

# The Rise of Sovereign Wealth Funds: Genesis, Gestation and Growth

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## ABSTRACT:

The paper reviews the literature of SWFs who have a total of \$8113.46 billion assets under management(AUM). The review focuses on the themes including concept, genesis, regulation, transparency, activism, investment strategies and performance and patterns of the funds. However, the main focus of the paper is on the performance of the funds, their investment patterns and the impact of the investments. The literature supports their primary motive for investments as economic (rather than political) on a sustained basis. There are different evidences regarding their value creation for the home and host countries. Recent studies, however, support their value creation for the target firms-to a lesser extent compared to the comparable institutional investors. But literature is still scanty about the impact of SWFs on the economy of the home countries. One of the main reasons for the non-availability of literature regarding the same is that the funds do not do the details of the investments they make and their impacts in the domestic economy. Transparency and disclosure norms are going to see a sea-change as the funds grow in magnitude. The recent developments are very positive regarding the working of the funds. The available literature suggests that SWFs are going to be a permanent and prominent feature of the financial canvas of the world with their unique color and creed.

Keywords: Sovereign Wealth Funds (SWFs); Institutional Investors; firm value; investment transparency

The paper is divided into 10 sections dealing with Introduction to SWFs, Definition of SWFs, History & Current status of the funds, Regulation, Transparency and Transparency Index, Investment Strategies and Patterns, Impact Analysis, SWF Activism , Future of SWFs and Conclusion.

## 1. Introduction:

Sovereign Wealth Funds (SWFs) have existed for a long time in the world financial landscape, but they have earned a remarkable attention recently because of various reasons: they have grown from humble beginnings, e.g., from \$ 6.215 trillion at the end of 2012 to a remarkable size of \$8.11346 trillion by November, 2018 (Sovereign Wealth Funds Ranking, 2018). It is quite possible that the recent attention that the SWFs have earned is mainly because of the huge investment deals these have made in the Western world, especially in the 'eerie' entities like Citicorp and Merrill Lynch during the crisis times. Moreover, they have been accused of being more faithful to political motives than purely economic and financial profit motives. They are also thought to invest in strategic industries overseas, and are suspected to see to it that they pilfer latest technological advantages to transfer them back home and, therefore, muddle the intellectual property rights in a very wrong way. In order that nascent naked notions are sifted from reality, the paper reviews somewhat new and old literature.

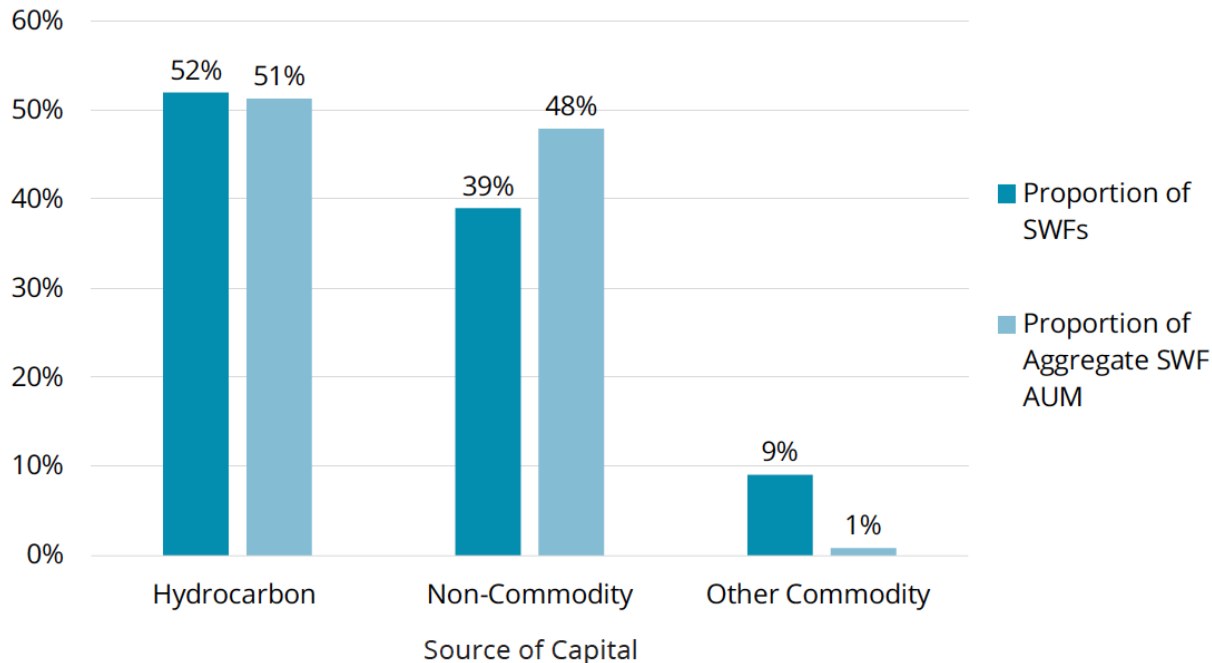
## 2. Concept and Definition (of SWFs):

