there is a trend to new currencies exposure. According to Ziemba estimation (2008) "the currency distribution of GCC SWFs includes 45% in US dollars, 40% in Euro and British Pounds and 15% in Asian and Emerging Market currencies" (p. 2). Figure 3.12

illustrates the currency composition of GCC SWFs and compares them with some of other prominent SWFs in the world. Despite of non-GCC funds in the world which have consisted of non-dollar asset in a bigger portion, the GCC funds are dollar denominated in general.

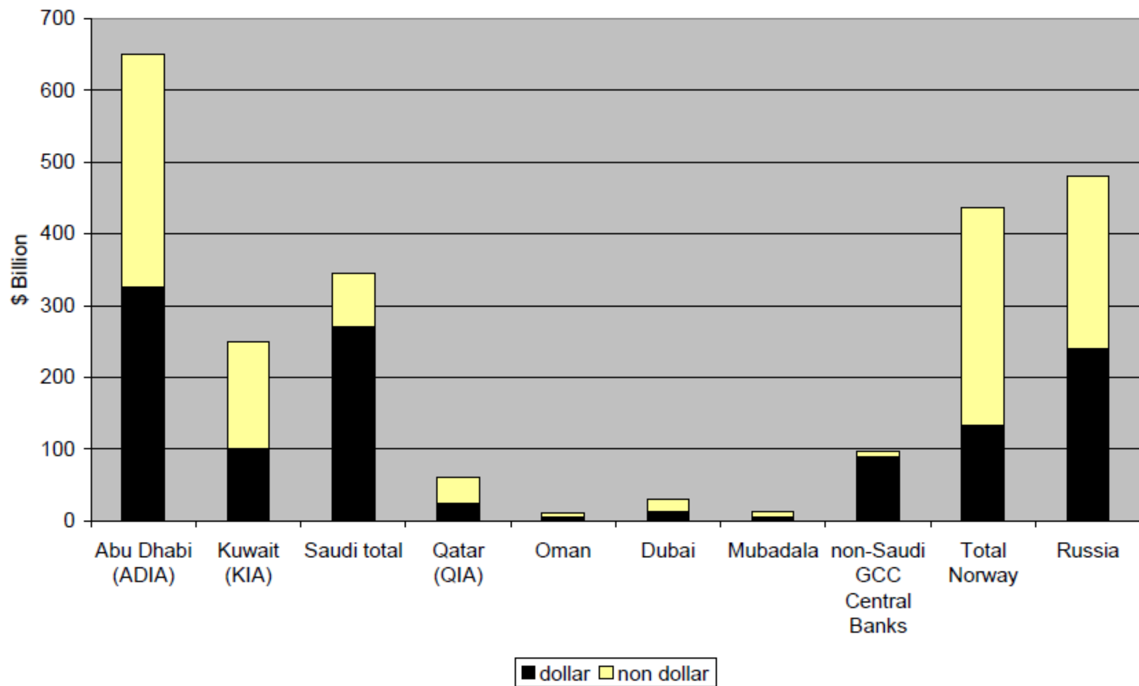


Figure 3.12 Currency Compositions of GCC Funds

Source: RGE Monitor, 2007, p. 12

In order to realize the main objectives of GCC countries in establishing SWFs, all the imbalances consequences and challenges which a single-resource base economy has faced with should be considered. KIA, as the oldest SWF in GCC region, has been created to save 10% of Kuwait's oil revenues for future generation and to smooth the temporary expenditure of the state. Based on the historical records of scholars' debates, literature reviews and media stories SWFs have emerged for stabilization purposes;

especially in GCC countries with the rising revenues of oil exporting since 2002 until mid 2008 (El-Kharouf et al., 2010).

In order to reduce the inherent imbalances of GCC economies, the SWF plays an efficient role to stabilize the cyclical fluctuations of the economy and boost its development. According to El-Khorouf et al. (2010), "the structural imbalances necessitated strategies to diversifying the economic base away from the oil-intensive developments and into more permanent and renewable sources of national wealth" (p. 132).

The GCC's SWFs' portfolios cover a full range of strategies, which follow their variant objectives, such as stabilization funds (Oman); classic investment funds (Kuwait and Abu Dhabi Investment Authority); public and private equities (Qatar Investment Authority, Mubadala and Dubai International Capital), and some conservative investments which has been followed by SAMA. Among different sectors, which have been targeted by the GCC's funds, Islamic finance, mining/mineral, aerospace/automotive, healthcare and those with a higher tendency to domestic financial market development and economic diversification scheme ranked as the top (Ziemba, 2008).

