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SOVEREIGN WEALTH FUNDS:
HOW TO BUY THE WORLD

Faculty of Management and Business
Master thesis
November 2020

ABSTRACT

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MGE Master’s thesis
Tampere University
MGE - Master’s degree programme in Public Economics and Public Finance
November 2020

The global financial crisis that originated from the collapse of the subprime mortgages has brought attention to the important role a particular type of investment authorities have progressively assumed in the financial markets around the world: *sovereign wealth funds* (SWFs). Sovereign wealth funds, a term first coined in 2005 by Andrew Rozanov, are state-owned investment vehicles that were ignored and not properly analysed for decades, until they started making headlines around the world.

Due to the international attention given to these funds after the 2008 financial crisis, the small Arab Gulf country of Qatar started being recognized as a major economic player. . In fact, after the world crisis hit the markets, Qatar (through its sovereign wealth fund and other investment vehicles) has been the absolute protagonist of some of the most controversial or expensive acquisitions in the world, starting from Barclays in 2008. In addition to their expensive acquisitions, and even the win to be the host nation for the 2022 FIFA World Cup, Qatar has become one of the richest countries in the world with a Gross Domestic Product per capita (GDP per capita) of $69.687.[1]

Considering these facts, this thesis will focus on a theoretical analysis of the phenomenon of sovereign wealth funds in general with a case study on one of them: the Qatar Investment Authority. The motive behind this choice is also the research question of this thesis: how did a small country of the Arab Peninsula afford to buy “the world”? Is its sovereign wealth fund the reason for its success?

Consequently, in order to come to answer this, I have divided this thesis into four chapters. The first one will focus on gathering and elaborating general information on sovereign wealth starting from the several definitions given by analysts and governmental entities and continuing with their classifications, causes for establishment and current situation. The second and third one will be dedicated to specific aspects of sovereign wealth funds. The fourth chapter will start with an analysis of the economic and political development of the Gulf region, in order to insert Qatar in its socio-political and economic context and it will conclude with the focus on one of the biggest funds in the world: the Qatar Investment Authority (QIA).

The conclusion I intend to draw from this is how a relatively small country managed to become an economic giant and effectively, “buy the world”.

Keywords: Sovereign wealth funds, Qatar Investment Authority, global financial investments, state owned investment vehicles, Middle Eastern investors

The originality of this thesis has been checked using the Turnitin Originality Check service.

[1] There are differences in estimates given by different sources, with some placing Qatar at the first place; the reference used here is the International Monetary Fund 2019 estimates according to which Qatar is at the fifth place.

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INTRODUCTION

The global financial crisis that originated from the collapse of the subprime mortgages has brought attention to the important role a particular type of investment authorities have progressively assumed in financial markets around the world: the *sovereign wealth funds* (SWFs). Sovereign wealth funds, a term first coined in 2005 by Andrew Rozanov, are state-owned investment vehicles that were ignored and not properly analysed for decades, until they started making headlines around the world.

More precisely, Dell'Atti & Miglietta (2009) have identified two main events concerning SWFs that sparked interest in the eyes of the public. In September 2007, the Qatar Investment Authority and the Borse Dubai entered the London Stock Exchange and OMX, a platform that regroups Scandinavian Stock Exchanges. Two months later, in November 2007, amidst full financial turmoil Citigroup, the American multinational investment bank, reached a deal with the Abu Dhabi Investment Authority for 7,5 billion dollars in exchange of a concession of 4,9% of its capital (Dell'Atti & Miglietta, 2009, p.1). In between these two events, in 2008, the International Monetary Fund gave the first generally accepted definition for these authorities as follows (Curzio & Miceli, 2010, p.19):

"special purpose investment funds or arrangements that are 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 that include investing in foreign financial assets. SWFs have diverse legal, institutional, and governance structures. They are a heterogeneous group, comprising fiscal stabilisation funds, savings funds, reserve investment corporations, development funds, and pension reserve funds without explicit pension liabilities."

Now, although the definitions and the literature analysing these funds are relatively new, their establishment dates back several decades, starting from 1953 when the first authority that resembled the characteristics of today's sovereign investment funds was instituted: the Kuwait Investment Authority (KIA). Starting from this first entity, several other countries started establishing their own sovereign wealth funds as a way to allocate in a more profitable manner the massive amounts of financial resources they had. Their exponential growth, both in terms of number of funds established and assets under management, started gaining worldwide attention, as mentioned above, around the 2007 financial crisis. In addition to their rise, the structural deficit in transparency mixed with their unique ownership structure and the allegedly disguised strategic-political motives behind their economic-financial investments have made sovereign wealth funds a difficult theme to analyse. The media further stirred the fears that the investments from state-owned entities would be used to promote obscure strategic objectives. One CNBC TV News anchor Jim Cramer went as far as to ask his viewers on 18 January 2008 "Do we want communists to own the banks, or the terrorists? I'll take any of it, I guess, we're so desperate" (Yi-chong & Bahgat, 2010, p. 19). At this point, it is safe to say that SWFs have captured the attention, and imagination, of Western media, bankers and politicians and after being depicted as the new "barbarians at the gate, they have been quickly turned into "white knights" when Western financial blue chips collapsed during the financial crisis of 2008-2009 (Sauvant et al., 2012, p. 222).

Due to the international attention given to these investment funds and their activities, the Arab Gulf country of Qatar, started being recognized as a major economic player. In fact, after the world crisis hit the markets, Qatar has been the absolute protagonist of some of the most controversial or expensive acquisitions in the world, starting from Barclays in 2008. In addition to their expensive acquisitions, and even the win to be the host nation for the 2022 FIFA World Cup, Qatar has become one of the richest countries in the world with a Gross Domestic Product per capita (GDP per capita) of $69.687.[2]

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Consequently, in order to come to answer this, I have divided this thesis into four chapters. The first one will focus on gathering and elaborating general information on sovereign wealth starting from the several definitions given by analysts and governmental entities and continuing with their classifications, causes for establishment and current situation.

The second part will be dedicated to the more specific aspects of sovereign wealth funds, such as their investment strategies, governance and issues in transparency and regulation. This chapter is essential for understanding the focal point of the third one, which will pivot around the effects that sovereign wealth funds have on the financial markets, the prices of shares, capital flows, international foreign exchange reserves and the structure of capital markets.

[2] There are differences in estimates given by different sources, with some placing Qatar at the first place; the reference used here is the International Monetary Fund 2019 estimates according to which Qatar is at the fifth place.

The fourth and final chapter will start with an analysis of the economic and political development of the Gulf region, in order to insert Qatar in its socio-political and economic context. Furthermore, it will continue with the two theories that best explain how the countries in the Arab Peninsula have been able to amass an incredible amount of wealth in the last decades and an analysis of Qatar's efforts for economic diversification in order to foster a continuous and sustainable economic growth. Finally, the last section of the chapter will focus on one of the biggest funds in the world: the Qatar Investment Authority (QIA).

The conclusion I intend to draw from this, through an analysis of Qatar's economy, the governance and investments of its fund, is how a relatively small country managed to become an economic giant and, effectively, "buy the world".

CHAPTER 1: DEFINING SOVEREIGN WEALTH FUNDS

1.1 General notion

Today, although there are various definitions, a generally accepted one comes from a joint effort between the International Monetary Fund (IMF) and the International Working Group of Sovereign Wealth Funds (IWGSWF) with the emanation of the Santiago Principles; in this 2008 document, SWFs are defined as:

"special purpose investment funds or arrangements that are 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 that include investing in foreign financial assets. SWFs have diverse legal, institutional, and governance structures. They are a heterogeneous group, comprising fiscal stabilisation funds, savings funds, reserve investment corporations, development funds, and pension reserve funds without explicit pension liabilities."

The financial means of said funds derive from balance of payments surpluses, operations on foreign currencies, income from privatizations, fiscal surpluses, revenues from export of raw materials (Hesse & Sun, 2009, p.4). This definition does not consider:

- Official reserves held by central banks;
- Public companies;
- Public and private pension funds that provide direct benefits pensions and which are financed through pension contributions;
- Financial activities held and managed by private individuals.

In addition to the IMF, the Organization for Economic Cooperation and Development (OECD) has also issued a widely accepted definition.

The OECD (2008) considers "Sovereign Wealth Funds (SWFs) as pools of assets owned and managed directly or indirectly by governments to achieve national objectives" (Blundell-Wignall et al., 2008, p. 4).

The U.S government's definition focuses on the degree of risk-tolerance: SWF managers typically have a higher risk tolerance and higher expected return than traditional official reserve managers (U.S. Department of Treasury, 2007, p. 1).

The European Commission's definition concentrates on the source of funding – the distinguishing feature of SWFs from other investment vehicles is that they are state-funded (European Commission, 2008, p.4).

As stated by Bahgat (2011) the broad spectrum of definitions that can be found on the subject tends to suggest a number of characteristics that all SWFs have. First, the involvement of the government in the ownership and the management of the international assets.

Second, they are created from balance of payment surpluses, which in most countries is provided by the high prices of their most valuable commodity: oil. Third, Ter-Minassian (2007) has observed the tendency to place fund assets abroad in order to allay fears about appreciation of the domestic currency (Bahgat, 2011, p. 4)

Fourth, and as stated above, these types of funds do not include "foreign currency reserve assets held by monetary authorities for the traditional balance of payments or monetary policy purposes; operation of state-owned enterprises in the traditional sense; government-employee pension funds; or assets managed for the benefit of individuals" (Bahgat, 2011 p. 4). Fifth, as remarked by the U.S government's definition, SWFs pursue higher returns than the average on the market and, therefore, are willing to take higher risks. This can be achieved through a diversified investment strategy. Sixth, SWFs' investment strategies do not focus on a single approach in management; on the contrary, they usually pursue multiple and diversified objectives. Seventh, there is an important distinction to be made regarding the source of their assets; commodity funds receive most of their means by exporting one (or more) State-owned commodities, such as oil. Non-commodity funds, on the other hand, are established through "transfer of assets from official foreign exchange reserves" (Bahgat, 2011, p. 4).

Lastly, SWFs can be classified based on their goals: stabilization or savings. In the first case, the main objective is to protect the economy from commodity price swings, while in the second case the focus is on the share of wealth with future generations.

Moving on from the mere definitions of the funds, and in order to demarcate the nature of these entities, we must identify the distinctive features that differentiate SWFs from other entities or funds.

1. SWFs must be owned by a sovereign state, a definition which includes central governments as well as subnational entities. This broader definition allows funds that have been set, for example, by federal states such as Alaska, Wyoming, New Mexico or

Alabama to be considered as sovereign wealth funds. In addition to these, the province of Alberta (CAN) and the Emirates (UAE) have also set entities that qualify as SWFs. It is also possible for a State to have more than one SWF, like in the case of China. The SWF Institute has identified four Chinese sovereign wealth funds: China Investment Corporation (2007), SAFE Investment Company (1997), National Social Security Fund (2000) and China-Africa Development Fund (2007).

2. The portfolios contain investments denominated in foreign currency, although not necessarily the majority or the total, and therefore wholly national funds are excluded. In order to be considered a SWF it is sufficient that this entity locates even a small part of its activities abroad.
3. The low level of debt and the absence of withdrawals in the short term, are both factors that facilitate long term horizons of investment. With regards to the low level of indebtedness, it is important to note that despite the fact that financial leverage is low, many of these funds are still authorized to invest in private equity funds or hedge funds. As result from these investments, their implicit level of leverage, intended in the simple form of debt and equity ratio, will increase.
4. SWFs must be separate from central banks' official reserves and are managed with different criteria that prefers yields to liquidity and that accepts higher levels of risk (Curzio & Miceli, 2010, p. 16).
5. SWFs must search higher yields than the risk-free rate. "Some funds are based on the transfer of currency assets from central banks' official reserves, for which the government pays an indebtedness cost linked to the need to issue bonds for sterilisation purposes[3]. In this case the SWF's revenue should at least exceed the financing cost of the capital" (Curzio & Miceli, 2010, p.21). Beyond these cases, SWFs need to invest in activities that can give long-term and risk-balanced returns.

1.2 Classifications

The first distinction to be made is based on the source of assets. In this sense there are:

1. Commodity funds. Financial means in commodity funds are gathered through export of State-owned (or from taxes and/or royalties from their sales) commodities, such as oil, gas, diamonds and other natural resources. The overall scarcity of said commodities allows

[3] Sterilisation, in this context, is defined as a form of monetary action that aims to limit the effect of inflows and outflows of capital on the money supply by acquiring (or selling) financial assets.

the States to dictate prices in order to increase the revenues, either by solo decisions or through cartels established between different countries. The most famous commodity sovereign funds are the Middle-Eastern ones, such as Abu Dhabi Investment Authority (ADIA), Qatar Investment Authority (QIA) or the Public Investment Fund (PIF) of Saudi Arabia; in addition to these, Norway and Russia both operate with large commodity based funds.