Sovereign Wealth Fund is a fund established and managed by a 'sovereign' state for the sake of managing sustainably the wealth of the nation. The wealth is either sourced from commodity exports like oil, gas, etc. or from balance of payment surpluses and/ or 'excess' (Zhang and He, 2009, p.2) foreign exchange reserves. Their capital is generally derived from oil sales such as that of Gulf Cooperation Council (GCC) region, Russia, and Norway funds, or it is sourced from sustainable trade surpluses such as that of China or Singapore (Dewenter et al, 2010). Figure 1 shows SWFs by source of capital: 52 % SWFs are sourced from hydrocarbons, 39 % from non-commodity sources (like trade surpluses, foreign exchange reserves), and a small proportion 9% of the funds have other sources, having 51%, 48% and 5% AUM, respectively. As a proportion of assets under management (AUM) Middle east SWFs manage 32.80 % of the assets, and Asia SWFs manage a whopping 42.21 % of the AUM weighted by huge assets being managed by China SWFs (The Preqin SWF Review, 2018). SWFs have "no explicit liabilities to their owners other than internal to the government, have significant exposure to high-risk foreign assets, and a long-term investment horizon" (Kotter and Lel, 2011, p.3). On the other hand, hedge funds and pension funds are highly levered. So, SWFs can afford very long-term investments with remarkably low requirements for liquidity. They invest significantly in global portfolios that include financial, real and alternative assets (Bader Alhashel, 2014). SWF is, according to the inventor of the term SWF itself, "a by-product of national budget surpluses, accumulated over the years due to favorable macroeconomic, trade and fiscal positions, coupled with long-term budget planning and spending restraint" (Rozanov, 2005).

There is no consensus on the right kind of definition of an SWF. But the definition of Sovereign Wealth Fund Institute (SWFI) is quite comprehensive :“A Sovereign Wealth Fund (SWF) is a state-owned investment fund or entity that is commonly established from balance of payments surpluses, official foreign currency operations, the proceeds of privatizations, governmental transfer payments, fiscal surpluses, and/or receipts resulting from resource exports. The definition of sovereign wealth fund excludes, 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 (funded by employee/employer contributions), or assets managed for the benefit of individuals” (Sovereign Wealth Fund Institute, 2018).

The main purposes for which SWFs are created include stabilizing and sustaining the revenues from natural resources and maintaining and growing the wealth for the future generations, manage (excess ) foreign exchange reserves to the benefit of the state ; SWFs do exclude the reserves held by national monetary authorities for traditional Balance of payment (BoP) or monetary objectives (IWG, 2008, p.27).

**FIGURE 1: SOVEREIGN WEALTH FUNDS BY SOURCE OF CAPITAL**

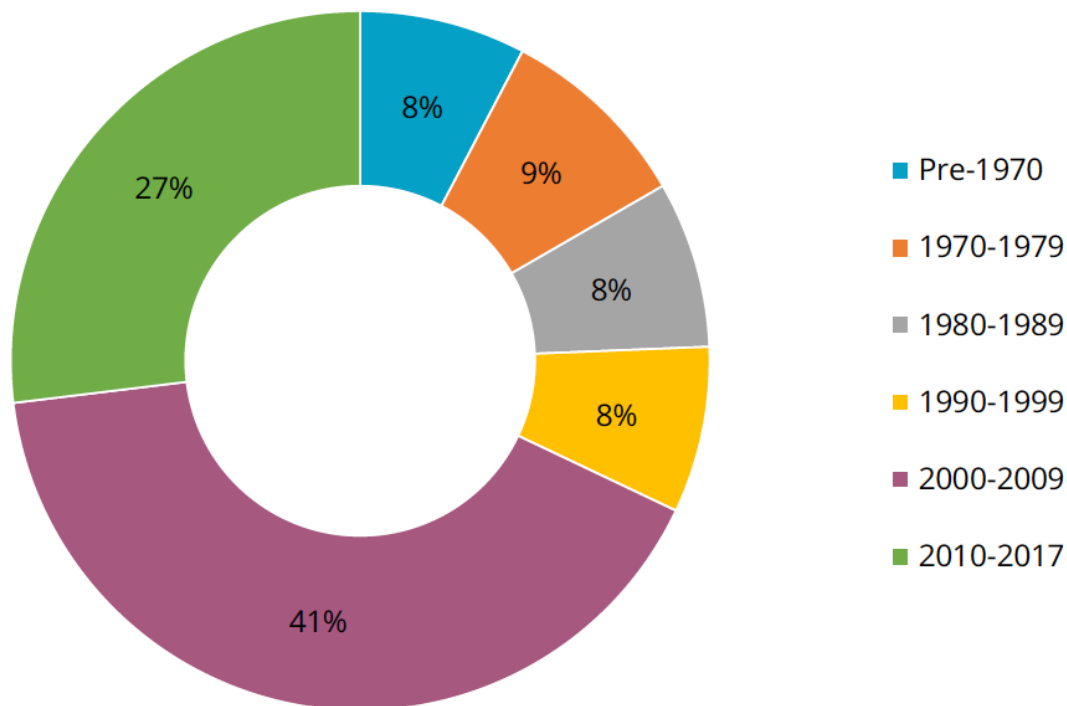


SOURCE: THE PREQIN SWF REPORT,2018

### 3. History of Sovereign Wealth Funds and Current Status:

The term Sovereign Wealth Fund was coined by Rozanov ( Rozanov, 2005) as recently as 2005 , but the genesis of a true ‘sovereign’ SWF lies in the establishment of the Kuwait Investment Board (KIB ). It was created as early as 1953 (Singh, 2008; Hassan, 2009, Pistor and Hatton, 2011, Overview of Kuwait Investment Authority, 2019 ). Later in 1982, KIB was re-christened as Kuwait Investment Authority(KIA) as an autonomous government body responsible for the management of the assets of the country (Overview of Kuwait Investment Authority, 2019). In 1816, France set up Caisse des Dépôts et Consignations ‘placed under Parliamentary supervision and guarantee’ ( Official Website, Our Model , 2019 ). Later, after some thirty-eight years, Permanent School Fund and Permanent University Fund were established by the US state of Texas in 1854 and 1876 , respectively . They can be considered a proto-type ( or a stem cell) of true SWFs. The two funds were to help educational establishments at various levels (Dewenter, Han, & Malatesta, 2010). Currently, there are 78 SWFs ( The Preqin SWF Report, 2018). Figure 2 summaries the establishment of SWF: The highest number of SWFs , 41% of the total ,were established from 2000-2009. This was mainly due to the high export prices of the commodities that formed the SWFs. Upto 1970, just 8% of the funds were created. Newer SWFs are created , and we have seen 27% of the SWFs come into existence from 2010 to 2017.