Nowadays, different States of the GCC have followed various investment horizons based on their own potentials. Dubai, as a global city, has become a hub city of the worldwide for finance, world-class banking services and tourism, while the Qatar has tremendously invested in sport, education and being as conference center such as

bidding the 2022 FIFA world cup competition and importing the best Western universities and Washington thinks tanks to the State. Saudi Arabia constructs new economic cities which are three times as big as Dubai in terms of population, four times as big as Hong Kong in terms of area's span and as equal as Singapore in terms of GDP And, Bahrain has tried to play its vital role in Islamic finance industry.

Chapter 4

CONCLUSION

As it is mentioned in the previous chapters, the SWFs are new, and fast growing class of funds, which are set up to manage excess commodity exporting revenues and surplus of foreign exchange reserves. The thesis categorizes all different types of SWFs based on their funding source, establishing objectives, and strategic asset allocation.

The GCC SWFs play a vital role in the global market and their own region's development. Specially, the recent economic crises serve to realize the importance of their role as a tremendous source of wealth creation for their own countries in the GCC's future. This thesis attempts to review all major established SWFs in GCC region and illustrates their high-return, long-term investment strategies and ideal strategic asset allocations. Based on our investigation there are three major factors that ensure the success of Gulf region's SWFs; to act as a proactive global investor; to provide the most transparency, and to have a common investment understanding with the host countries.

Lots of fast growing concerns and government struggles to deal with SWFs have appeared for two major reasons. Firstly, SWFs, as the government-linked entities, tend to make large-size investments. As such, the critics fear about the political motivated investments pursue policy objectives rather than economically driven decisions. The second reason is about the low level of SWFs' transparency in their performance,

portfolio structure, and investment decisions process. Even, there are preventive laws in some countries which cause the SWFs resist disclosing information about their activities.

The importance of SWFs' regulation has raised after a huge amount of losses had happened during the recent financial crises in 2008. For instance, a number of SWFs have lost more than 30% of their total capital, as a result of a sharp downturn in their portfolio's assets with long-term investment horizons such as equities and alternative investments. These concerns surrounding SWFs increase in Gulf region, where the low-democratic, rich countries have gained huge amounts of revenues from a dramatic rise in oil prices during 2000 to mid-2008.

For the GCC SWFs, there are lots of lessons which are needed to be learned from the world's most successful SWFs such as Norway. Between all different types of SWFs, which have been established till now, the Government Pension Fund Global (GPFG) of Norway is the best template and the most similar to the GCC countries' SWFs because of at least two reasons. First, the funding source of both Norway and Gulf region SWFs is the oil exporting revenues. Moreover, according to sovereign wealth fund institute (2013), the Norway's SWF operates in an extremely transparent manner, 10 out of 10, which make it easy to explore and imitate all its characteristics. Norway provides one of the most successful and transparent SWFs in the world. Moreover, according to the latest report of SWF Institute, the Government Pension Fund Global of Norway is the largest SWF with $818 billion assets under management.

Some notable regulations of GPFG are: reviewing and restricting the investment patterns based on national security consideration via some special agencies; scrutinizing the funds in order to control anti-monopoly and over restriction activities; imposing some restrictions on funds try to increase their holding up to a limit, and providing special laws for those investments which are in certain sectors of social importance.

Since the GPFG provides the ethical guidelines evaluating and identifying the sufficiency of those companies which are assumed as its investment targets, it is known as a global responsible social agent. The Norway's SWF is a successful SWF in supporting the government to undertake its obligations about the saving fund accumulating, the intergenerational funds transfer promoting, and the Norwegian economic growth-dependent infrastructure projects completing during the financial crises period.

A significant share of all these successful result belongs so the GPFG's governance structure and institutional setup. Existence of strict rules ensures the essential fiscal discipline of managing counter cycles in the economy. The parliament of Norway sets up the ethical guidelines of the fund and provides the maximum accountability of the fund for the Norwegian citizen. The GPFG's day-to-day operation is under the supervision of Norway's central bank, and the fund ensures that, away from political interference, will take the best strategic positions in its investments.

The citizens of the Norway, as the real owner of the fund, have the authority of public discussion about fund's performance through Parliament and the Ministry of Finance. In

addition, the central bank is obligated to disclose the fund's guidelines, strategies and reports with the most transparent manner.