2. Non-commodity funds. These types of funds get their financial resources from non-energy current accounts and other accumulated balance of payments surpluses, privatisation revenues and other fiscal proceeds (Curzio & Miceli, 2010, p. 24). The biggest non-commodities funds are concentrated in Asia, and the most relevant ones belong to either China or Singapore. The already mentioned China Investment Corporation (CIC) and GIC Private Limited (GIC) rank, respectively, second and ninth in the SWF Institute (SWFI) official ranking by total of assets, despite not operating with commodities. In fact, the same institute, has found that nearly two-thirds of the total are commodity based-funds, while the rest are non-commodity.

The International Monetary Fund (IMF) was the first institute to give a goal-based classification of sovereign wealth in their 2007 global financial stability report (GFSR). In such report, we can identify five types of these entities:

1. Stabilization funds. Set by countries that are rich in natural resources, their purpose is to insulate the country's economy (and fiscal policies) from the fluctuations of the volatile commodity prices. The Russian Reserve Fund and the Kazakhstan National Fund are both examples of stabilization funds.
2. Savings funds. Simply put, these funds are intended for the share of the country's current wealth with future generations; this is achieved by converting non-renewable resources into a diversified portfolio of financial assets and redistributing the proceeds with future generations as fairly as possible. Qatar Investment Authority, Abu Dhabi Investment Authority and Kuwait Investment Authority are examples among savings funds.
3. Reserve investment corporations. Funds established as a separate entity either to reduce the negative cost-of-carry of holding reserves or to pursue investment policies with higher returns (IMF Report, 2007, p. 46). Although these can be classified as official reserves, the important distinction lies in the separation of management of the entity. The aforementioned CIC (China Investment Corporation) is a reserve investment corporation.

4. Development funds. Utilized mostly for the allocation of resources for financing socio-economic development projects, they can also be useful for specific industrial projects.
5. Pension reserve funds. These funds have the goal of dealing with a country's pension indebtedness by utilising sources other than normal pensions schemes. Chinese National Security Fund and Russian National Wealth Fund are both examples of pension reserve funds; the Norway Government Pension Fund Global is a peculiar example of a pension reserve fund as it combines elements of pension reserve funds with savings funds (Ciarlone & Miceli, 2013).

In practice, these distinctions are not meant to be strict; SWFs typically have multiple and gradually changing goals. Curzio & Miceli (2010), by intersecting the origin of funds with their purpose have deducted a pattern in their classification: commodity funds tend to be stabilisation or saving funds; reserve investment corporations tend to be non-commodity type; and development and pensions funds belong to both types (p. 26).

1.3 Distinctions from other entities

Sovereign wealth funds, in terms of public investments, can present certain similarities with other investment entities (or funds). In particular, these similarities are more remarked in the cases of foreign exchange reserves or central banks' official reserves, pension funds, state-owned companies, hedge funds and private equities.

Nasdaq defines foreign exchange reserves as "the total of a country's foreign currency deposits and bonds held by the central bank and monetary authorities. However, the term often refers to the total of a country's gold holdings, convertible foreign currencies held in its banks, plus special drawing rights (SDR) and exchange reserve balances with the International Monetary Fund (IMF) as well."

Considering this definition, we can retrieve the main differences between these reserves and SWFs. First, SWFs do not necessarily need to be denominated in foreign currency, nor do they need to be invested in liquid assets such as cash, gold or public debt securities.

Foreign exchange reserves, unlike SWFs, are subject to the strict regulations of transparency and regulatory principles set in place by the IMF. SWFs are not obliged to comply with the voluntary monitoring mechanisms such as the COFER (Currency Composition of Official Foreign Exchange Reserves) or the Data Template on International Reserves and Foreign Currency either (Curzio & Miceli, 2009, p.26).

Again, in terms of public investments, SWFs are compatible with state-owned enterprises (SOEs). A SOE is a company (or a large corporation) in which the State decides to become a shareholder because of the economically, politically or socially strategical purpose said enterprise has; examples of these motives are usually connected to energy, transport or telecommunications.

The main characteristics that differentiate Sovereign Wealth Funds and State Owned Enterprises are the source of their funding, their function and the form of their respective investments: SWFs by portfolio investments, SOEs by Foreign Direct Investments (Bassan, 2011, p. 21). In particular, the former is funded by foreign exchange reserves (Forex) and export revenues, while the latter receives funding from government grants and corporate profits (Bassan, 2011, p. 22).

More so, there are objective differences between the two entities: concerning investments, SWFs usually make financial ones while SOEs industrial ones. With regards to this aspect, we can extrapolate three consequences. First, SWFs take on passive roles in the companies they participate in, meaning that they are rarely involved into the day-to-day management. Second, SOEs tend to buy shares that allow them to assume control of the company, while SWFs' investments rarely exceed the 10 per cent of company shares. Third, the SOEs tend to invest on a short-term horizon, while the SWFs focus on long-term investments. In making these investments, SOEs pursue a private interest, while SWFs a public welfare interest.

Examples of state owned enterprises are the Russian Gazprom and the Chinese China National Offshore Oil (CNOOC). Gazprom is a state-owned company controlled by the Russian government whose shares are traded on regulated markets, operating in the energy sector (natural gas distribution); it holds a large portfolio of domestic and foreign holdings, particularly in the energy, oil and natural resources sectors.

CNOOC is one of the three major Chinese companies operating in the oil sector, established in 1982 and wholly owned by the Chinese government. Over the years, it has diversified its business, acquiring shares in national companies belonging to sectors other than energy, and trying to promote a public purchase offer for the Union Oil Company of California (the ninth company US oil), confirming a diversification of the portfolio at the international level.

In theory, it is rather easy to find the differences between these two entities, but in practice, these tend to overlap with one another and, sometimes, are managed interchangeably by the governments.

Other major investment entities, often mistaken with sovereign wealth funds, are hedge funds or private equity funds. Hedge funds are speculative investment funds that deviate from traditional forms of asset management, governed by rules and principles that limit their operations and risk taking. The term hedge literally indicates coverage, protection and indeed the goal of said instruments is the management and coverage of market risk. The aim is to obtain positive financial results regardless of the oscillations of the market.

A private equity fund is a collective investment scheme used for making investments in various equity (and to a lesser extent debt) securities according to one of the investment strategies associated with private equity. Private equity funds are typically limited partnerships with a fixed term of 10 years (often with annual extensions). Their main goal is to support companies that are going through a financial crisis in order to collect a return when said companies go public.

The first major difference between these types of funds and sovereign wealth funds is that the former are privately owned. While both are characterized by a general lack of transparency in their operating methods and both have somewhat loose regulations that apply to them, their similarities do not go much beyond these.

Hedge funds are highly leveraged and tend to invest in short-term projects that bear high risks; SWFs, on the other hand, have a low level of debt and tend to focus on medium to long-term investments. Hedge funds and private equity funds, thanks to their structure, allow the alignment of incentives between ownership and management, for example through the distribution of stock option. This is not possible for SWFs because they are publicly owned (and managed) and any attempt of incentives will likely result in a conflict of interest. Lastly, hedge funds, usually maintain a certain degree of transparency with their shareholders, while sovereign wealth funds are less likely to do so with their own shareholders (the citizens of the State that controls them).

The last important distinction to make is between sovereign wealth funds and pension funds (particularly, public pension funds). Firstly, it is necessary to distinguish between normal public pension funds (SSRF) and sovereign pension reserves fund (SPRF). The former are part of the national pension system and consist of pension contributions of workers and/or employers, the latter are entities autonomous from the national pension system, created by governments with the goal of addressing possible future deficits in the pension system (Blundell-Wignall et al., 2008). The sovereign wealth funds differentiate themselves from the former under multiple aspects while with the second the borderline is more blurred.

Public pension funds that belong to the national social security system, or social security reserve funds (SSRF), attain their funding from contributions paid in for pension purposes and therefore they are required to have a certain amount of liquidity at all times in order to give periodic payments to the beneficiaries. Contrarily, SWFs obtain funding through currency or fiscal surpluses and they do not have a requirement of liquidity (nor a pay-off one).

Other distinctions are that SSRFs are obliged to provide transparency on their financial operations and they do not have to invest part of their funds in foreign currency.

SWFs are, by all means, more similar to sovereign pension reserves funds (SPRF). In both cases the resources generate through fiscal or currency surpluses and SPRFs, unlike SSRFs, are not subject to the obligation of periodic compensation payments to the funds' beneficiaries.

The similarities between these two types of funds have been the centre topic of discussion between experts, mostly about the eventual possibility of inclusion of SPRFs as a sovereign wealth fund and therefore, about whether they should be judged with the same criteria.

Edwin Truman (2008) went beyond this and debated that both SPRFs and SSRFs should be categorized as sovereign wealth funds; his thesis, however, is not shared by the IMF.

The official guideline given by the IMF is more restrictive and proposes to include only SPRFs in the sovereign wealth funds category. Therefore, the Norwegian Government Pension Fund Global and the Chinese National Social Security Fund (amongst others) are both meant to be classified as SWFs.

1.4 Historical evolution

The historical excursus that has characterized the evolution of sovereign wealth funds and that has shaped them into the authorities we know today can be divided into separate phases, starting, as already mentioned, in 1953, a year that has been taken as symbolic because it marks the creation of a foundation that in many ways foreshadowed the SWFs of today.

Although difficult, it is not impossible to find prior entities that resemble these funds. Some of the more interesting cases involve, for example, the East and West Indian Companies established by various sovereigns (more notably English, French or Dutch) in the XVII century; these Companies may present some fundamental differences with today's funds but the underlying similarity is the intersection of geopolitics and geo-economics.

Starting from the industrial revolution, sovereigns of countries that possessed an economical surplus of various origins used to partially invest that money in order to promote the economic development of their States, by creating infrastructure and/or to encourage industrialization, like in the case of the Russian Empire until 1914.

Curzio and Miceli (2009) made this provocative analogy by claiming that certain modern SWFs resembled past "sovereign held organizations". This similitude is more prominent when the funds are under the administration of countries with high levels of centralized power for either dynastic or political reasons. Ultimately, it is the high discretion concerning the destination of the funds and the low transparency regarding their management that "strikes a resemblance" between modern sovereign wealth funds and funds held by sovereigns from the past.

However, Curzio and Miceli (2009) add that this phenomenon is quite unique in its complexity due to its underlying end goal: profit. Never before in history have Head of States used financial surplus with the exclusive (or prevailing) goal of obtaining economic returns by investing in financial instruments.

As previously mentioned, the actual distinction between "prehistory" and history of modern SWFs starts in the '50s, a period in which the governments of the oil producing countries started to impose high taxes connected to the price of the oil to the multinationals that were operating in the energetic sector (Petras et al., 1995). This allowed them to increase their state revenues exponentially, which favoured the establishment (and the following growth) of the modern-day sovereign wealth funds.

From an analysis of the Middle-Eastern area, it is possible to notice that Saudi Arabia was the first country to increase taxes linked to the sales of oil barrels to the refining companies up to 50%, causing an increase of 100% of their state revenues from 1950 to 1951 (Young, 1983). In 1952, the Saudi government created SAMA (Saudi Arabia's Central Bank), with the double objective of providing liquidity and managing the high amounts of foreign exchange reserves derived from oil sales. Due to the high and continuous oil revenues, SAMA will eventually be responsible for the governance of the FOREX excesses, and therefore, is considered by some the first sovereign wealth fund.

However, it is not recognized as such by the majority of experts, who consider the Kuwait Investment Authority (1953) as the first sovereign wealth fund. Very similarly to Saudi Arabia, Kuwait also imposed a tax on oil exports, therefore increasing the State's income from the export of said raw material.

The main goal of this entity was investing the oil's proceeds and therefore decreasing the country's dependence on a non-renewable source; these investments will eventually allow a transfer of the nation's wealth to future generations.

Subsequently, in 1956, the British colony of the Gilbert Islands funded the Revenue Equalisation Reserve Fund, whose main goal was to administer the revenues of phosphate mines. Despite the small size of this fund, in comparison with other commodity funds, it has exercised a pivotal role in the national economy: in fact, it is one of the principal sources of income for the State and in 2008 its activities were six times higher than the national GPD (Bortolotti et al., 2009).

These three funds are all part of the first phase in the historical excursus of sovereign wealth funds' categorization; this phase spans for twenty years, from 1953 to 1973 and its main actors are commodity-based funds. In fact, the only non-commodity fund is the New Mexico State Investment Council established in 1958.

The second phase (1974-1981) is defined by a rapid expansion of the SWFs. From the beginnings of the '70s the price of oil has skyrocketed reaching 35 dollars per barrel in 1979; this is impressive considering that the price was of only 5 dollars per barrel in the first years of the decade. This was possible due to the major influence that State members of the Organization of the Petroleum Exporting Countries (OPEC) had and geopolitical events that took place in the '70s.