FIGURE 2: TEMPORAL TWISTS OF SWFS: SWFS BY YEAR OF ESTABLISHMENT



SOURCE: THE PREQIN SWF REVIEW, 2018

**Table 1** lists the top 20 SWFs as per the assets under management (AUM): the quantum of AUM totals **\$8113.46** billion up from \$ 3.4 trillion almost a decade ago (Wealth Fund Ranking, 2018). The top twenty SWFs manage as much as 79.33 % of the total global SWF assets. Their size is growing, but the relative size of SWFs does not seem that much threatening- at least not threatening enough to disrupt global financial markets as some had feared: in 2017, they accounted for only 5.34 % of the total assets of the big institutional investors ( **Table 2**) while Pension Funds and Mutual Funds (including ETFs) each accounted for 34.35% and Insurance funds managed 25.19 % of the total funds. Most of the countries have one SWF but China has three SWFs. China SWFs ( including Hong Kong Monetary Authority Investment Portfolio) hold a whopping **23.48%** of total World SWF assets ( \$ 1905 billion out of \$8113.46 billion ). This is partially why the investments made by the China SWFs are seen with skepticism. Moreover, Chinese SWFs have invested \$ 27.3 billion in the energy sector in the world (Tomasz Kamiński,2016) : true, ‘ high finance can no longer be kept separate from high politics’ (Cohen 1986: 3). And at times, ergo, are closely monitored by the host countries.

Norway’s Government Pension Fund – Global (GPF) is the world’s largest SWF having \$1058.05 billion (i.e., 13.04 % of the total global SWF assets) AUM. The funds of the SWF are managed by central bank Norges Bank. The growth in the SWF’s value has been no less than stunning. The fund invests in various asset classes including equities ( 67.6 % ), unlisted real estate(2.7%), fixed-income securities (29.7%) as on 30<sup>th</sup> September, 2018, and stays invested in in 72 countries. The investment include 1.4% of listed world companies, 2.4% of listed Europe companies and a staggering 9,146 companies in the world ( Norges Bank, 2019). The most remarkable feature of the GPF is that it is truly a role model in transparency, openness and disclosure and the greenest in its investments across different countries of the world.

China Investment Corporation (CIC) was established in 2007 as an investment ‘vehicle to diversify China's foreign exchange holdings and seek maximum returns for its shareholder within acceptable risk tolerance’ (Overview CIC, 2019). The registered capital of the fund was \$ 200 billion. The global portfolio of the fund as on 31<sup>st</sup> December, 2017 includes 43.6 % public equity, 39.3 % alternate assets (including Private equity, hedge funds, etc.), 15.9% fixed income securities and 1.2% in cash and other investments. The corporation manages 37.4% of the assets internally and the rest 62.6% externally.

TABLE 1 SWF RANKING AND TRANSPARENCY INDEX

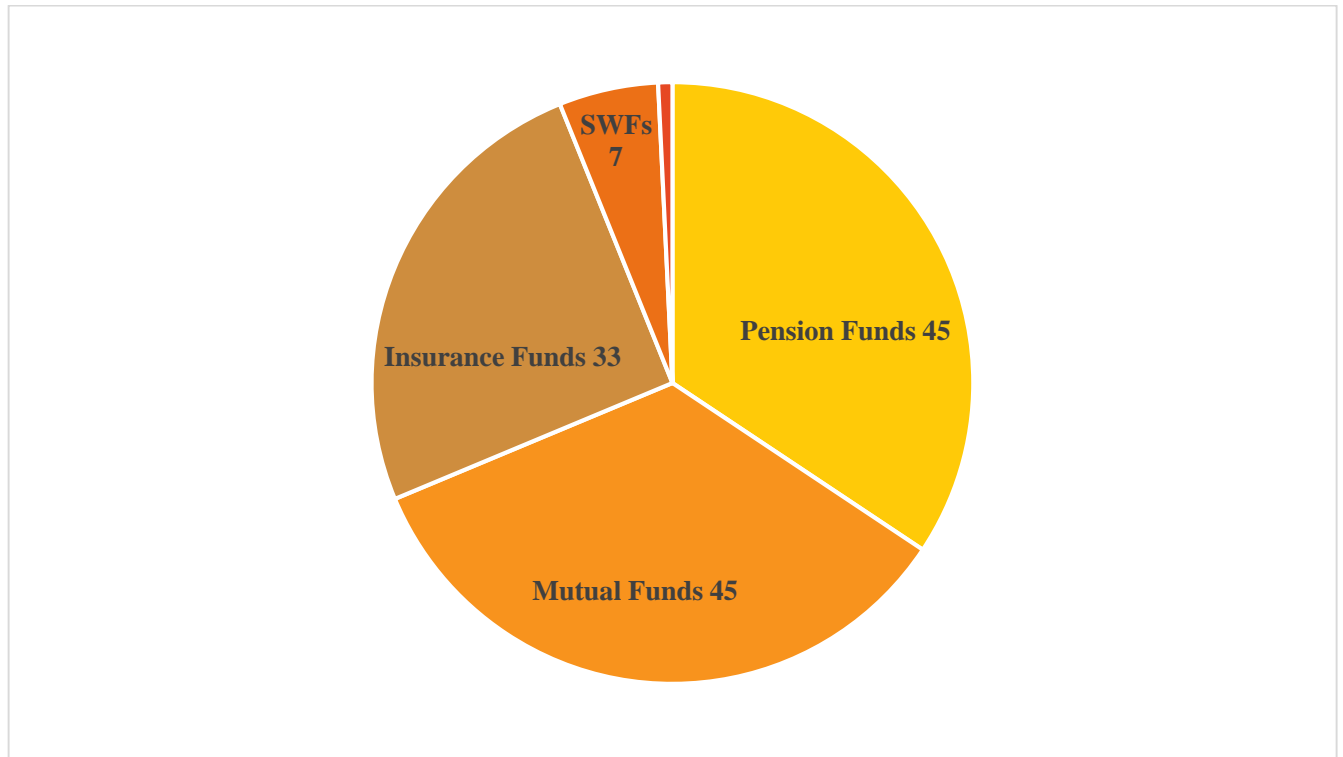
Rank	Country	Sovereign Wealth Fund Name	Assets \$Billion	Year	Source	LMT Index
1	Norway	Government Pension Fund – Global	1058.05	1990	Oil	10
2	China	China Investment Corporation	941.4	2007	Non-Commodity	8
3	UAE Abu Dhabi	Abu Dhabi Investment Authority	683	1976	Oil	6
4	Kuwait	Kuwait Investment Authority	592	1953	Oil	6
5	China – HK	HK Monetary Authority Investment Portfolio	522.6	1993	Non-Commodity	8
6	Saudi Arabia	SAMA Foreign Holdings	515.6	1952	Oil	4
7	China	SAFE Investment Company	441	1997	Non-Commodity	4
8	Singapore	Govt of Singapore Investment Corporation	390	1981	Non-Commodity	6
9	Singapore	Temasek Holdings	375	1974	Non-Commodity	10
10	Saudi Arabia	Public Investment Fund	360	2008	Oil	5
11	Qatar	Qatar Investment Authority	320	2005	Oil & Gas	5
12	China	National Social Security Fund	295	2000	Non-Commodity	5
13	UAE – Dubai	Investment Corporation of Dubai	233.8	2006	Non-Commodity	5
14	UAE Abu Dhabi	Mubadala Investment Company	226	2002	Oil	10
15	South Korea	Korea Investment Corporation	134.1	2005	Non-Commodity	9
16	Australia	Australian Future Fund	107.7	2006	Non-Commodity	10
17	Iran	National Development Fund of Iran	91	2011	Oil & Gas	5
18	Russia	National Welfare Fund	77.2	2008	Oil	5
19	Libya	Libyan Investment Authority	66	2006	Oil	4
20	US Alaska	Alaska Permanent Fund	65.7	1976	Oil	10