At the end of this thesis, we should mention that providing an operational and structural transparency for the GCC SWFs alongside with transparent guidelines for investment behavior will improve the funds’ overall assessment and will eventually result to have more formal regulated investment portfolios.

REFERENCES

Abu Dhabi Investment Authority. (2011). Annual Review of ADIA.

Abu Dhabi Investment Authority. (2012). Annual Review of ADIA.

Abu Dhabi Investment Authority. Retrieved June 15, 2013 from the World Wide Web: http://www.adia.ae/En/Home.aspx

Abu Dhabi Investment Authority. (n.d.). In Wikipedia. Retrieved November 13, 2013 from the World Wide Web: http://en.wikipedia.org/wiki/Abu_Dhabi_Investment_Authority

Ainina, F., & Mohan, N. (2010). Sovereign Wealth Funds: Investment and Governance Practices. *Journal of Asia-Pacific Business, 11 (4)*, 278–295.

Aizenman, j., Glick, R. (2008). Sovereign Wealth Funds: Stylized Facts about their Determinants and Governance. Federal Reserve Bank of San Francisco Working Paper Series No. 33. Federal Bank of San Francisco.

Al Nahyan, H. B. Z. (2012). Abu Dhabi Investment Authority: 2012 Annual Review.

Al Sa'ad, B. (2008, April 9). Overview on the Kuwait Investment Authority and Issues Related to Sovereign Wealth Funds. Key Note Speech at the First Luxembourg Foreign Trade Conference.

Asutay, M. (2008). GCC Sovereign Wealth Funds and Their Role in the European and American Markets. *Equilibri,12 (3),* 335-354.

Bahrain's Mumtalakat Holding Company, Retrieved November 11, 2013 from the World Wide Web: http://www.bmhc.bh/en/21/corporate-governance.aspx

Bahrain's Mumtalakat Holding Company, Retrieved November 11, 2013 from the World Wide Web: http://www.bmhc.bh/en/17/portfolio.aspx

Bahrain's Mumtalakat Holding Company, Retrieved November 11, 2013 from the World Wide Web: http://www.bmhc.bh/en/1/about-us.aspx

Bahrain's Mumtalakat Holding Company, Retrieved November 11, 2013 from the World Wide Web: http://www.bmhc.bh/en/19/corporate-responsibility.aspx

Bahrain's Mumtalakat Holding Company, Retrieved November 11, 2013 from the World Wide Web: http://www.bmhc.bh/en/2/investment-philosophy.aspx

Bahrain's Mumtalakat Holding Company. (in press). (2008, June). Sovereign Wealth Fund Institute Funds Finds Mumtalakat Most Transparent Sovereign Wealth

Fund in the Gulf. Retrieved November 6, 2013 from the World Wide Web: http://www.bmhc.bh/webmaster/uploads/files/Pressrelease/14June2008.pdf

Balding, C. (2008, June 6). A Portfolio Analysis of Sovereign Wealth Funds. Irvine: University of California.

Balin, B. J. (2008, March 12). Sovereign Wealth Funds: A Critical Analysis. *Washington D.C.: The Johns Hopkins University School of Advanced International Studies (SAIS).*

Blundell-Wignall, A., Hu, Y. W., & Yermo, J. (2008). Sovereign Wealth and Pension Fund Issues. *OECD Working Papers on Insurance and Private Pensions, (14),* 117-133.

Brown, A., Papaioannou, M., & Petrova, I. (2010). Macrofinancial Linkages of the Strategic Asset Allocation of Commodity-Based Sovereign Wealth Funds. Washington, D.C.: International Monetary Fund (IMF).

Central Intelligence Agency (CIA). (2012). The World Factbook: Country Comparison: Reserve of Foreign Exchange and Gold. Retrieved December 05, 2013 from the World Wide Web: https://www.cia.gov/library/publications/the-world-factbook/rankorder/2188rank.html

Chhaochharia, V., & Laeven, L. (2009). Sovereign Wealth Funds: Their Investment Strategies and Performance. Washington, D.C.: International Monetary Fund.