These major events allowed oil-exporting countries to accumulate an ever-growing amount of wealth that was the basis for new investments abroad. Numerous other countries were able to establish sovereign wealth funds in order to better govern the high amount of financial resources that were now available to them; in 1976, for example, the Abu Dhabi Investment Authority was funded in the United Arab Emirates. In the same year, the Alberta Heritage Fund is formed in Canada and, in 1981, the Lybian Investment Authority in Lybia.

At the same time, Singapore witnessed the constitution of two of the most important non-commodity funds: Temasek Holdings in 1974 and the Government of Singapore Investment Corporation in 1981.

The initial goal of the former was the management of government's holding in local enterprises but it eventually evolved its investing strategy to include the entire South-Eastern Asiatic area until it managed to reach the developed countries as well. The latter focused on running foreign exchange reserves surpluses (and their eventual use in investments).

The third phase, from 1982 until 1999, featured two international dynamics, which affected SWFs: a fall in the price of oil in the '80s and the wave of growing globalization in the '90s.

These price fluctuations, however, did not result in a catastrophic downfall of SWFs but they simply reinforced the notion that these governments should base their sole income on oil (or other raw materials) export. In fact, some experts consider this as a phase of a simple stagnation and only a modest increase in assets controls, especially if we consider SWFs from countries that are part of the Organisation for Economic Co-operation and Development (OECD) block.

Despite this stagnation, other commodity based SWFs were launched such as the State General Reserve Fund of Oman (1980), the Brunei Investment Authority (1983) and the Norwegian Government Pension Fund Global (1990). As for non-commodity based ones, the most important one is the Malesian Khazanah Nasional, whose funding mostly derived from privatization operations of state-owned enterprises (Fernandez et al., 2008).

The second mentioned factor, the rise of globalisation, had positive effects on the rise of SWFs; in fact, it contributed significantly by facilitating the international movement of capital and direct investments abroad (Curzio & Miceli, 2010, p. 6).

In the period between the start of the new millennium and the financial crisis connected to the subprime mortgages (2000-2007), there has been a new wave of expansion in commodity-based funds, largely due to already analysed phenomenon such as the abrupt rise of raw materials prices. Meanwhile, the financial crisis associated with accumulation of reserves strategies has favoured the establishment of non-commodity based funds.

The most important commodity-based funds established in this period are the Algerian Revenue Regulation Fund (2000) and the Kazakhstan National Fund (2000); both of these are stabilization type funds whose main aim is to isolate the State's balance sheet from price fluctuations of oil and hydrocarbons.

In these years it has also been notable the creation of non-commodity based funds, especially some of the most important SPRFs: the French Pension Reserve Fund (2000), the New Zealand Superannuation Fund (2001) and the Irish National Pension Reserve Fund (2000).

The United Arab Emirates constituted the Mubadala Investment Company in 2002 while in 2003 they established the Istithmar World; the latter would eventually become one of the most important players in the making of Dubai World, a sovereign wealth fund created in 2006 with the objective of promoting the economic growth of Dubai.

During this period, SWFs started to make world news and were at the centre of a growing interest, not only by institutional players but also by the general public.

Subsequently, with the arrival of the financial crisis, SWFs entered in a new phase demarked by a decrease in the number of funds created, mostly due to the fall of oil prices and fluxes of capital directed towards emerging economies. The few funds that were established can be catalogued as development funds as they were mostly used to allow the growth of the national economy. Take for example the French Strategic Investment Fund (2008) whose main strategy was the acquirement of domestic enterprises' shares in order to foster their development.

Saudi Arabia, similarly to France, created a state investment vehicle called Sanabil al-Saudia (2009); this fund, with an initial endowment of 5.3 billion dollars (Dell'Atti & Miglietta, 2009), is meant to work hand-in-hand with other Saudi SWFs (such as the Public Investment Fund).

Lastly, the end of the financial crisis has greatly impacted the activity of SWFs resulting in a slowdown of investments, mainly due to the losses accumulated from shareholding of US and European banks, the 2008 oil price decrease, the global recession and the impact this has had on their home economies.

The lack of transparency and disclosure of the actual number of shares owned in the companies affected by the crisis has made it difficult for researchers to estimate the losses SWFs have endured due to the crisis. Kern (2009), however, evaluates that investments in Citigroup, Barclays, Credit Suisse, UBS, Morgan Stanley and Merrill Lynch have cost SWFs somewhere between 60% and 90% in missed profits. These percentages amount to an estimated total of 57 billion dollars as of March 2009. In addition to the enormous losses in the foreign markets, SWFs were now required to help rebuild their domestic economies as well.

Thus, the crisis showed a need for a complete redevelopment of investment strategies, proper level of asset diversification and risk-management policies as well as a review of reserve levels versus SWF assets (Curzio & Miceli, 2010). The image of SWFs is constantly shifting: once defined as "barbarians at the gates, ready to take control of Western interest" (Nugée, 2009, p.4), these funds are now seen as simple investors with a strong influence on the markets. Their lack of transparency and the idea that they often operate with double motives, mainly of a political nature, has given them somewhat of a bad reputation that not even the adoption of the Santiago Principles has managed to change.

1.5 Possible causes for the establishment of SWFs

Having defined and categorized sovereign wealth funds under multiple aspects in the past sections, it is now essential to consider what have been the political and economic forces that contributed to the establishment of these funds in the last decades.

Carpantier & Vermeulen (2018), through an extensive research on sovereign wealth funds, have discovered the domestic economic and political characteristics that explain why certain countries have established these funds while others have not.

In synthesis, their analysis concentrates on the role of economic and political factors significant for the institution of SWFs; the target sample is the 1998-2008 period, during which 16 countries decided to set up a fund, and through a logit regression the article aims to explore relevant determinants before this period as well. The table below (Table 1) presents the funds from the target sample along with information on the country of origin and year of establishment.

Table 1 Target sample. Source: Elaboration of data presented by Carpantier & Vermeulen (2018).

Country	**Year**	**Name**
Algeria	2000	Revenue and Regulation Fund
Azerbaijan	1999	State Oil Fund
Bahrein	2006	Mumtalakat Holding Company
Chile	2006	Social and Economic Stabilization Fund
China	2000	China Investment Corporation
Gabon	1998	Gabon Sovereign Wealth Fund
Iran	2000	Oil Stabilization Fund
Kazakhstan	2000	Samruk-Kazyna JSC; Kazakhstan National Fund; National Investment Corporation
South Korea	2005	Korea Investment Corporation
Mexico	2000	Oil Revenue Stabilization Fund of Mexico
Nigeria	2003	Excess Crude Account
Peru	1999	Fiscal Stabilization Fund
Russia	2008	National Welfare Fund; Reserve Fund; Russian Direct Investment Fund
Sudan	2002	Oil Revenue Stabilization Account
Trinidad and Tobago	2007	Heritage and Stabilization Fund
Venezuela	1998	National Development Fund; Macroeconomic Stabilization Fund

In addition to this, and to understand the first condition necessary for the establishment of a SWF it is important to put in relation the creation of the funds over time with the commodity price index.

The figure below (Figure 1) shows a pattern in which the frequency of establishment of SWFs coincides with a rise in the price level of many commodities (oil, metals and agricultural products).

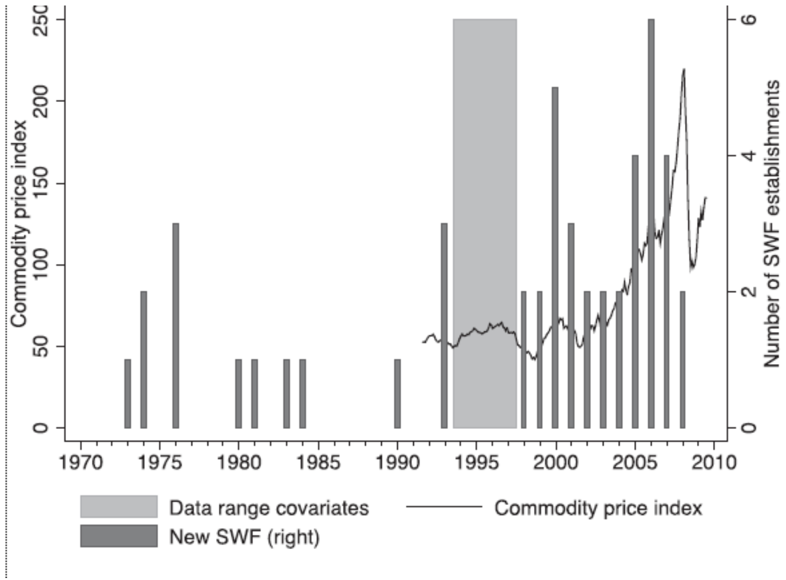

Figure 1 Frequency of SWF establishment. Source: Carpantier & Vermeulen (2018), p. 4

As mentioned above, this brings us to the first necessary condition: resource rents. In other words, in order for a country to be able to establish a fund it is pivotal to have access to economic means. A country's income level (as measured by the GPD per capita) and natural resource rents all influence the probability of establishing a SWF.

Consequently, a higher domestic level of spending, specifically the level of education spending and general government consumption, decrease the probability of setting up a SWF. Hence, a higher domestic level of investment makes future domestic investments more profitable and increases the opportunity cost of establishing a SWF (Carpantier & Vermeulen, 2018, p. 12). This is also applicable to the non-financial measure of infrastructure development: a higher road density is associated with a lower probability of setting up a fund.

Theoretically, it is possible to make a distinction between government consumption and domestic investment, but in reality, they are often intertwined; the example above, spending on education can be both counted as government spending and a long-term investment. When analysing data on general government spending and specific spending on education (or other parts of the government budget) we can see that they both affect negatively the probability of establishing a fund, but with different coefficients. These findings indicate that the decision to establish a sovereign wealth fund may come from the inability or unwillingness of a country to invest in the domestic economy.

Not only does government expenditures matter but also government characteristics. More specifically, autocratic countries are more likely to partake in sovereign wealth funds than democratic ones. In addition to this, natural resources, surprisingly, do not tend to influence a country's decision regarding future SWFs. Regardless of the size of natural resource revenue, autocratic countries will more likely establish a fund whereas for democratic countries, the extent of said revenue matters more.

Complementary to these benchmarks, and related to the necessary funding, we can identify other measures for economic surplus such as the current account balance, the stock of government debt, the net financial assets and the foreign exchange reserve. Carpantier & Vermeulen (2018) have shown, however, that these are not statistically significant in the decision to establish a SWF, showing furthermore that resource rents and GDP per capita are the main source and reasons of funding.

Economic risk also plays an important role in the matter because said fluctuations create an incentive for saving and for achieving a smoother stream of income from volatile receipts. Volatility of rents and volatility of GDP are some of the ways to measure economic risk and while the former positively influences the institution of SWFs, the latter does not seem to affect it.

1.6 Current situation

The evolving economic globalisation and financial integration has allowed SWFs to flourish both in number of funds instituted and their total asset allocation, despite the toll taken with the world crisis. A report provided by TheCityUK in 2014 shows that sovereign wealth funds have exceeded both hedge funds and private equity funds in terms of global assets under management (AUM). Despite this, it still continued to be outnumbered by traditional investors such as pension funds, insurance funds and mutual funds.

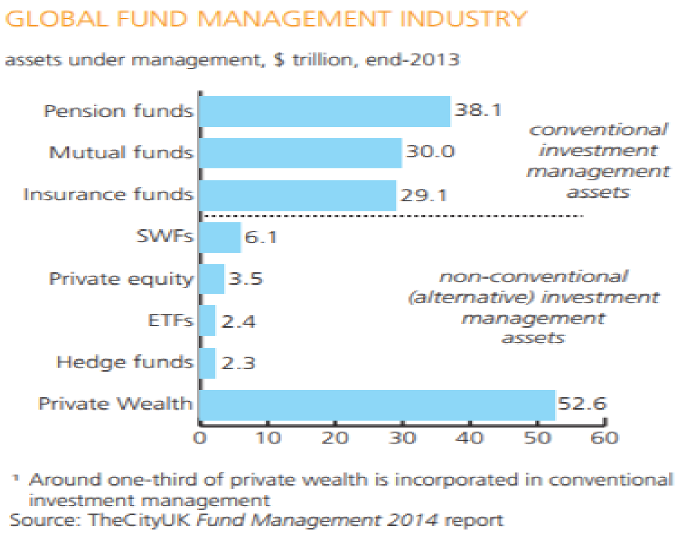

Figure 2 Global Fund Management industry. Source: TheCityUk Fund Management 2014 report, p. 13 (based on 2013 data).

The situation has continued to evolve and currently there are 94 active sovereign wealth funds across the world with a total, as of the end of 2019, of 8.34 trillion dollars assets under management (see Appendix 3)[4]; this is a 3,1% increase in AUM[5] compared to 2018.