Source : SWF Institute, 2018

TABLE 2: RELATIVE SIZE OF SWFS

Fund	Amount ( USD)Trillion)	Percentage
Pension Funds	45	34.35
Mutual Funds (including ETFs)	45	34.35
Insurance Funds	33	25.19
SWFs	7	5.34
Endowments & Foundations	1	0.76
Total	131	100

FIGURE 3: GLOBAL INSTITUTIONAL ASSETS (\$ 131TRILLION PIE, 2017)



SOURCE: WILLIS TOWERS WATSON AND THINKING AHEAD INSTITUTE, 2017

#### 4. Regulation of SWFs:

The outcries for systematic regulations for SWFs have neither been new nor unfounded: SWFs have earned an important status in global finance and politics by sheer size and growing numbers. They are, as many researchers think, like extensions of the states of origin to further and preserve state wealth. This has sure political ramifications for the host countries (too). Their deals around the world have, more than often, been seen with, at least, suspicion. Hemphill (2009, p.560-2) suggests the host countries to ensure 'transparency & good governance' through the International Working Group (IWG) i.e., Santiago Principles; and that adapt its 'legal framework and monitoring agency' to examine the investments from the SWFs; and use 'multilateral policies' to treat SWFs. It really pays for the home countries to be liberal in their disclosure with respect to the objectives, performance reports and investment portfolios of the funds. This leads to lower resistance from the host countries (Jory et al, 2010 p.601). Realist-inclined protagonists have considered SWFs as instruments of foreign policy and, ergo, a threat to global financial order. There has though been no conclusive study that clearly evidences that SWFs purely further political interests as opposed to commercial ones. Still, many governments have put measures to scuttle any such misadventures: Italian government does not permit SWFs to own more than 5% of stake in her companies (Bennhold, 2008). Similarly, German government does not allow them to own more than 25% voting rights in companies that are 'strategic to public order or national security (Biberovic, 2008). There is a friction between 'market capitalism' and 'state capitalism' (Gilson and Mailhaupt (2007). Tomasz Kamiński (2016) notes that Chinese SWFs take control of critical infrastructure in Europe. It is, however, conceded that the controversy regarding the SWF controlling equity stake is unfounded as sustained studies have proved to the contrary.

Any regulations should ideally thwart any threat to strategic assets and national security while making it sure that the capital exporters (SWFs) are welcome to steer the ship of development both for the capital exporting and importing countries. Gilson and Mailhaupt even suggest that SWFs should hold non-voting stakes allowing them to partake of the pure profits only while scuttling them from 'meaningful' control. However, they may (like Smith, 1996) create value through their active engagement in the management of the firms. Rose (2008) recommends a continuous vigil against any possible threats to the interests of a state but cautions against any new regulations. In the same vein, Avendano and Santiso (2009), Bahgat (2008), Das (2009), Epstein and Rose (2009), Greene and Yeager (2008), Mezzacapo (2009), and Plotkin (2008) have argued against any augmented and excessive regulations for SWF investments in the host country. Mattoo and Subramanian (2009) suggest that the job of regulating SWFs be entrusted with WTO instead of the host country but this arrangement might benefit only the SWFs and may, perhaps, be detrimental to the long-term interests of the host countries.

The regulation debate has a balancing conclusion: it pays the SWFs to be more transparent and face less resistance (Gieve (2009); Truman (2008). Empirical evidence augments the argument of increased value creation through more transparent practice by SWFs (Kotter and Lel, 2011). Empirical evidence also denies any claims that link SWF investment to pilfer intellectual property (Fernandes, 2009). Providing more incentives to be transparent and making them adhere to standard voluntary best practices while dissuading any misadventures – a classical stick-carrot approach- may be the trick of the game.