Conjecture Corporation. (2013). What Is a State-Owned Enterprise. Retrieved March 20, 2013 from the World Wide Web: http://www.wisegeek.com/what-is-a-state-owned-enterprise.htm

Corporate Commercial Bank. (2013). Retrieved November 14, 2013 from the World Wide Web: http://www.corpbank.bg/about_the_bank.html

Daimler Investors Relation. Retrieved Oct 28, 2013 from the World Wide Web: http://www.daimler.com/investor-relations/daimler-shares/shareholder-structure

Das, U. S., Mazarei, A., & Hoorn, H. V. D. (2010). Economics of Sovereign Wealth Funds: Issues for Policymakers. Washington, D.C.: International Monetary Fund (IMF).

Department of the Treasury. (2007, December). Report to Congress on International Economic and Exchange Rate Policies. Retrieved April 03, 2013 from the World Wide Web: http://www.treas.gov/offices/international-affairs/economic-exchange-rates

Diwan, K. S. (2009). Sovereign Dilemmas: Saudi Arabia and Sovereign Wealth Funds. *Geopolitics, 14 (2),* 345-359. DOI: 10.1080/14650040902827831

Drezner, D. (2008). Sovereign Wealth Funds and the Insecurity of Global Finance. Boston, MA: The Fletcher School, Tufts University.

Dutta, S. (2012). Drivers of Strategic Asset Allocation Decisions for Sovereign Wealth Funds. Tufts University: The Sovereign Wealth Fund Initiative.

EL-Kharouf, F., Al-Qudsi, S., & Obeid, S. (2010). The Gulf Corporation Council Sovereign Wealth Funds: Are They Instruments for Economic Diversification or Political Tools. *Asian Economic Papers, 9 (1),* 124-131.

Fernandez, D. G., & Eschweiler, B. (2008, May). Sovereign Wealth Funds: A Bottom-up Primer, Global Issues. Singapore: JPMorgan Research.

Gieve, J. (2008, March). Sovereign Wealth Funds and Global Imbalances. Speech delivered at the Sovereign Wealth Management conference, London.

Governance and Accountability Institute's Sustainability HQ. SWF: Abu Dhabi Investment Authority. Retrieved June 15, 2013 from the World Wide Web: http://www.sustainabilityhq.com/index.php?id=2176

Hutton, R., & Williams, J. (2011, June). The Mideast Gets a Piece: How (and Why) the Middle East is Buying into Europe's Car Companies. Car and Drive. Retrieved Oct 28, 2013 from the World Wide Web:

http://www.caranddriver.com/features/how-and-why-the-middle-east-is-buying-into-europes-car-companies-feature

International Monetary Fund (IMF). (2007, October). Global Financial Stability Report. Financial Market Turbulence, Causes, Consequences, and Policies. Washington, D.C.: World Economic and Financial Survey.

International Monetary Fund. (2007, September). Global Financial Stability Report.

International Monetary Fund (IMF). (2008, February). Sovereign Wealth Funds: A Work Agenda. Retrieved April 03, 2013 from the World Wide Web: http://www.imf.org/external/np/pp/eng/2008/022908.pdf

International Working Group of Sovereign Wealth Funds. (2008). International Working Group of Sovereign Wealth Funds is Established to Facilitate Work on Voluntary Principles. Retrieved December 12, 2013 from the World Wide Web: http://www.iwg-swf.org/pr/swfpr0801.htm

International Working Group of Sovereign Wealth Funds. (2008). International Working Group of Sovereign Wealth Funds Presents the Santiago Principles to the International Monetary and Financial Committee. Retrieved December 12, 2013 from the World Wide Web: http://www.iwg-swf.org/pr/swfpr0806.htm

International Working Group of Sovereign Wealth Funds. (2008). Retrieved December 12, 2013 from the World Wide Web: http://www.iwg-swf.org/

Jen, S. (2007, October 25). Currencies: The Definition of a Sovereign Wealth Fund. Morgan Stanley Research Global.

Jen, S. (2007, December). Sovereign Wealth Funds: What they are and what's happening. *World Economics, 8 (4)*, 1-7.

Jones, S. G., & Ocampo, J. A. (2008). Sovereign Wealth Funds: A Developing Country Perspective. London: Andean Development Corporation.

Kern, S. (2007, September). Sovereign Wealth Funds: State Investment on the Rise. Deutsch Bank Research.

Khaleej Times. (2008, December). Oman, Libya Sign $500 Million JV Deal. Retrieved November 13, 2013 from the World Wide Web: http://www.khaleejtimes.com/biz/inside.asp?xfile=/data/business/2008/December/business_December359.xml§ion=business

Kunzel, P., Lu, Y., Petrova, I., & Pihlman, J. (2011, January). Investment Objectives of Sovereign Wealth Funds: A Shifting Paradigm. *International Monetary Fund (IMF) Working Paper, WP/11/19.* Money and Capital Markets Department.