With regards to the geographic allocation of the funds, we can notice that their distribution is not "equal"; the highest concentration of SWFs is in areas where oil and other natural resources are present. As we can notice in the graphic below (Figure 3), the biggest percentages of SWFs are in the Middle East (21%) and in Asia (21%); in addition to having the largest number of funds, these regions also have the richest ones.[6]

[4] Updated data from the SWF Institute shows that, for the first time since the creation of the funds, the total assets under management (AUM) have lost value drastically. In April 2020, the estimated worth reported on their website is 2,277 trillion dollars; this fall is mostly due to the global pandemic. However, due to the lack of data and research, for the purpose of this dissertation, I will consider only data until the end of 2019.

[5] Assets under management

[6] Considered by number of total assets under management

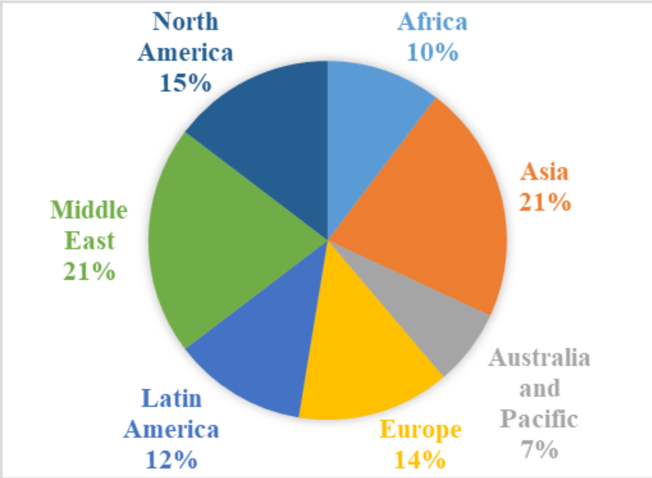

Figure 3 Geographic distribution of SWFs. Source: Personal elaboration on data collected from the SWF Institute

Concerning direct investment activity, twenty-one funds have made at least one direct investment; the eleven most active funds were responsible for 90% of all transactions made in the 2018-2019 sample.

Table 2 Investment activity, Deal count. Source: Personal elaboration based on data from the IE Center for the Governance of Change, 2019

SWF	Deal count	% of total deals
Temasek	82	31%
GIC	58	22%
Mubadala Investment Company	19	7%
Government Pension Fund Global	18	7%
Abu Dhabi Investment Authority	15	6%
Qatar Investment Authority	13	5%
Future Fund	12	4%
Ireland Strategic Investment Fund	11	4%
Russian Direct Investment Fund	9	3%
China Investment Corporation	7	3%
Khazanah Nasional Bhd	7	3%
Public Investment Fund	6	2%

If we dissect these investments by geography, the US, China, India, the UK, Singapore, Ireland and Russia are the top destination countries and they account for a total of 78% of all transactions made in the time sample.

Table 3 Top five destination countries 2019. Source: Personal elaboration based on data from the IE Center for the Governance of Change, 2019

Country	**Deal count**	**% of total deals**
United States	102	38,20%
China	36	13,50%
India	22	8,20%
United Kingdom	17	6,40%
Singapore	11	4,10%
Ireland	10	3,70%
Russia	10	3,70%

The investments in these countries were targeted in key-industries; in the U.S. these industries included biotech, data, fintech[7], logistics and mobility services (SWF Report 2019). The situation was similar in China where investments were focused in technology and life sciences, specifically biotech and fintech and the funds responsible for these transactions were Temasek and GIC.

These last two funds also heavily invested in India's technology industry while GIC and ADIA focused theirs in the country's renewable energy sources. The UK continued to remain one of the main targets of SWFs' investments, with 17 transactions concluded in the State and mainly centred on technology and life sciences, but that also included the more traditional industries (finance, real estate and utilities/infrastructure).

Singapore, Russia and Ireland heavily benefited from investments made by their sovereign wealth funds; Temasek, alongside GIC, invested in Singapore's technology industry while the ISIF[8] focused on the regional development projects and small and medium enterprises in Ireland.

In terms of the size of the deal and not simply the deal count, the main countries of destination in 2019 were the United States, China, the Netherlands, Switzerland and Australia.

[7] Abbreviation for financial technology
[8] Ireland Strategic Investment Fund

Table 4 Top five destination countries by deal volume. Source: Personal elaboration based on data from the IE Center for the Governance of Change, 2019

Country	% of total deal volume
United States	31,03%
China	18,10%
Netherlands	10,85%
Switzerland	7,36%
Australia	6,08%

A more specific analysis of the current situation regarding the allocation of SWFs' investments show that they continued to focus their attention on sectors involving technology, life sciences, real estate, services and infrastructure.

At an industry level, we can identify the 10 major ones, where 60% of all global deal counts was focused.

Table 5 Top ten industries. Source: Personal elaboration based on data from the IE Center for the Governance of Change, 2019

Industry	Deal count	% of total deals
Biotech	29	10,90%
Software	22	22%
Fintech	22	7%
Data	15	7%
Logistics/Warehouses	14	6%
Mobility	13	5%
Office	13	4%
e-commerce	12	4%
Food & Beverage	11	3%
Healthcare	10	3%

An important distinction that has already been made in the previous sections is between commodity and non-commodity funds. Currently, based on this distinction, there are around thirty non-commodity funds and, since their surpluses mostly come from foreign exchange reserves, which can be relatively large, there is not a big disproportion between commodity and non-commodity funds in terms of assets under management.

In this first chapter, which purpose was to lay the basis for a comprehensive analysis of the fundaments of Sovereign Wealth Funds, we learned the various definitions on these entities, their classifications and historical excursus along with the possible explanations as to why some countries have established them and others not.

In the next chapter, the focus will be on their investment strategies as well as governance and issues that have occurred during the last years.

CHAPTER 2: STRATEGIES AND ISSUES

The rapid growth of sovereign wealth funds, both in terms of assets under management and number of established funds, has “caught the attention” of experts, analysts and the general public over the past years.

The last two decades alone are responsible for the constitution of more than 60% of the total number of SWFs in existence; Ciarlone & Miceli (2013) consider two main factors for this rise. First, the surpluses in the balance of payments in China, the Gulf and other oil exporting countries and the recent industrialization of Asian economies; second, the dynamics of the international quotation of oil and other raw energy materials. The image below (Figure 4) shows exactly how, despite being incredibly volatile, the prices of crude oil have risen astronomically in the last decades, contributing to the wealth of SWFs owning nations.

Figure 4. Crude oil prices. Source: https://ourworldindata.org/grapher/crude-oil-prices

The rising attention that SWFs have gained in the last years does not only focus on the amount of assets under management, but on their investment strategies and the effects these might have on the financial markets as well.

In section 1.6, while analysing the current situation in terms of assets under management and other factors, some common traits emerged.

SWFs tend to acquire significant share holdings that, however, rarely exceed 10% and therefore do not allow them to become a majority shareholder; there is, also, a tendency to focus investments in large economies (with the USA as the forth runner).

A big portion of the overall resources in the last years were destined for investments in the financial sector, while in 2019 the attention shifted towards sectors involving technology, life sciences, real estate, services and infrastructure.

With this being said, this second chapter is intended to focus slightly more in depth on the investment strategies of SWFs before analysing their effects on the financial markets in the next chapter. In addition, in an attempt to give a fuller picture, this chapter will also focus on their governance structure, transparency and regulation issues as well as alleged political agenda.

2.1 Investment strategies

The interest devoted to these entities over the last decades was mostly due to the rising relevance they have reached in financial and stock markets.

2007-08, the years that marked the beginning of one of the greatest economic recession in modern history, were also the ones that saw a rise in the investments made by sovereign wealth funds on the international stock market (Terriaca, 2017).

In 2013, sovereign wealth funds reached $6,3 trillion in assets under management, significantly outmatching both hedge funds and private equity funds; in this same year the total AUM of the 69 existing funds at the time, reached 8,5% of the global world GDP and 4% of all financial activities. SWFs managed to stand comparison even with the “real” giants of the global investment market such as pension funds ($ 30 trillion in AUM in 2013), insurance companies ($25 trillion) and central bank reserves ($11 trillion).

Another peculiarity is that the ten biggest funds hold the majority of total assets (80%) and they are not geographically disperse; in fact, the majority of them, by number and by wealth, are in Asia and the Middle East.

Even considering this information SWFs still remain somewhat of a mystery and the studies and research focused on them still do not have a clear outline of what their investment strategies, their objectives, their governance model and real dimensions are. In particular, the lack of transparency that has surrounded them since the beginning has been the primary reason for the beliefs (of misbeliefs), institutions, politicians or simple investors have, on the possibility that SWFs have strategic and political motives that go beyond simple "return on profit", hence the nickname of "barbarians at the gates".

Now, in order to understand the influence they have not only on financial markets but on geopolitical orders as well, it is important to locate their investment choices. The most important factors to consider when making an investment are the countries in which to invest and the amount of resources to allocate (Ciarlone & Miceli, 2014).

Ciarlone & Miceli (2014) have shown, through an empirical research that SWFs are more likely to invest in countries with a higher degree of economic development; GDP per capita is closely related to the possibility of being an investment target (p.15).

Second, SWFs' equity acquisitions are more frequent in countries that have developed financial markets; not only is a developed market relevant but SWFs tend to pay attention to the effective protection extended to investors by the countries. In other words, an essential characteristic for an investment is a well-regulated financial market, with a high degree of legal enforcement.

Lastly, a stable macroeconomic environment positively affects the probability of equity acquisitions by SWFs. An interesting finding of the above-cited research, the so called "crisis dummy series" show how, despite the preference for developed and highly regulated markets, SWFs will shift their focus towards countries when they are experiencing a financial crisis.

This apparent contradiction just goes to show how peculiar these investment entities are and how their "contrarian" investment activities, i.e. countercyclical investments that go against the prevailing market trends, eventually act as stabilizers of the financial markets.

Ultimately, their large dimensions in terms of liquidity, their tendency to operate on long-term horizons and relatively stable risk preference are the factors that allow SWFs to avoid pro-cyclical investing and, at the same time, to accumulate astonishing amounts of wealth through these transactions.

The second decision SWFs have to make in their investment strategies, after selecting the country in which to operate, is the amount of resources to invest. In terms of economic development the variable that is best suited to explain the adequate amount of resources to invest in a country, is the level of GDP. Alongside this, from the stock market standpoint, stock market capitalization and turnover ratio are the variables that mostly influence the asset allocation.

In addition to this, Ciarlone & Miceli (2014) have selected other elements, such as the openness to trade and financial flows, the degree of investor protection and the institutional quality of the potential target country, that increase the probability of an investment. The conclusion that have come to is that "the larger (as measured by the log of the respective GDP level) and more financially developed (as measured by both the stock market capitalization and the turnover ratio) a country is, the larger the amount of financial resources SWFs allocate to it" (Ciarlone & Miceli, 2014, p. 18).

Furthermore and as previously mentioned, a financial crisis not only affects positively the probability of an investment but it also plays a significant role in the dimensions of the investment itself.

2.2 Governance

For a sovereign wealth fund, an optimal investment strategy must be in line with the overall objectives that it intends to pursue. In most cases, there is a clear correlation between goals and the SWFs' governance structure, investment strategy and transparency requirements.

An appropriate and robust underlying legal framework is essential for the correct management of these funds.

This legal structure should be capable of defining the legal form and structure of SWFs and their relationship with other state entities, legalizing government's budgetary processes, ensuring the legal soundness of their transactions, supporting the effective operation and the achievement of objectives, and promoting effective governance, accountability and transparency (Al-Hassan et al., 2013). In practice, there is a wide variety of legal frameworks for SWFs. This is a reflection of the fact that different countries have chosen different legal forms for these funds and it has numerous implications for both their tax position and immunity of investments.

In legal terms, SWFs are established as (Al-Hassan et al., 2013, p.9):

- Separate legal entities under law with legal identities and full capacity to act. This is the case of SWFs in Australia, Kuwait, New Zealand and UAE (specifically Abu Dhabi).
- State-owned corporations with a distinct legal persona. An example of this kind of entity is Singapore's Temasek.
- A pool of assets owned by the state or the central bank, without a separate legal identity. Botswana, Chile, Norway and Timor-Leste are some of the countries that have adopted this kind of legal structure for their sovereign wealth funds.

Differences in the legal structure will have different implications regarding taxes or immunity of investments. Investments through central banks will normally be protected by sovereign immunity and may also enjoy tax privileges in recipient countries; taxation of investments through corporate structures may depend on the extent to which these investments are viewed as an integrated part of the government's financial management (Al-Hassan, 2013, p.9). In addition to this, bilateral tax agreements between different countries play an essential role in determining the tax treatment of SWFs' investments. Qatar, for example, has reached bilateral tax agreements with several European countries, allowing the country to limit its tax burden on property purchases and other types of investments.

Moving forward from the legal structure, institutional frameworks across SWFs also differ. A proper institutional model allows the operational management of a fund to be conducted independently from any outside interference, mostly from political forces, and therefore it makes it easier for them to achieve their economic and financial objectives.