### 5. Transparency and Transparency Index:

Linaburg-Maduell Transparency(LMT) Index was developed in 2008 at SWF Institute by Carl Linaburg and Michael Maduell to rate transparency of SWFs. The index is based on ten essential principles that indicate the transparency of the SWF to various stakeholders. Each principle adds one point of transparency to the index rating. Figure 2 shows the scheme of the index. A score of 8 indicates adequate transparency (SWF Institute, 2018).

**FIGURE 4 PRINCIPLES OF THE LINABURG-MADUELL TRANSPARENCY INDEX**

Point	Principles of the Linaburg-Maduell Transparency Index
+1	Fund provides history including reason for creation, origins of wealth, and government ownership structure
+1	Fund provides up-to-date independently audited annual reports
+1	Fund provides ownership percentage of company holdings, and geographic locations of holdings
+1	Fund provides total portfolio market value, returns, and management compensation
+1	Fund provides guidelines in reference to ethical standards, investment policies, and enforcer of guidelines
+1	Fund provides clear strategies and objectives
+1	If applicable, the fund clearly identifies subsidiaries and contact information
+1	If applicable, the fund identifies external managers
+1	Fund manages its own web site
+1	Fund provides main office location address and contact information such as telephone and fax

SOURCE: SWI, 2018

Table 1 shows that only 8 out of the top twenty SWFs ( 40%) have adequate or more than adequate (i.e., a score of 8 or above) transparency as per the Linaburg-Maduell Transparency Index (SWF Ranking 2018). Transparency issues and governance standards of SWFs were the issues that were perhaps born within the establishment of the first SWFs itself: their unprecedented growth and sheer size catalyzed the debate. In many cases , the operations of SWFs have been opaque (Sarah E. Stone and Edwin M. Truman ,2016). This led to protectionism by investee countries which complicated the advent of the funds. Consequently, in response to this debate and in order to allay the (unfounded) fears , a prototype of scorecard, as a tool to promote accountability and transparency of SWFs within and without was established (Sarah E. Stone and Edwin M. Truman,2016). Though the core of good governance does rendezvous in transparency and accountability, yet the development of various transparency scoreboards has not been intended to fit all SWFs alike , and that they are not supposed to have the same scores; their realities are different and , as a consequence, they score differently. The latest 2015 SWF scoreboard demonstrates that a great number of SWFs have transparency deficit as compared to the expectations of the citizens of the home countries and those of the international citizenry (Sarah E. Stone and Edwin M. Truman, 2016). Many SWFs have improved their scores but there is still room for improvement. The role of International Federation of SWFs (IFSWF) in this respect has been commendable by bettering the transparency of its member SWF beyond Santiago Principles. But adding more and more members still remains a challenge for the federation. This can be done by having meaningful relationships and new networks so that the cases and causes of SWFs are furthered without any hiccups.

### 6. Investment Strategies and Patterns:

Though some SWFs tend to be murky about their investment strategies and asset allocation, yet there are a good number of funds that are quite transparent about their investment. GPF is the model in this respect. The direction and pattern of their investments proclaim the intentions of the funds too. So, when the funds provide the details of the deals , its operations and about its performance , it naturally eases things not only for itself but for all stakeholders alike.

In eighteen years of time , from the year 2000, SWFs assets have grown almost twelve-fold to \$8.11346 trillions (SWF Institute Ranking ,2018). Diversification of their investments forms the primary driving force of their investments as they park the funds in foreign markets( Chhaochharia and Laeven ,2008). There is evidence that the funds tend to park the funds in similar-culture territories. This observation negates the predatory notion of target practicing of the funds.( Balding 2008 findings (also) find the funds rational (artificial) ‘**homo economicus**’ in their selection of products and diversifications across the countries. Evidence from 400 investments by SWFs from 45 countries suggest the funds deploy funds in ‘ financially distressed & constrained , large , multinational companies (Kotter and Lel (2011). Bernstein, Lerner, and Schoar (2013) have observed that the funds park funds domestically when the domestic equity prices are high (e.g., higher P/E ratios) but foreign funds are still higher. They have also observed domestic bailout inclinations in the investment patterns. This observation is augmented by the findings of Raymond (2010) and Couturier, Sola, and Stonham (2009) to find the SWFs as “investors of last resort” as well as “lenders of last resort”.