Kuwait Investment Authority. Retrieved June 19, 2013 from the World Wide Web: http://www.kia.gov.kw/En/About_KIA/Overview_of_KIA/Pages/OverviewofKIA.aspx

Kuwait Investment Authority. Retrieved June 21, 2013 from the World Wide Web: http://www.kia.gov.kw/En/About_KIA/Overview_of_KIA/Pages/OverviewofKIA.aspx

Kuwait Investment Authority. Retrieved June 21, 2013 from the World Wide Web: http://www.kia.gov.kw/En/About_KIA/Objective_Strategy/Pages/default.aspx

Kuwait Investment Authority. Retrieved June 21, 2013 from the World Wide Web: http://www.kia.gov.kw/En/About_KIA/Tansparency/Pages/default.aspx

Kuwait Investment Authority. Retrieved June 21, 2013 from the World Wide Web: http://www.kia.gov.kw/En/MD_Office/About/Pages/default.aspx

Kuwait Investment Authority. Retrieved June 21, 2013 from the World Wide Web: http://www.kia.gov.kw/En/About_KIA/New_Developments/Pages/default.aspx

Kuwait Investment Authority. Retrieved May 10, 2013 from the World Wide Web: http://www.kia.gov.kw/En/About_KIA/Objective_Strategy/Pages/default.aspx

List of countries by foreign-exchange reserves. (n.d.). In Wikipedia. Retrieved December 5, 2013 from the World Wide Web: http://en.wikipedia.org/wiki/List_of_countries_by_foreign-exchange_reserves

MacDonald, F. (2013, June 30). Bloomberg. Retrieved Oct 28, 2013 from the World Wide Web: http://www.bloomberg.com/news/2013-06-30/kuwait-wealth-fund-doubles-investments-in-u-k-to-24-billion.html

Maierburgger, A. (2013, January). Qatar to invest $5 billion in Malaysia projects. Investvine: A Portal of Inside Investor. Retrieved November 6, 2013 from the World Wide Web: http://investvine.com/qatar-to-invest-5b-in-malaysia/

Martin, M. F. (2008, January 22). CRS report for congress: China's Sovereign Wealth Fund. Congressional Research Service.

National Development Fund of Iran. (2013). Fund History: The background of the National Development Fund of Iran. Retrieved November 14, 2013 from the World Wide Web: http://en.ndf.ir/about-us/history.aspx

National Development Fund of Iran. (2013, October). National Development Fund of Iran Member of International Forum of Sovereign Wealth Fund. Retrieved November 14, 2013 from the World Wide Web: http://en.ndf.ir/news/news/tabid/243/articleType/ArticleView/articleId/418/National-Development-Fund-of-Iran-member-of-International-Forum-of-Sovereign-Wealth-Funds.aspx

National Development Fund of Iran. (2013). NDFI Organization Chart. Retrieved November 14, 2013 from the World Wide Web: http://en.ndf.ir/about-us/ndfi-organization-chart.aspx

National Development Fund of Iran. (2013). Mission. Retrieved November 14, 2013 from the World Wide Web: http://en.ndf.ir/Default.aspx?tabid=306

National Development Fund of Iran. (n.d.). In Wikipedia. Retrieved November 14, 2013 from the World Wide Web: http://en.wikipedia.org/wiki/National_Development_Fund_of_Iran

O'Brien, j. (2008). Barriers to Entry: Foreign Direct Investment and the Regulation of Sovereign Wealth Funds. *The International Lawyer, 42 (4),* 1231-1236.

Oman Investment Fund. (2013). Retrieved November 13, 2013 from the World Wide Web: http://www.oif.om/

Oman's State General reserve Fund. (2013). Retrieved November 14, 2013 from the World Wide Web: http://www.sgrf.gov.om/aboutus.html

Oman's State General reserve Fund. (2013). Retrieved November 14, 2013 from the World Wide Web: http://www.sgrf.gov.om/business.html

Ping, X., & Chao, C. (2008). The Theoretical Logic of Sovereign Wealth Funds. China Investment Corporation. Retrieved April 03, 2013 from the World Wide Web: http://ssrn.com/abstract=1420618

Porsche. (n.d.). In Wikipedia. Retrieved November 6, 2013 from the World Wide Web: http://en.wikipedia.org/wiki/Porsche

Porsche SE. Retrieved November 6, 2013 from the World Wide Web: http://www.porsche-se.com/pho/en/press/newsarchive2009/?pool=pho&id=2009-08-14-01

Press TV. (2010, September). CBI to redeposit funds in local banks. Retrieved November 13, 2013 from the World Wide Web: http://www.presstv.com/detail/143197.html

Pryor, D. (1995, December 13). Government Corporations: Profile of Existing Government Corporation. Washington, D.C.: United States General Accounting Office (GAO).