There are two main models of institutional structure (Figure 5): the manager model and the investment company model. Under the manager model, the legal owner of the SWF's pool of assets (usually the ministry of finance) has the power to give an investment mandate to an asset manager.

This type of structure can be divided into three subcategories. In the first category, the central bank receives the investment mandate from the legal owner and therefore can manage the assets internally or by using one or more external funds for the portfolio; this is the case, for example, of the Norwegian Government Pension Fund Global. Secondly, the ministry of finance can set up a separate entity that will still be owned by the government but it can also receive other management mandates from the public sector; for instance, the Government Investment Corporation (GIC) of Singapore is a SWF that also manages part of the reserves of the Monetary Authority of Singapore. Lastly, in the third subcategory the legal owner gives the investment mandate to one or more external and private funds. This model is usually not very used nor advisable, because of the implications the private management of public funds may have. One can argue that external managers could potentially have more political motives behind their investments that go against the objectives of a typical SWF; in other words, the evaluation, monitoring and termination of management contracts requires specialized skills that are more likely to be found in a dedicated investment organization (Al-Hassan et al., 2013, p.10).

The second type is the investment company model, according to which the government as owner sets up an investment company that effectively owns the assets of the fund. Usually, the government decides to establish a separate investment company when it anticipates that the strategic administration will entail more focused and complicated investments in individual companies or when the fund has a development objective in addition to the maximization of profits through financial investments.

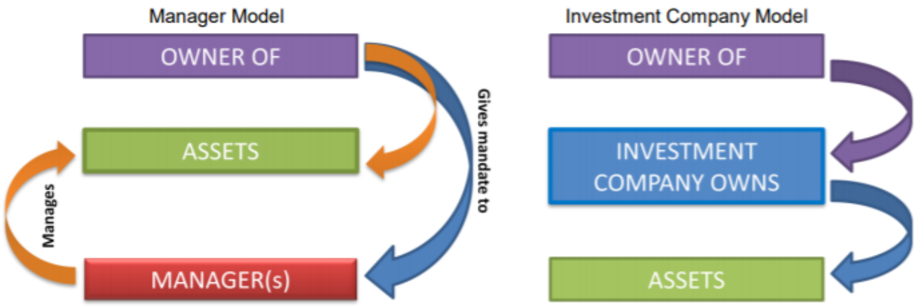

Figure 5 Investment models. Source: Al Hassan et al., 2013, p. 11

Within the organizational structure of the fund, we can also distinguish between governing and supervisory bodies. The governing bodies are a system of delegated asset management responsibilities whose authority to invest is given from the top entity of the governance chain to the actual asset managers, whether internal or external. Each governing entity should establish a supervisory body whose goal is to allow for a better governance and control of the body below. In addition to this, it is also essential to distinguish if the entities that are part of government structure are internal or external; generally, internal bodies are part of the legal structure of the SWF whereas external bodies are (or belong to) other legal entities that have a specifically defined role within the management of the fund. The figure below (Figure 6) illustrates the different levels of governing and supervisory bodies with their respective internal and external entities.

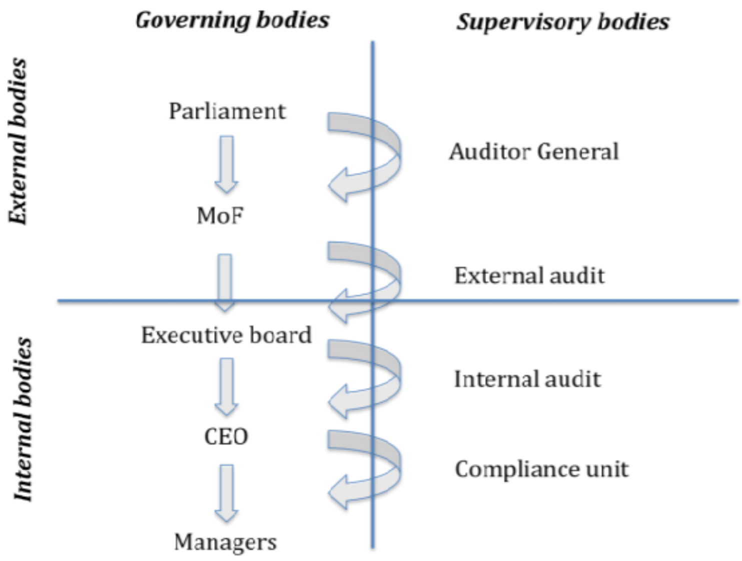

Figure 6 SWF government structure. Source: Al Hassan et al., 2013, p. 12

The illustrative governance setup above can help us identify five governing bodies at different levels. Starting from top, the first entity we encounter is the parliament, whose approval is essential in order to establish a SWF; although it is the central government that owns the fund, in a democratic country it is the parliament that gives it the legal basis for its operations. On a level below, we have the government or the minister of finance, whose role is to carry out the functions as the owner of SWF within the limits set by Parliament.

Continuing on this line, we have the executive board, which is the highest governing body inside the legal structure of the fund. Its role includes setting the investment guidelines and appointing the chief executive officer (CEO), who will act as the administrative head of the organization. On the lowest end of the spectrum, we have internal and external managers who carry out operations that have been delegated to them by the hierarchical levels above.

As for the supervisory bodies, these typically include:

- The auditor general, usually appointed by the parliament, is set to audit and control that the activities of the executive branch are all within the limits of the State laws or regulations previously set by the fund.
- The external auditor is usually appointed by the owner of the SWF (in most cases, the ministry of finance) and it audits the accounts of the fund in addition to verifying that the SWF is managed within the rules and regulations set by the owner.
- The internal auditor supports the board in supervising the management of the SWF; it is appointed by the executive board and reports to it.

- The compliance unit is set up by the CEO as a tool to help verify that all activities are in compliance with the rules and regulations governing the SWF's operations.

This setup of governance structure, with governing bodies on one end and supervisory bodies on the other, allows SWFs to have a clear distinction between roles and responsibilities within the organization. However, the governance models, due to differences in political institutions, may vary in different countries; these eventually influence not only the configuration of the governing bodies but of the supervisory bodies as well. In particular, the role of the auditor general and the coordination process between the auditor general and the external audits.

Nevertheless, there are certain common principles that oversee how the governance structure of a fund is established; these similarities arise from the necessity of a clear and transparent division in roles and responsibilities between the various bodies of the fund, in a way that ensures both accountability and legal certainty. An important distinction to make in order to avoid conflicts is between the owner of the SWF's asset and the manager. The owner is usually the central government who has received legal basis and specific duties from the parliament, while the manager of the fund's assets does not have the propriety of the resources and it is seen simply as the agent. Another important remark to make is that the government, in fact, has a double role: first as the owner of the asset management institution and, secondly, as the owner of the managed assets. When SWFs are managed as a pool of financial assets, for instance by the central bank, the distinction between the institution in charge of the operational management and the SWF as a set of resources is clear.

Lastly, there is an important distinction between a corporation with paid-in capital, managing what is formally its own assets, and an asset management company, where managed assets constitute a liability to the central government as owner of the SWF (IMF Policy Paper, 2014, p.38).

2.3 Transparency

An important issue surrounding sovereign wealth that has been mentioned several times through this dissertation is transparency, or more specifically the lack of it. Starting from the very beginning, there are two main systems to measure SWFs' transparency: Edwin Truman's of the Peterson Institute and the Linaburg-Maduell Transparency Index (LMTI) of the SWF Institute.

Truman's scoreboard is based on four fundamental categories (Curzio & Miceli, 2010, p. 139):

- Structure
- Governance
- Transparency and accountability

- Behaviour in the market

Each category contains questions (33 in total), with mostly yes/no answers, that correspond to 1 and 0 points respectively. For each category, and for the total, each SWF's score is given by the fund's percentage out of the maximum score (Curzio & Miceli, 2010, p. 139). The evaluation is based on documents provided by the funds, and in case of the absence of official publications, other resources are used (such as information from interviews, websites and press conferences). The table in Appendix 1 shows the most recent classification of SWFs in terms of transparency available on the official Peterson Institute website; the report is from 2016 but it refers to data collected in 2015.

The results show that the 60 non-pension sovereign wealth funds received an average score of 62 percent; the range of scores was 87, distributed between 11 (Equatorial Guinea's Fund for Future Generations) and 98 (Norway's Government Pension Fund – Global). What is interesting about these results is that they, to a certain extent, refute the generalization that SWFs are inherently non-transparent, showing that funds from both developed democratic countries and emerging-market/developing countries can have an acceptable score in terms of transparency and therefore be held accountable to their citizens (the ultimate beneficiaries of the generated wealth).

The second transparency index is the Linaburg-Maduell Transparency Index (LMTI), a system to measure transparency developed by the Sovereign Wealth Fund Institute and based on the conduct of the Norwegian Government Pension Fund Global, considered the most virtuous example of transparency and accountability (Curzio & Miceli, 2010, p. 141). This one is based on ten criteria, each of which can earn a maximum of one point; 8 is considered the minimum rating for an adequate level of transparency. Some of the most important characteristics taken into consideration are (Curzio & Miceli, 2010, p. 141):

- Transparency in terms of origin of wealth and structure of ownership relations
- Communications of investment strategies, goals and policies
- Publishing periodic reports on shareholdings, geographic distribution and performance of investments
- Disclosure of portfolio value
- The existence of modality of an auditing process.

The table in the Appendix 2, an elaboration from data available on the SWFI website, shows the rating of the 49 biggest funds; the results are not exactly in line with Truman's scoreboard. This may be due to the fact that the data classification based on Truman's criteria relies on data from 2015, whereas the LMTI is updated on a quarterly basis and therefore takes into account eventual improvements made in the last five years. Furthermore, the LMTI is based on an assessment on desirable variables, whereas Truman's scoreboard relies on comparisons between the different funds. Lastly, the LMTI only refers to transparency in their index but Truman includes both transparency and governance.

Despite the contrasting results in certain points, both indexes show that, on average, the level of transparency for SWFs is still low. Furthermore, some studies (Beck & Fidora, 2008, Setser, 2008 and Bertoni, 2008) show that there is a correlation between the lack of transparency of the funds as measured by Truman and the level of democracy's in the fund's home country.

Beck & Fidora (2008) correlated Truman's index with an indicator of the quality of the legal systems and an index of countries' democracy to show that low transparency is systematically linked to low levels of democracy and accountability and low quality of a country's legal system.

2.4 International regulation

Given the fact that sovereign wealth funds are predominantly governments' propriety, several countries, especially Western ones, have been very vigilant regarding their investments and have made attempts at creating legal barriers that regulate their investment capacity. Between 2007 and 2008 at least eleven states, which accounted for 40% of all foreign investment inflows in 2006 (Curzio and Miceli, 2010, p. 157), approved or started drafting laws to restrict foreign direct investment (FDI) and broaden their authority to supervise and authorise FDIs.

While in the beginning governments aimed to protect only critical sectors, such as defence and armaments, in recent years the legislation has been extended to other industries considered critical. These include unspecified sensitive infrastructure (the United States, France, Germany and Japan), the energy sector (the United States, Russia, and Hungary), cryptology (Russia, Germany, France and Japan). This necessity to shield the recipient country's best interests from foreign acquisitions was triggered by several controversial attempts to enter strategic markets in Western democracies.

Take, for instance, the United States. In 2005, Unocal, one of the largest US oil companies, was about to be acquired by the China National Offshore Oil Corporation (CNOOC), before the government stepped in to block the operation. A similar act occurred in 2006, when Dubai Ports World (owned by the Dubai government) cut a deal to buy Oriental Steam Navigation Company (P&O), a strategic enterprise that runs several US ports; once again, this affair was strongly opposed by Congress and ultimately led to resale to an American buyer.

Following these events, in 2007, then President George W. Bush, signed into law the Foreign Investment and National Security Act (FINSA 2007). The aim of the law was to "ensure national security while promoting foreign investment and the creation and maintenance of jobs, to reform the process by which such investment are examined for any effect they may have on national security, to establish the Committee on Foreign Investment in the United States, and for other purposes" (Brown & Miles, 2011, p. 171).

Furthermore, this law gave effective power to the Committee on Foreign Investment in the United States (CFIUS) to start a review process on a potential foreign investor that was attempting to obtain control of a US company by merger, acquisition or takeover, if said operation would put national security at risk. Interestingly enough, the law does not define a threshold for control and therefore even an acquisition of less than 10% could be deemed as controlling in the review process; in addition, the law does not specify exactly which sectors are critical and, in doing so, leaves space for individual assessments.

In case a FDI is considered as a risk for national security, the law grants power to the CFIUS to take measure to correct transactions in order to mitigate the risk, monitor their implementation, reopen the procedure or apply sanctions and request for a presidential decision on the matter. FINSA is one of the more restricting law regarding foreign direct investments and it effectively makes the US one of the most demanding countries concerning these types of acquisitions.