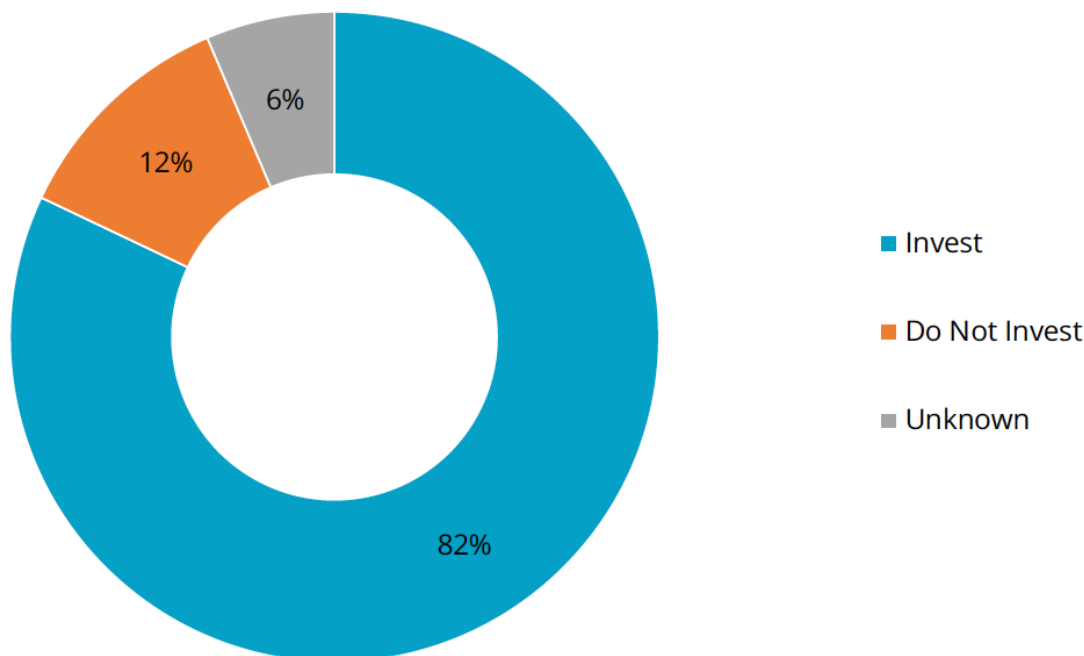
SWFs have (largely) been passive investors (Kotter and Lel 2011), pursue diverse objectives that manifest into different investment patterns and strategies, and have largely been found not politically motivated (Avendano and Santiso 2009) though there is evidence to the contrary too (Dewenter et al. 2010). Again, Megginson, You, and Han (2013) augment the preposition that the funds largely pursue ‘economic returns’ in oversea investments. Moreover , no herding patterns have been found by Miceli (2013) by analysing

as many as 2740 SWF deals from 1990–2010 for 29 SWFs. The growth of SWFs has been somewhat steady, but the asset transactions have been significantly heterogeneous: the total value of deals traded touches a whopping one trillion dollars from 2005 to 2015 comprising of more than fifteen thousand transactions (SWFI, 2017) ; (Ibrahim El Badawi, Raymundo Soto and Chair Zakie, 2018). SWFs like those of Singapore, Norway, Korea, etc., are very active and trade sustained basis while others like those of Korea, the US, Canada trade low and slow and less too ( \$ 10 million on average transaction) Ibrahim El Badawi, Raymundo Soto and Chair Zakie, 2018). They also observed that resource-rich SWFs like those of Qatar, Russia, Libya transacted large deals. Stabilization SWFs and saving SWFs have short and long investment horizons, respectively.

There has also been found a pattern with respect to investing overseas or domestically: e.g., SWFs of Norway, Saudi Arabia and Hongkong invest necessarily abroad and those of Brazil and Russia invest exclusively domestically; the rest invest in both the territories with an average cross-border transaction size of \$ 50 million and average home size investment size of \$ 110 million (more than double the size) with a cross-border-domestic value proportion of 82% vs 18% (Ibrahim El Badawi, Raymundo Soto and Chair Zakie, 2018). There has been a negative bias by SWFs to invest in Arab countries which is in conflict with traditional financial wisdom: Arab countries , in real terms, grew by 4.2 % during the period 2005-2015 but received smaller funds from SWFs than Latin America, Central Europe, and the OECD, that grew from 1.5% to only 2.9% during the same period but received more funds from SWFs. Interestingly, Arab's own SWFs ( of UAE, Kuwait, Saudi Arabia, Oman, Qatar) parked a meagre amount of 1% of their investments in their own economies. Those countries that have higher per capita GDP figures attract more SWFs . Besides, better political stability and higher level of financial development of host country contribute positively to SWF's investments net flows, while stock market volatility has the opposite effect. Such an ambiance also attracts higher quantum of capital. Volatility in the markets of the host country negatively impacts the amount of funds (Nicolas Debarsy , Jean-Yves Gnabo , Malik Kerkour, 2017). SWFs investments are significantly biased towards financial sector (William L. Megginson, 2015). There is a conclusive evidence that the stocks of target firms increase by 1-3% after the investment announcement. But the quantum of increase in the stock prices of the target firms, when invested into comparable by private players, has been documented to be 5%. This indicates what they call a “ sovereign wealth fund discount” (William L. Megginson, 2015).

To sum up, the investment continuum is wide & spread but some patters have been definitely visible through literature too. Heterogeneity still stands a hallmark , like their own genesis, in the investment strategies and patterns of SWFs investments. But public equities is the favorite destinations of SWFs. Figure 5 presents the relationship of SWF investments and public equities. In fact, 82% of the SWFs love investing in public equities, while only 12% feel shy of the romance with equities, and nothing is known about 6% of the SWFs' affair with high-risk-high-return equities. This relationship suggests that SWFs tend to seek more financial profits than anything else. Majority equity investments by SWFs buy minority stakes in target firms, which has been well documented.

**FIGURE 5 SOVEREIGN WEALTH FUNDS INVESTING IN PUBLIC EQUITIES**



SOURCE: The Preqin SWF Review, 2018

### 7. Impact Analysis of SWFs on sponsoring (home) and host countries:

SWFs seem as famous as they are thought to be notorious: they were the ones to recapitalize Institutions of (otherwise) great stature like Morgan Stanley and Merrill Lynch ; moreover, they were also earnestly courted by European governments to help in resolving the debt crisis (PWC, The Impact of Sovereign Wealth Funds on Economic Success, 2011).

SWFs are intuitively supposed to benefit the home country in terms of reducing inflation in times of higher prices for her exports by increasing funds flows to the funds, lessening of exchange rates as monies are held in foreign currencies that reduces 'bidding up' effect on the home currency, and improve transparency in the home country by way of 'feel-good: experience-good' economic realities.