Qatar Investment Authority, Retrieved November 6, 2013 from the World Wide Web: http://www.qia.qa/

Qatar Investment Authority, Retrieved November 6, 2013 from the World Wide Web: http://www.qia.qa/about.html

Qatar Investment Authority, Retrieved November 6, 2013 from the World Wide Web: http://www.qia.qa/employees.html

Ramady, M. A. (2010). The Saudi Arabian Economy: Policies, Achievements, and Challenges (2nd ed.). New York: Springer.

Rodrik, D. (2006). The Social Cost of Foreign Exchange Reserves. *International Economic Journal, 20 (3),* 253–266.

Roy, S. (2006, April). Money and Mystery: ADIA Unveils Its Secrets. Euromoney.

Saudi Arabian Monetary Agency. (n.d.). In Wikipedia. Retrieved October 29, 2013 from the World Wide Web: http://en.wikipedia.org/wiki/Saudi_Arabian_Monetary_Agency

Saudi Arabian Monetary Agency. Retrieved October 29, 2013 from the World Wide Web: http://www.swfinstitute.org/swfs/sama-foreign-holdings/

Saudi Arabian Monetary Agency. Retrieved October 29, 2013 from the World Wide Web: http://www.sama-ksa.org/sites/SAMAEN/AboutSAMA/Pages/SAMAHistory.aspx

Saudi Arabian Monetary Agency. Retrieved October 29, 2013 from the World Wide Web: http://www.sama.gov.sa/sites/samaen/AboutSAMA/Pages/InternalAudit.aspx

Saudi Arabian Monetary Agency. Retrieved October 29, 2013 from the World Wide Web: http://www.sama.gov.sa/sites/samaen/AboutSAMA/Pages/SAMAFunction.aspx

Saudi Arabian Monetary Agency. Retrieved October 29, 2013 from the World Wide Web: http://www.sama.gov.sa/sites/SAMAEN/FAQ/SAMAobjectives/Pages/FaqDetailedPage.aspx?Filter1Field=ID&Filter1Value=14

Saudi Arabian Monetary Agency. Retrieved October 29, 2013 from the World Wide Web: http://www.sama.gov.sa/sites/SAMAEN/FAQ/SAMAobjectives/Pages/FaqDetailedPage.aspx?Filter1Field=ID&Filter1Value=16

Saudi Arabian Monetary Agency. Retrieved October 29, 2013 from the World Wide Web: http://www.sama.gov.sa/sites/SAMAEN/FAQ/SAMAobjectives/Pages/FaqDetailedPage.aspx?Filter1Field=ID&Filter1Value=18

Saudi Arabian Monetary Agency. Retrieved October 29, 2013 from the World Wide Web: http://www.sama.gov.sa/sites/samaen/AboutSAMA/Pages/InternalAudit.aspx

Sayare, S. (2012, October). Qatar Is Becoming a Player in French Sports. The New York Times.

Scherer, B., & Gintschel, A. (2008). Optimal Asset Allocation for Sovereign Wealth Funds. *Journal of Asset Management, 9 (3)*, 215–238.

Setser, B., Ziemba, R. (2007). Understanding the New Financial Superpower: The Management of GCC Official Foreign Assets. *Roubini Global Economics.*

Seznec, J. F. (2008). The Gulf Sovereign Wealth Funds: Myth and Reality. *Middle East Policy, 15 (2),* 97–110.

Singh, K. (2008, October). Sovereign Wealth Funds: Some Frequently Asked Questions. Public Interest Research Centre in Delhi, India: The Corner House.

Smith, P. V. (2009). Sovereign Wealth Funds Reassess Their Strategy. *The Middle East Magazine, 396,* 161–167.

Sovereign Wealth Fund Institute. (2009, November 16). What Is a Sovereign Wealth Fund. Retrieved June 15, 2013 from the World Wide Web: http://www.swfinstitute.org/swf.php.