In the European countries, however, there are varieties of opinions that differ from State to State. Regulation on a European Union (EU) basis is particularly tricky because erecting barriers to foreign investments may violate one of the numerous treaties the supranational union has signed, both at the internal and international level. It would also violate one of the fundamental pillars of the EU, which is the free movement of capital within the single markets.

There are some exceptions to this general rule of "laissez-faire", especially on the national level; many countries do adopt laws that regulate foreign investments for reasons of national security, similarly to the US.

Firstly, before analysing a couple of State-based approaches to regulation of SWFs, it is important to look at the direction given by the European Commission. The first communication named "A common European approach to Sovereign Wealth Funds" issued by the Commission, was in 2008; this communication, by its nature, has no legal binding power but it is only considered as a recommendation. In the general guideline for foreign investment some of its main points are:

- An invitation to governments to remain open to foreign investments, thus avoiding a protectionist approach
- To support solutions given by the International Monetary Fund (IMF) or the Organization for Economic Co-operation and Development (OECD)
- To respect the EU's treaties and commitment to the free movement of capital, in addition to their pre-existing regulatory instruments
- Respect the principles of proportionality[9] and transparency.

More specifically, in the case of SWFs, there are two fundamental principles that they should comply with: good governance and effective transparency. Good governance includes a clear distinction between the owner's and the manager's responsibilities, a clear definition of objectives and policies, public communication of the exact relationship between the SWF and the government in terms of governance, and the development of risk-management policies.

Transparency, on the other hand, includes but is not limited to annual publications of investment and overall portfolio, disclosure of criteria of ownership and voting rights, publication of the fund's size, financial resources, leverage and portfolio currency composition. The main idea behind this "memorandum" was to respect the international openness of markets in order to achieve economic prosperity across the continent.

On a national level, I will propose an analysis of the United Kingdom's and Italy's approach to SWFs as I believe this will allow a better understanding of the investment made by the Qatar Investment Authority in the final chapter.

The UK is probably the most open EU country in terms of accepting foreign investments, a conduct that has been labelled as "the Wimbledon effect" as it prioritizes "hosting the tournament regardless of the players' nationalities". Its openness towards sovereign wealth funds dates back to the beginning of SWFs themselves as the Kuwait Investment Board established its office in London in 1953. Some of the factors that have made the British market so appealing for SWFs' investments are the UK's open approach to every type of foreign business, the level of expertise and experience in addition to a safe and stable regulatory environment.

Even during the 2007-2009 crisis, London, which is also the leading international centre as a clearinghouse and location for many of these funds, gladly accepted and encouraged investments in

[9] The principle of proportionality is a regulatory principle of the way the European Union can exercises its powers; concretely, it means that the European Union will only take the action it needs and nothing more than that.

its financial sector. The only move towards protectionism on their behalf was an endorsement for demands of greater transparency and regulation made by the IMF.

Italy, on the other hand, while it does not follow Britain's complete liberal approach, has been classified as ones of the most open European countries in terms of acceptance of SWF's investments, despite the fact that their presence among Italian enterprises is quite limited. The debate, concerning these funds' activities, started in 2008 after the Lybian Central Bank acquired 4,9% of UniCredit S.P.A., one of the largest Italian global banking and financial services companies[10]. Following this investment and another one made in ENI S.P.A.[11], a multinational oil and gas company, both considered equally strategic companies, there have been some attempts at legislating SWFs and their investments in Italy.

The Commissione Nazionale per le Società e la Borsa (CONSOB), an authority responsible for regulating the Italian securities market, was one of the first institutions to remark that the absence of transparency regarding the funds' activities and the possibility that their investment strategies may not be merely economic but may also pursue other undisclosed objectives should be worrisome for the State.

In 2008, Consob also participated in a task force, instituted by the Comitato Tecnico IOSCO[12], on sovereign wealth funds in order to enhance discussions about the possibility of ensuring adequate supervision and of obtaining the necessary cooperation in case of violation of regulations. In light of these efforts, there was a proposition for a law that introduces a 5% limit on shareholdings by sovereign wealth funds; this threshold, however, was highly contested because it was thought that it would put a barrier to much needed potential foreign investments.

Although this legislation did not pass, there was a change on the regulation of Initial Public Offerings (IPOs, legislative decree February 24 1998, n° 58, Testo Unico della Finanza), specifically articles 104, 104 bis e 104 ter that came with the "decreto legge" November 29 2008, n° 185. Previously, according to a principle known as passivity rule, the management of a company that was subject to a hostile IPO was forced to hold a passive role and therefore it needed approval from the general assembly (which represented at least 30% of the total capital) in order to initiate any sort of "leverage buyout". The intention behind this law was to protect shareholders from actions put in place

[10] The last estimates placed the shares of the Lybian Investment Authority in UniCredit at 1,27% as of 2017; today, it is unclear precisely how much the sovereign wealth fund holds in the Italian bank.

[11] Sources differ on the actual percentage the fund has in E.N.I.; the most recent valuation available is from 2019 and places the shares at 0,58%.

[12] IOSCO stands for International Organisation of Securities Commissions

by the management calculated to safeguard their position (a position that would have been contrasted by the new management).

The passivity rule did not apply to cases of IPOs promoted by entities that were not subject to these dispositions, or equivalent ones, therefore including initial public offerings from sovereign wealth funds. The new decree has changed these dispositions by providing that the rules previously mentioned were now to be applied whenever it was required by the companies' statutes. The purpose of this decree is to allow companies that do not adopt these rules in their statutes to have a more effective defence of stock control in cases of hostile takeover bids.

Lastly, the government also established a Strategic Committee to promote national interests, composed by the Ministry of Economy and Finance and the Ministry of Foreign Affairs and International Cooperation, specifically for dealing with SWFs intending to invest in Italy.

2.5 Financial and geopolitical management

Financial management of sovereign wealth funds means that every choice and direction taken by the fund is towards the optimization of the portfolio; the end goal is purely economic-financial and it does not entail the involvement in the governance of the investee companies. In today's economy, however, it is difficult to demarcate which investments are purely of a financial nature and which ones are placed strategically for other reasons.

Take for example, the Abu Dhabi Investment Authority (ADIA), one of the largest funds in the world that by all classifications is seen as a fund with aims of purely financial optimization; however, ADIA has placed counsellors in some of the enterprises in their portfolio such as UniCredit S.P.A. The Emirates' fund holds 4,986% of shares of the Italian bank, second in terms of investors, and it has placed Mohamed Hamad al Mehairi as a counsellor and a member of the board of directors, therefore actively taking part in the governance of the bank (to some extent).

Other funds generally classified in this category are:

- Kuwait Investment Authority, which mainly invests in the United States and in Europe, with a preference towards equity, bond and real estate
- Government Pension Fund Global, currently the largest fund in terms of assets under management. The ownership of the fund belongs to the Norwegian Ministry of finance, while the governance is in the hands of the Norges Bank Investment Management
- Government Investment Corporation of Singapore

- China Investment Corporation
- National Wealth Fund of Russia

The Qatar Investment Authority, although it pursues objectives of a financial nature, it also uses special purpose vehicles to acquire holdings in specialized sectors that have a high return on profits; in this sense, it is very close to private equity funds.

Some funds go beyond these strictly financial goals and are established to pursue geopolitical objectives that are meant to influence the technological and industrial assets of certain strategic sector in the recipient countries as well. Part of the critics surrounding sovereign wealth funds focuses on the fact that this is a tool that allows developing countries to essentially buy themselves strategic and political advantage in the countries they choose to invest into. This type of management, although it focuses on long term projects, is quite representative of a redistribution of the global policy that the 2007-09 world financial crisis only accelerated. Therefore, sovereign wealth funds have become very useful instruments to shift the economic-financial power from the West to the East, in other words from developed to developing countries.

Ultimately, the developing countries, by using sovereign wealth funds, are setting the basis for transforming their newly acquired economic power to political power (Savona & Regola, 2009). In this new scenario, we can also imagine a shift in the role advanced economies have, compared to the role of the new economies: this means that the latter are more aware of the new role they have in the macroeconomic and macro-financial dynamics and they are no longer the weaker part when it comes to negotiations.

An important thing to add to the discussion of financial and political influence of SWFs is that their influence is not always exercised through the funds' investments. This is especially true when it comes to Middle-Eastern investments and in cases where the acquisitions are made by prominent figures of the fund but through their private wealth. What this alludes to is that successive investments made by these people using the SWF's money may be influenced by the desire to optimize their own private investments.

Lastly, before analysing the effects sovereign wealth have on the financial markets, there is a large number of concerns about the above-mentioned geopolitical objectives that can be classified in two groups, macro and micro risks.

The macro risks consider the impacts sovereign wealth funds' investments have on a state level; some of these risks are:

- The countries that own the SWFs could start to be considered as an alternative to Western democracies, which based on rules and strict market regulations. In other words, the growing power that investing countries, most of which are autocratic or have low levels of democracy[13], have acquired due to their sovereign wealth funds in the global financial markets could allow them to gain political power in small States which are needy of capital inflows.
- The fact that sovereign wealth funds are able to thrive and bring wealth to countries with a flawed democracy can be seen as potential threat to democracy itself, as it allows regimes to survive and to defend themselves. In addition to this, the anti-American feelings many of the Gulf and oil exporting countries have, could lead a rapid get-away from American markets in case these regimes got overthrown. In this scenario, the US could have very little interest in supporting a more democratic but different and unfriendly change in government.
- The issue of potentially appropriating technology and know-how in strategic sectors combined with the need to protect these sectors.
- The risk of triggering a protectionist response towards foreign investments and a consequent shrinking of the economy.

The micro-risks, which have an impact at the company level, include the following:

- Countries that own SWFs can promote their own national companies at the expense of the enterprises of the states in which they invest in and therefore weakening the competition with lawful or unlawful practices. If they are allowed to acquire shares of competitors from other countries, they could weaken or control them in order to facilitate their own national companies to become global champions after wiping out the competition.
- The possible conflict of interest that could occur between the owners of the SWFs and the acquired companies or the governments of the countries in which they are investing into. For example, if a country in need of raw materials acquires a company in that sector through its SWF, the interests of the company to keep high prices go in direct conflict with the country's need to lower the costs of supply.
- SWFs could exercise their shareholders' controlling rights to accomplish political targets to the detriment of other shareholders' interests (Curzio & Miceli, 2010, p. 129). This

[13] Based on an elaboration of "The Economist Intelligence Unit's Index of Democracy 2008" and the funds established by the countries worldwide, Curzio & Miceli (2010, p. 131) determined that sovereign wealth funds belong to authoritarian regimes (62%), hybrid regimes (18%), flawed democracies (2%) and full democracies (18%).

influence could have political motives, considered that the shareholders are owned by a state.

- There could be a decrease of efficiency in the companies SWFs invest in, either because of political influence or because of the lack of the necessary qualifications to manage the investments.
- The controlled companies may be put in a unique position that could grant them competing advantages at the expense of private companies. The public nature of SWFs could potentially give them access to privileged information that others do not possess.
- The risk of corruption; the emerging countries' assets could be used to gain personal wealth.

Although these are all valid concerns, empirical evidence shows that they have not been confirmed by facts (Curzio & Miceli, 2010, p. 134). Sovereign wealth funds' investments have not compromised national security or the strategic sectors of the advanced economies. Furthermore, SWFs tend to invest where they can find a favourable political climate.

Nevertheless, some authors have identified cases in which SWFs' conduct seems more questionable, such as the two following instances. According to Curzio & Miceli (2010), "it cannot be denied that there have been examples of SWFs that have acted on the basis of a political agenda. For example, China's SAFE acquired government bonds from Costa Rica as part of a 2007 agreement under which Costa Rica cut ties with Taiwan. In this case, the financial blackmail worked, but between two countries of totally different political and economic size" (Curzio & Miceli, 2010, p. 135).

"Some SWFs have generated problems with their investments in other countries. One example is Temasek's acquisition of the Shin Corporation in Thailand in 2006. This seems to have contributed to the political unrest in that country – which led to the fall of then-prime minister Thaksin Shinawatra and accelerated the military coup which occurred a few months later" (Curzio & Miceli, 2010, p. 135).

In conclusion, in this chapter, we started demarcating the sovereign wealth funds' investments strategies; in this sense, an investment strategy is based on two main questions: where to invest and how much to invest. In order to pursue an effective investment strategy, the fund needs a clear, effective and independent structure of governance.

Furthermore, after establishing the basic principles of investment strategies and their connection to the SWF's legal and institutional structure, the next point was analysing one of the most important issues in the matter: transparency. The lack of transparency gives a sense of mystery to these entities and it makes it more difficult for the recipient countries to regulate them properly. In addition to this issue, there is a widespread belief that sovereign wealth funds pursue both financial strategies, aimed to optimize profits, but also geopolitical strategies that carry several risks and concerns for Western democracies.