These impacts have been noted by PWC, 2011 by analysing performance of 51 countries over a thirty-year period. They have, however, noticed costs like higher taxes (e.g., to fuel the economy when funds go abroad!), and lower govt spending (as funds are diverted to the SWFs). So, the funds smoothen 'extreme economic impact' (Albero and Serena, 2008; p.326). They sustain the revenue generation for generations & generations and, thus, ensure 'inter-temporal' wealth wellness. They stabilize and sustain both in the home and host countries. Moreover, the presence of the funds in the host country tend to reduce interest rates as the business firms alternatively get funds from SWFs (Hassan, 2009). It is also heartening to note that SWFs' investments in the investee country's markets have had positive impact (Sun et al, 2009). The studies by Baker & Boatright, 2010; Betbèze, 2009; Butt et al., 2008; Das, 2009; Keller, 2008; Makhlouf, 2010 (also) suggest sustained stabilizing impact on the liquidity and performance of the financial markets which, in turn, lead(s) to higher economic growth: a whopping amount of \$ 40 billion was injected into US companies by SWFs in the early phase of the recent financial crisis. This led to a fall in the severity of the crisis (Aslund, 2007). However, In, Park, Ji, and Lee (2013) find SWF investments exhibit destabilizing effect. They have, however, noted that saving funds have had a smoothening effect during the financial crisis. During rainy days, western economies used the umbrella of SWFs which has been evidenced by the studies of Fotak, Bortolotti, Megginson, and Miracky (2008). They also acknowledge the noise about SWFs' negativity to be unfounded both in theory and practice (i.e., empirical evidence). In the short-run, it has been observed, the prospects of investee companies brighten when being invested into by the SWFs, but Dewenter et al. (2010) have documented 'mixed positive evidence', which is supported by Kotter and Lel's (2011). Lee and In (2013) attribute the underperformance of target firms to SWFs' faulty target selection.

On the other hand, Knill, Lee, and Mauck (2012b) argue that SWF investments do not benefit target firms when risk-adjusted return analysis is undertaken over an extended period of time (say, five years). It would not be out of place to mention a very robust evidence in the sense that Fernandes (2009), after analysing 8000 investment by SWFs in 58 countries, has concluded that the firms that have SWF as stakeholders command a premium of 10-15% in value compared to the similar firms, *ceteris paribus*. This puts to rest the speculations that they just extract their own benefits (alone) to rest. Dewenter et al. (2010) too has documented a positive relation with respect to the SWF investments and target firms' value. This is a reason for the funds to justify controlling stakes in the target companies so that the saga of better value creation is extended. This, however, is true up to a maximum transaction size after with the relationship turns inverse. The benefits sometimes go beyond SWF-target-firms continuum: Knill, Lee, and Mauck (2012a) have found that the investments by SWFs have a "positive effect on closed countries" but have "opposite effect on open countries". Lately, a comprehensive study by Park et al, have found that SWF investments affect the value of the target firms negatively though they impart stabilizing impact to the target firms, and that such a positive effect is weak for foreign SWFs (Park, R.J., Xu, S., In, F, 2018). They also support the preposition of SWFs decreasing the crash risk of target firms during rainy days (crisis times). This is a significant result that may be considered a comprehensive one. Earlier studies done to find the long-term impact of SWF investment were inclusive like those of Dewenter et al. (2010); Kotter and Lel (2011); Bortolotti et al. (2015). But the current study used various methods to study the sustained impact of SWF funds, and, hence, the study can be considered as a significant contribution to the literature on the performance and value creation aspect of SWF available now.

## 8. SWF Activism

There is heterogeneity with respect to the activism of SWFs in the target firms, e.g., Kotter & Lel, 2011 have documented SWFs to be significantly passive whereas Dewenter et al (2010) have documented SWFs to be very active. The type of activism followed by the funds has been best described as "defensive" unlike that of hedge funds' "offensive" activism (Sovereign Shareholder Activism: How SWFs Can Engage in Corporate Governance, 2014). In defensive activism SWFs ensure better performance by prevention of mismanagement. They can 'actively' catalyze merger negotiations, suggest better governance programs, etc. In this respect, Norway's Government Pension Fund- Global's investment Management bank Norges Bank Investment management (NBIM) has run extensive programs to improve the governance of the target firms apart from catalyzing other things to ensure shareholder rights. The Qatar Investment Authority (QIA) has, to keep the active legacy intact, enhanced significantly the value of the shareholders of the target firm. QIA preempted an undervalued deal by stymieing the merger of Glencore-Xstrata of 2013 till a better price was ensured in the merger. Similarly, the Amar Dhari Investments pushed for board composition in PLUS Markets Group that ensured a better deal. Temasek Holding too ensured more independent directors in Standard Chartered Plc for better performance at the policy level. China Investment Corporation ensured voting rights in Blackstone investment. It has been noted that SWFs generally act alone and sometimes also coordinate with other shareholders to, with due diligence, ensure value-creating changes in the way target forms are run. The kind of urgency in ensuring very active roles by SWFs may increase the propensity of attracting more regulatory scrutiny (Bortolotti et al., 2010); Sovereign Shareholder Activism: How SWFs Can Engage in Corporate Governance, 2014). Such activism by SWFs, though, will still bring in more value like the likes of other financial institutions as CalPERS (Smith, 1996), the Hermes UK Focus Fund (Becht, Franks, Mayer, & Rossi, 2010), and hedge funds (Brav, Jiang, Partnoy, & Thomas, 2008; Klein & Zur, 2009). How long and how far such activism will go on, and how long the resultant value enhancement can sustain is a matter of the future.