Sovereign Wealth Fund Institute. (2013). Abu Dhabi Investment Authority. Retrieved June 15, 2013 from the World Wide Web: http://www.swfinstitute.org/swfs/abu-dhabi-investment-authority/

Sovereign Wealth Fund Institute. (2013). Fund Ranking: Sovereign Wealth Fund Rankings. Retrieved December 5, 2013 from the World Wide Web: http://www.swfinstitute.org/fund-rankings/

Sovereign Wealth Fund Institute. (2013). Kuwait Investment Authority. Retrieved June 18, 2013 from the World Wide Web: http://www.swfinstitute.org/swfs/kuwait-investment-authority/

Sovereign Wealth Fund Institute. (2013). National Development Fund of Iran. Retrieved November 14, 2013 from the World Wide Web: http://www.swfinstitute.org/swfs/national-development-fund-of-iran/

Sovereign Wealth Fund Institute. (2013). Oman Investment Fund. Retrieved November 14, 2013 from the World Wide Web: http://www.swfinstitute.org/swfs/oif/

Sovereign Wealth Fund Institute. (2013). Oman Investment Fund. Retrieved November 14, 2013 from the World Wide Web: http://www.swfinstitute.org/tag/oman-investment-fund/

Sovereign Wealth Fund Institute. (2013). Oman State General Reserve Fund. Retrieved November 14, 2013 from the World Wide Web: http://www.swfinstitute.org/swfs/oman-state-general-reserve-fund/

Sovereign Wealth Fund Institute. (2013). Public Investment Fund. Retrieved October 29, 2013 from the World Wide Web: http://www.swfinstitute.org/swfs/public-investment-fund/

Sovereign Wealth Fund Institute. (2013). Qatar Investment Authority. Retrieved November 6, 2013 from the World Wide Web: http://www.swfinstitute.org/swfs/qatar-investment-authority/

Tehran Times. (2012, July). Iran's development fund allocates $14b to oil industry. Retrieved November 14, 2013 from the World Wide Web: http://www.tehrantimes.com/economy-and-business/99262-irans-development-fund-allocates-14b-to-oil-industry

Tehran Times. (2011, October). Iran's NDF allocates $3.8b to private sector. Retrieved November 14, 2013 from the World Wide Web: http://tehrantimes.com/index.php/economy-and-business/4123-irans-ndf-allocates-38b-to-private-sector

Tehran Times. (2012, January). Iranian banks secure $9 billion for domestic projects. Retrieved November 14, 2013 from the World Wide Web: http://www.tehrantimes.com/economy-and-business/94495-iranian-banks-secure-9-billion-for-domestic-projects

The Economist. (2008, January 17). Sovereign Wealth Funds: Asset-backed Insecurity. Retrieved June 15, 2013 from the World Wide Web: http://www.economist.com/node/10533428

TheCityUK Partnering Prosperity. (2013, March). Sovereign Wealth Funds Report 2013. Financial Market Series.

Thornton, E., & Reed, S. (2008, June 6). Inside the Abu Dhabi Investment Authority. Bloomberg Businessweek. Global Economics.

Truman, E. M. (2010, September). Sovereign Wealth Funds: Threat or Salvation. Washington, D.C.: Peterson Institute for International Economics.

Truman, E. M. (2011). Are Asian Sovereign Wealth Funds Different. *Asian Economic Policy Review, 6,* 249-268.

U.S. Department of Treasury. (2007). Report to Congress on International Economic and Exchange Rate Policies. Retrieved April 03, 2013 from the World Wide Web: http://www.treasury.gov/resource-center/international/exchange-rate-policies/Pages/index.aspx

Wharton Leadership Center. (2010). The Brave New World of Sovereign Wealth Funds. University of Pennsylvania.

Wilson, R. (2012, June). Retrieved from Investopedia: http://www.investopedia.com/articles/economics/08/sovereign-wealth-fund.asp

Zawya. (2009, September). VTB Capital signs Memorandum of Understanding (MOU) with State General Reserve Fund of the Sultanate of Oman. Retrieved November

14, 2013 from the World Wide Web:

http://www.zawya.com/story/ZAWYA20091010071443/

Ziemba, R. (2008). What are GCC Funds Buying: A Look at Their Investment Strategies. *RGE Monitor*, A Roubini Global Economics Service.