Keeping in mind the investment strategies, and the problems around them, in the next chapter we will analyse the effects these operations have on financial markets, shares' prices, capital inflows, foreign exchange reserves and the structure of the capital markets.

CHAPTER 3: THE IMPACT OF SWFS' INVESTMENTS

Over the last years, sovereign wealth funds have invested actively in the global financial markets and their aggressive strategies have had numerous impacts. Considering their massive dimensions and the shift from a traditional investment model they used to have (where risk was considered a factor to avoid) to a more diversified and risk-prone model, their activities have and will inevitably continue to have impacts on the markets, both stabilizing and not. Therefore, understanding the ramifications of their operations is of the utter importance in order to understand their future development.[14]

3.1 Financial markets

The establishment of sovereign wealth funds has had an overall positive impact on the stability of the global financial markets; some of the factors that have contributed to this stabilization are:

- The tendency to invest on long-term horizons; the focus on long-term projects rather than short-term means that they have a limited impact on the prices of the activities they invest into. Furthermore, SWFs pursue investments after a careful risk management analysis.
- The low level of indebtedness and leverage; unlike other financial institutions, SWFs tend to have lower levels of indebtedness as well as limitations on the use of leverage. They do not have immediate, well-defined payables which makes the consequences of a decline in the valuation of their assets in case of a market downturn less severe than in the case of most other institutional investors (Deutsche Bank Research, 2008).
- Anticyclical behaviour. When a financial recession is in course, regular investors start to fear for their investments and therefore they start pulling capital away from the market, causing even more difficulties to the financial institutions. Sovereign wealth funds, as long-term investors, during a phase of contraction of the market tend to the opposite of what regular investors do; this behaviour helps to stabilize the market. For example, during the US subprime mortgage crisis, sovereign wealth funds started to make massive investments into the fragile banking institutions.
- Rigorous mechanisms for risk management, due to limitations on the types of investments they can make. First, there is an important distinction to make. SWFs that are not separate

[14] In order to present and analyse these factors I will mostly rely on research and highly established academic studies from 2008-2009 and immediately after the world crisis.

legal entities have relatively traditional asset allocations, mostly limited to highly rated government securities and only a few that take on more credit risk (IMF, 2008). Other SWFs, the ones that have a legal independence, tend to focus on more alternative assets allocations with higher risks. Now, in regards to the risk management mechanisms, SWFs employ specific tactics such as value at risk models (VaR)[15], tracking error[16], and duration[17]. "Credit risk is usually constrained by limits on exposure to different kinds of credit and issuers; liquidity risk is mitigated by investing primarily in securities traded in recognized exchanges and requirements for portfolio diversification of the asset managers; currency risk is controlled by a foreign currency hedging policy for the portfolio and limits on currency exposure relative to the benchmark for individual asset managers. Some funds also use stress-testing methods to evaluate the overall level of risk of an asset" (IMF Working Paper, 2008, p. 15).

On the other hand, sovereign wealth funds have also negatively influenced the stability of international financial markets. Given the fact that they are entities owned by governments and considering the low levels of regulation that they are subject to, their size and the size of the investments they make can also act as destabilising factors for the markets. Some of the arguments in support of negative influence SWFs have are:

- They create herd behaviour. Considering the size SWFs have, whenever they make an investment they may indirectly affect the behaviour of other major players as well. The price fluctuations of a transaction itself may be further aggravated if this purchase (or sale) not only affects other players but they engage in imitating behaviours and leads to herding behaviour and, under the same conditions, disinvestments have more serious implications than investments. In a market where competition continues to grow, this herding behaviour could contaminate other activities as well and therefore has the potential to create market instability.
- Low levels of transparency can lead to systemic risks in the financial markets. As already discussed, sovereign wealth funds' investments are somewhat vague in terms of numbers and size of the transactions; given the fact they do not have the responsibility to act as market stabilizers (unlike central banks) their investment strategies are usually focused on

[15] Value at risk (VaR) is a statistic that measures and quantifies the level of financial risk within a firm, portfolio or position over a specific time frame.

[16] Tracking error is the divergence between the price behaviour of a position or a portfolio and the price behaviour of a benchmark.

[17] Duration measures how long it takes, in years, for an investor to be repaid the bond's price by the bond's total cash flows.

their benefits. Considering that they are also government owned, there is the widespread belief that their interests go beyond financial return and that, in some cases, they mask political interests that could destabilize the global economic security.

- The shift towards higher risk activities, in a pursuit to obtain higher returns.

At present, empirical evidence shows that the positive impacts seem to outweigh significantly the negative ones. It is however important to continue the research in order to understand better how and if SWFs can significantly stabilize the fluctuating global market.

3.2 Stock prices

Fotak & Bortolotti (2008) showed, through a research on the share holdings of publicly traded companies by SWFs that after the news of the acquisitions got out the prices of the shares increased, resulting in an extra return of about 1%. Kotter & Lel (2008), based on a sample of 163 SWF investments in 135 companies around the world, found that markets react to SWF investment in the two days after the announcement with an average increase of 2,1% in risk adjusted returns for the stocks.

These results are quite significant, both statistically and economically. In the short term, the market reacts positively to the investments which points out to a general sense of trust regarding SWF's investment strategies and the influence these have on the recipient company's performance. Besides, there is a greater increase in the stock price when the fund is more transparent, based on the Truman scoreboard (Kotter & Lel, 2008). Disinvestments on the other hand, have a negative impact on stock prices (Curzio & Miceli, 2010, p. 117).

In the long term, these operations seem to have no effect on the target company's corporate governance, profitability and growth, probably due to the fact that SWF are usually passive investors.

In sum, research seem to show that there is a strong positive impact on the shares prices of the target company immediately after the investment is announced, especially in the financial sector and when a company is in distress, and no effects in the long term.

3.3 Capital flow

After the economic growth of oil exporting countries and of countries that had surpluses of foreign reserves, the establishment of SWFs was seen as the perfect opportunity to pursue an even more favourable global economic position. Investments made through these entities, in countries that have a sheet balance in deficit have effectively promoted the circulation of capital in the global markets. Although in the beginning, the US was the main “attraction”, in recent years SWFs have started to pay more and more attention to other markets as well.

Emerging markets, for example, attracted record levels of investment in the second and third quarter of 2018; with $16,6 billion of investment value executed through 59 operations they have surpassed developed economies in both total investment value and number of transactions (SDA Bocconi, 2018). China, the recipient of a total of $11,3 billion worth of SWF investments which accounts for the total 40% of overall investments in that period, was the main beneficiary of the SWF’s wealth. Behind China there were two major developed economies: Germany with $3,7 billion and the USA with $3 billion. In 2018, there was also a shift back in interest towards Europe after a couple of years of below average investments.

Although the numbers above exclusively refer to 2018, an analysis of past trends as well points to the fact that SWFs have promoted the circulation of capital from countries that had a balance of payments surplus towards countries that were in deficit, therefore helping to maintain a global market stability.

3.4 Foreign currency and capital market structure

The majority of SWFs’ assets are still anchored to US dollars and with the depreciation of the dollar, their purchasing power has been compromised, to a certain extent. In order to reduce to a minimum level the damages that are caused by the fluctuations of the dollar, SWFs have pointed to a portfolio diversification that aims to decrease adequately the percentage of dollar reserve they hold (Curzio and Miceli, 2010, p. 116). Therefore, strictly from a portfolio diversification view, SWFs’ investments will not just be limited to activities in US dollars but they will also point towards the Euro zone and other foreign currencies.

However, it is important to note that SWFs are not totally free to disengage themselves from the dollar. The dollar is still the cardinal currency of the global economy and a concentrated flight from it would entail catastrophic effects for the exchange rate, which for many SWFs’ home countries would be incompatible with their monetary and currency policy goals (Curzio and Miceli, 2010, p. 116).

With regards to the capital market structure, the establishment and growth of SWFs have permanently changed the structure of the major global investors. In terms of dimensions, they have surpassed both hedge funds and private equity funds (see fig. 1.3) and have become one of the major protagonists in the capital market structure.

In conclusion, this brief chapter outlined some of the effects SWFs, and more specifically their investment activities have on the global market. These funds can act both as stabilizers for the global economy as well as have a destabilizing effect. Their growing importance has drawn researchers to analyse the effects that they have not only on the global market but on the stock prices of the companies they invest in, as well as capital circulation among other factors.

Keeping the previous chapters in mind, which explained the more general notions on sovereign wealth funds, their main issues and outcomes, it is now time to focus on the analysis of one of the biggest funds in world: the Qatar Investment Authority.

CHAPTER 4: QATAR AND THE QATAR INVESTMENT AUTHORITY

In this last chapter, there will be a case study, as mentioned in the introduction, on one of the biggest funds in the world: the Qatar Investment Authority (QIA). The sovereign wealth fund was founded in 2005 by the then emir of Qatar, Hamad bin Khalifa Al Thani, to manage the oil and natural gas surpluses of the government of Qatar and, by the end of 2019, it reached the 10th place with more than $300 billion of assets under management (see Appendix).

Before moving on to the analysis of this authority, it is important to look at the socio-economic and political context of the region in order to see how it was possible for such a small country to amass this enormous wealth and to set some grounds for comparison as well.

Qatar (officially the State of Qatar) is small emirate located in the Arabian Peninsula, which consists of six other countries: Bahrain, Kuwait, Oman, Saudi Arabia, Yemen and the federation of the United Arab Emirates (comprised of Abu Dhabi, Ajman, Dubai, Al-Fujayrah, Ras al-Khaimah, Sharjah e Umm al-Qaiwain).

The economy, more specifically the economic development, of the region has been characterised by three development phases: the first one saw the Gulf countries witnessing a rapid economic growth linked to oil prices and the consequent commitment in the expansion of their local infrastructures. The second development phase concerned almost all of the region's States, and whose huge efforts in terms of growth were made possible by the high levels of globalization and integration of the world's economy. The leaders of the most important countries of the Gulf Cooperation Council (GCC)[18] were very effective in combining the single country's historic policies of nationalism with the evolving globalism, which significantly helped the region's progress. This integrative strategy caught the attention of global investors and brought them into the region thanks to the more favourable policies put in place by the governments. On their part, the Gulf countries started investing the huge amounts of profit from the sale of raw energy materials into the developed economies around the world, through their investment vehicles, namely the sovereign wealth funds.

The last phase is characterized by projects aimed at aiding the local economies in a diversifying process that will allow the countries to be less dependent upon the export of natural

[18] The Gulf Cooperation Council (GCC) is a regional intergovernmental political and economic union consisting of the Arab states of the Persian Gulf: Bahrain, Kuwait, Oman, Qatar Saudi Arabia and the United Arab Emirates, established in 1981. Qatar was a member of the institution until 2017, when a diplomatic crisis between the state and Saudi Arabia, the UAE and Egypt erupted.

resources, such as for example the Saudi Vision 2030. The awareness that continuously relying on resources that are bound to end cannot be sustainable in the long term, has therefore enabled the establishment of educational, scientific, health and infrastructure centres.

These three development efforts, namely the rapid economic and infrastructural growth due to the export of natural resources, the integration of the local economy into the global markets and the advancement of diversifying projects, have not been easy due to some structural characteristics of the area. These structural features include rentierism[19] and its consequences, demographic pressures, and other structural deficiencies that exert negative pressures and push back against developmental objectives (Kamrava et al., 2011, p. 2). Ever since the beginning of the oil era, the Gulf countries[20] has experienced a paradoxical evolution of rentierism. On one hand, it has enabled them to forward the revenues derived from oil and gas into society, gaining political consensus but on the other hand, it has, also made the state dependent on maintaining its patronage position for fear of adverse consequences (Kamrava et al., 2011, p. 2). In this regard, one of the biggest problems of the region is that the States are either too populated given their resources or infrastructural capacities or they are extremely reliant on the labour of immigrants to carry out their developmental agendas (Kamrava et al., 2011, p. 2). Take for example Qatar, where more than 88% of the population are expatriates.[21]

Lastly, the "oil wealth" united to a style of life that is unsustainable in the long term, have been able to mask the structural weaknesses of these societies made only worse by the dependence on hydrocarbon exports. The volatile growth of these economies between 1980 and 2000 is a testimony on their vulnerability due to the turbulent cycles of the global oil market. Even though the majority of the region's states are global investors, the massive injection of petrodollars into the international economy has only partially masked (at times without too much success) the flaws of their socio-political and financial structure (Kamrava et al., 2011, p. 2).

4.1 The political economy of the Gulf: Rentierism and Late-Rentierism

In the Gulf region[22], the state building process began in a period characterized by the lack of both resources and political autonomy. This process, however, can be articulated into two phases.

[19] In current political-science and international-relations theory, a rentier state is a state which derives all or a substantial portion of its national revenues from the rent paid by foreign individuals, concerns or governments.