## 9. Future of SWFs:

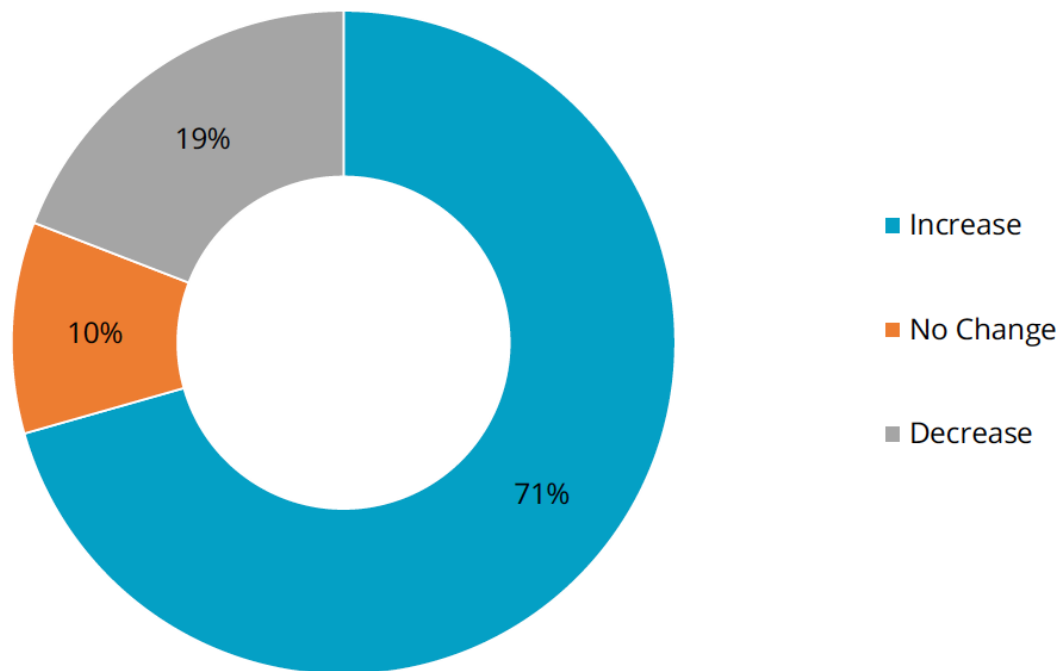
SWF, as already elaborated, is neither a new nor a queer concept: they have been here for more than a century (if primitive SWF from US States are still considered), and the food for the growth of SWFs is still in store: especially in case of emerging economies. China has got enough fuel to fan the fire of foreign reserves to be parked in 'outlandish' destinations. And even Norway is going north with the power wings of its investments.

The saga of SWFs has been sustainably stretching and we are witnessing a robust growth in them in length and breadth. As many as 21 new SWFs have been established since 2010 (The Preqin SWF Review, 2018), and the AUM of the funds have been growing strong. During 2017-2018, proportion of SWFs whose AUM have increased is a staggering 71%; however, there are 19% of the SWFs



whose AUM have declined, and the rest have seen no change during the same period. Figure 6 captures the shape of future to be seen with respect to the SWFs.

**FIGURE 6: SWFS THAT HAVE SEEN A CHANGE IN AUM IN 2017-2018**



SOURCE: The Prequin SWF Report, 2018

The hue and cry about the negativity of SWF is fast dwindling. The genesis of an Indian SWF almost seems into the embryonic stage .”Given India’s stable external account, the time is ripe to secure long-term strategic interests in oil, gold and manufacturing” (Business Line, 2018) . Some say that National Investment and Infrastructure Fund Limited (NIIFL) is the Indian SWF. But on closure scrutiny , it may be , at most, considered as an SWF-like fund. It has to go a huge metamorphosis to be qualified as an SWF. NIIFL has a type of fund called The Strategic Fund that aims at “growth and development stage investments in projects/companies in a broad range of sectors that are of economic and commercial importance and are likely to benefit from India’s growth trajectory over the medium to long-term” (Our Funds, NIIFL, 2019).

Going by the activities in the SWF arena, they are truly a” permanent and prominent feature of the international financial landscape” (Edward Truman, 2010), and are , perhaps, going to grow into more prominence and promise in the future.

## 10. Conclusion:

The paper tracks the genesis, gestation and growth of SWFs through literary (heterogeneous) sources. Because , the funds lately got a lot of attention and traction, the body of knowledge about them is growing fast as new vistas of the erstwhile obscure funds are being explored. The common themes that the literature review has made prominent include: first and foremost, SWFs are a force to be reckoned with in the global financial landscape; more and more SWFs are being established and the AUM are growing too. But in no way are they frightening. Their absolute size may look ominous but relatively they (still) are financial dwarfs, e.g., they form a mere 6.01% of the total global GDP (= \$ 134.98 Trillion PPP, IMF estimates for 2018) , and just 5.34 % of total Institutional assets ( mentioned in Table 2). The second lesson from the review is that they are mostly heterogenous with their own structures, aims and objectives and investment patterns. And should be treated like that. Norway’s GPF-Global has got its own way: it is not only the largest SWF, but also the most transparent and diversified, and ‘very green’ in its investment style. I may well be considered as the most ‘organic SWF’ and kind of ‘Green Apple’ of all citizenry of the world. It believes in buying small stakes in very large number of firms-more than 9000, and ‘government ownership sans government management’. CIC has got enough fuel to fan the fire of development in the bellies of the domestic and world economies alike. Geographically, commodity SWFs are clustered around Gulf area and trade-balance funds are concentrated in East Asia. Opacity of these otherwise bright and beautiful funds is still an issue , and there has to be a balancing act to get the best out of the benefit--cost fulcrum of the funds.

There are still some other issues that need further research . They include details of SWF investments and the kind of risk-adjusted returns they generate assetclass-wise over sustained periods of time. The conundrum of sustained value creations or otherwise -both for the domestic industry and foreign (host-country) firms is another area that needs to be studied in future. Other issues that need to be explored are SWF governance issues, value creation as compared to comparable institutional investors. Literature is bound to expand

as more and more information becomes available about SWFs' shades of grey and hues of excellence, ultimately leading to the savvy of who they really are, what they do and how they will shape the things to come in the world of finance.

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