[20] The nomenclature Gulf countries includes Iraq, Kuwait, Saudi Arabia, Bahrain, Qatar and the United Arab Emirates

[21] According to the 2017 census, Qatar has a population of 2,6 million inhabitants, 313.000 of which are Qataris whereas 2,3 million are expatriates.

[22] In addition to the countries of the Arabian Peninsula, Iran is part of the region as well

First, the creation of state institutions through which political power can be wielded and, second, the incorporation of one or two social groups into these institutions as keepers and enablers of the evolution of the political system. The new political élite included rich merchants, industrials and landowners. By the time the petrodollars started to flow into the system, this political class had already seized power and control of the countries' economic riches. With the exception of Iraq and Iran, which were too populous in relation to the reserves of oil they had (meaning that despite having natural resources, they also had a lot of people to feed and salaries to pay), the oil deposits of the region allowed the small states to start amassing huge amounts of wealth. At this point, the geographical, demographic and resource differences of the Arabian Peninsula started to reinforce the pre-existing patterns of state-society relation (Kamrava, 2011. p. 5).

Taking these considerations into account, we can describe three different nuances of the concept of rentierism (or rentier state). First, despite the differences in the levels of income and resources, rentier political economies are firmly established across the Gulf, comprised of the GCC (including Qatar at this point) as well as Iraq and Iran. Second, the institutional evolution of the states and their process of state consolidation influenced the rentier dynamics. Lastly, the state autonomy is restrained by pervasive rentierism; in other words, even though rent allows states to enjoy tremendous wealth, these arrangements put the states and their social beneficiaries in positions of mutual dependence on one another. Even further, these arrangements are restricted only to state elites. The state rentier theory, which aims to explain the impact of external flows of payments and rents on the state and society relations, has been used by both academics and experts to explain the political economics of the Gulf States over the last decades. It is important to note, however, that rentierism does not affect a pre-existing situation and it does not ensure a redistribution of wealth to a broader range or the population.

The theory of the reinter state is a political economics theory that explains the relation between society and state in those countries that derive the majority of their national income from the exploitation of a rent. Said rent usually consists of royalties and payments for the export of oil and natural gas but it can also derive from fees and subsidies (Gray, 2011, p. 1). The basics of this theory is that, given the fact that the state receives its income externally and distributes it to the general society, it is obliged to not impose taxes on its citizens; Qatar is aligned with this thought and therefore there are no taxes on income from employee work. The downside of the lack of income taxes is the lack of an efficient discussion between the government and the people and other forms of developmental strategies (Gray, 2011, p. 1).

This theory has evolved in parallel with the advancement of Arab Gulf's countries. Since the '80s, the government, the political economics and the national development strategies of the GCC states have changed deeply. The states that have integrated in the globalization process, have undergone some levels of transformation (especially Dubai, Abu Dhabi and Qatar) and have started to use their wealth more intelligently, therefore reducing the dependence on natural resources. This evolving process has enabled them to build a new international image and to rethink the relation between the state and society. In the case of Qatar, this meant starting new world-renowned charitable organizations that champion education for children in Asia and the Middle East, research and community development, youth employment and even the emanation of a Constitution in 2004.

This evolutionary process, however, is far away from the typical democratic canons; the political regimes have stated clearly what changes are acceptable and unacceptable and the economic and political power is still in the hand of few people which means that the rentier state theory is still valid and applicable (Gray, 2011, p. 2). The first formulations of the rentier state theory go back to the '70s, the years of the political impact of the two oil booms. The first one was caused by an oil embargo imposed by Iran and the Gulf states to the US and other countries that supported Israel in the Israeli-Palestinian conflict in 1973 (see figure 4).

The second one was the consequence of the Iranian revolution of 1978-1979 and the War between Iraq and Iran in 1980. The former caused the retraction of two million barrels of oil per day between 1978 and 1979 while the latter brought further problems on the offer of oil, due to the complications regarding the extraction. Beyond these factors, were also the US price controls and an ineffectual level of discipline among the member-states of the Organization of Petroleum Exporting Countries (OPEC) regarding prices and quotas (Gray, 2011).

In the West, there was now a new awareness of the economic importance oil had, and how dependent upon it the US was for its economic and military success. Middle-Eastern researchers[23] also started to point out the paradoxes of the oil-based economies mostly a lack of democracy that characterized the biggest oil exporting countries and the destabilizing effects this newly acquired wealth had on the national economic and social balances (Gray, 2011). All these factors set the basis and contributed to the development of the rentier state theory. This theory can be divided into three evolutionary phases: the first, known as the classical phase, covers the period between the '60s and the beginning of '80s; the second, which distinguishes between conditional and specialized

[23] Some of the scholars that have studies the subject, as cited by Gray (2011) are Beblawi Hazem (1987, 1990) and Luciani Giacomo (1990).

rentierism, covers the ‘80s and ‘90s and the third, called late rentierism, goes from the ‘90s till today. Since we have briefly covered the main factors and events from the first two phases of the theory, it is important to look at the characteristics of a late rentier state’s economy.

The Gulf States have all transitioned from a more simplistic and classic model of rentierism to a late rentier model, characterized by a more entrepreneurial state that is more reactive to change and supportive of development. Even though the basic characteristics of the rentier model remain, considering none of these states has evolved into a democracy, rentierism, in the days of globalization, is not able to explain the new dynamics of the Arab states thoroughly (Gray, 2011, p. 23). The late rentierism theory helps us to illustrate how the region has, since the ’90s, developed into the extremely powerful political economies they are today. Gray (2011) has found seven main (and common) characteristics of the late-stage rentier state that will be summarized as follows:

- A responsive but undemocratic state (p.23). During the first phase, the state was able to control the rents through various means at its disposal, which further enabled its autonomy from society and any pressure to reform and evolve. However, modern day issues such as unemployment pressures, Islamist challenges, the possibility of globalization’s technologies undermining traditional authority and legitimacy have forced the state to be more responsive towards society than its previous administrations. Although there have been some attempts at legislatures, for instance the previously mentioned Qatar constitution, these have been constrained at a level that does not threaten the state’s elite; the only exception is Kuwait, a state which has a more activists parliament. This just goes to show how the political elite understands the need to appear open to change and to be responsive to the views and ambitions of the population but without actually changing the core of the carefully selected upper class that helps the regime hold power.
- Opening up to globalization, but with some protectionism remaining (p.25). The classic theory of rentierism considers the state as autocratic and isolationist, especially in the ways it responded to outside forces such as globalization. Although the Arab world’s response to globalization was slow, cautious and inadequate to the region’s social and developmental needs, this has started to change during the late rentier’s phase. A perfect example of this is Dubai’s approach, also known as the Dubai Model; during the 1990s, the small emirate became a key regional trade and transport hub and was therefore able to start diversifying its economy through openness to international trade, selected foreign investment, tourism and other cultural exchanges and linkages (Gray, 2011, p. 27). By focusing on a tertiary economy, Dubai was able to boost its international role as well as

its upper and middle class. This model is also emblematic of how a modern political regime works: the emirate was able to use globalization in order to continue to receive rentier-like economic outcomes to benefit its political and economic elite (with only a slight inclusion of what is considered the middle class).

- An active economic and development policy (p.28). The theorists of the rentierism argued that the state was so autonomous it did not need to take economic actions or engage in economic strategy but were proved wrong by the fact that states, such as Saudi Arabia had an economic policy plan since 1970. Moreover, late rentier states issue development policies and seek to create certain predetermined economic and social outcomes and improvements (Gray, 2011, p. 28). Examples of such economic, business and trade related policies are the Qatar National Vision 2030, the Saudi Vision 2030 and the various Abu Dhabi urban plans. A limit of these policies is that there is not a default model to follow, hence why the Dubai Model with its singular and specifically targeted strategies is so difficult to replicate by the other states. Dubai's economy relies on a solid relationship between the government and the private sector, something other states in the region do not have. Even though, for example, Dubai and Bahrain both have limited reserves of hydrocarbons, their diplomatic and commercial strategy are completely different. The former saw the limited resources as a "waking-call" to look beyond rents for its economic development and to go into international trade and finance, therefore applying an income diversification policy.
- Energy-driven vs energy-centric economy (p.30). Given the fact that the rentier states between the '60s and the '80s were extremely rich in natural resources, specifically oil and natural gas, the economic strategy that characterized this period was defined as energy-centric. This means that revenues from the export of these resources were the main source of national income. For the late rentier states, however, although oil remains a crucial resource, the more appropriate definition would be energy-driven. The wealth that comes from hydrocarbons continues to be pivotal for the state, but it is used to implement policies of economic diversification in many sectors, such as education, finance and real estate.
- An entrepreneurial state capitalist structure (p.32). In the late-rentierism era, the state remains the most important actor in the national economic system and it is the owner of the means of production. The state allows the private sector to play an important but regulated role in the economy. During the last decades, the government has started to assume a new role with a specific function, leaning towards a new form of state capitalism

with a more entrepreneurial optics. The new state capitalism is based on visions and strategic plans rather than economic centralization, which was typical of the post-independence era; it favours the tertiary sector rather than heavy industry and embraces globalization as a mean to attract foreign investments and to foster economic growth. The Gulf States are competing to create free trade and investment zones by reforming their business rules and practice; these initiatives, however, do not undermine the political authority, centrality of stability of state as they do not apply to the hydrocarbon sector, telecommunications, air transport or other sensitive sectors. Furthermore, the reforms are set in a way that still protects established business elites or the extended royal family's commercial interests from competition; in other words "there is a business friendly policy orientation among the new or entrepreneurial state capitalist leadership, but remains subservient to the state" (Gray, 2011, p. 37).

- A state that is long-term in its thinking (p.34). The oil price crisis that these states endured during the '80s and the beginning of this century, has pushed them to implement long term strategies that are capable of contrasting the negative effects of destabilizing external factors. Beyond the economic diversification and pursuit of attracting foreign investments, another factor that contributes to the long-term support of the national economy are sovereign wealth funds. These investment vehicles are the perfect example of an instrument that serves the purposes of the new wave of state capitalism. They are particularly useful because "they give the appearance to society of a careful and benevolent government and of a state elite that thinks about preserving energy wealth for the future. Second, some of these funds are designed to ease, or play the role of easing, some problems of the resource curse, such as sharp variations in income, inflated exchange rates, and large foreign currency reserves. Finally, SWFs give the state a long-term fund from which to manage politics, especially for when hydrocarbon reserves and the allocative power of the regime both decline" (Gray, 2011, pp. 34-35). SWFs are key elements of late rentierism, and state capitalism more specifically, as they allow the government to detach from rental income and to foster longer-term economic and political needs.
- An active and innovative foreign policy (p. 35). During the early stages of the rentier state theory there was the widespread belief that the states had little need for a sustained foreign policy. The late rentier state has some factors in common with this assumption but it has innovative initiatives of foreign policy. The continuity, or common ground, come from the fact that the Gulf states (both in the rentier and late-rentier stage) have sought strategic

relationships with the major Western states, such as the United Kingdom or the United States and even though these alliances have been opposed by the population, they were highly endorsed by the political elite. This need for relationships with major political powers is also further promoted by the strategic rivalry that historically exists between the Gulf states, despite efforts for cooperation councils. The innovation side consists of the appreciation of the benefits of soft power[24] as a necessary instrument for strengthening the commercial ties with foreign countries. Soft power gives investing states a reason to seek stability in the region during this phase and not to destabilize or threaten the countries in case of emerging tensions or hostilities. Furthermore, soft power allows the Gulf states to raise global awareness about their countries outside of foreign investment scenarios and elite business circles; in other words, it promotes these countries to the world as potential tourist attraction for instance and not only as investors as they are known. Take for example Qatar's Al Jazeera, a television channel that promote "brand awareness" of its state owner; another tool for building Qatar's international reputation has been winning the bid to host the 2022 FIFA World Cup, against all odds.

The economic benefits that derive from these types of international initiatives are becoming the new fundamental element of the development strategies of the late rentier states.

The rentierism theory and its evolvement into the late rentierism one, explains in a full and cohesive way how these states are evolving and opening to globalization and international relationships, not only to survive in the circumstances in which oil and other natural resources will no longer be available (or desirable by the world) but to thrive as well.

4.2 Qatar: diversification as a basis for growth

A brief analysis of Qatar's economy will allow us to understand better from where the revenues for QIA's investments come from and, to an extent, the reasoning behind its diversification policies.

Hydrocarbons represent a significant share of Qatar's economic activity, exports, and fiscal revenues (IMF Country Report No. 19/147, 2019). Government projects funded by hydrocarbon revenues continue to play an important role for the country's economy, despite the fact the non-hydrocarbon activity has grown significantly in the last decades. The following figures represent the

[24] Soft power, according to Joseph Nye, in 2004, is 'the ability to affect others through the co-optive means of framing the agenda, persuading, and eliciting positive attraction in order to obtain preferred outcomes'.

contribution of both hydrocarbons and non-hydrocarbons to the economy, and more specifically to the real GDP, exports and fiscal revenue.

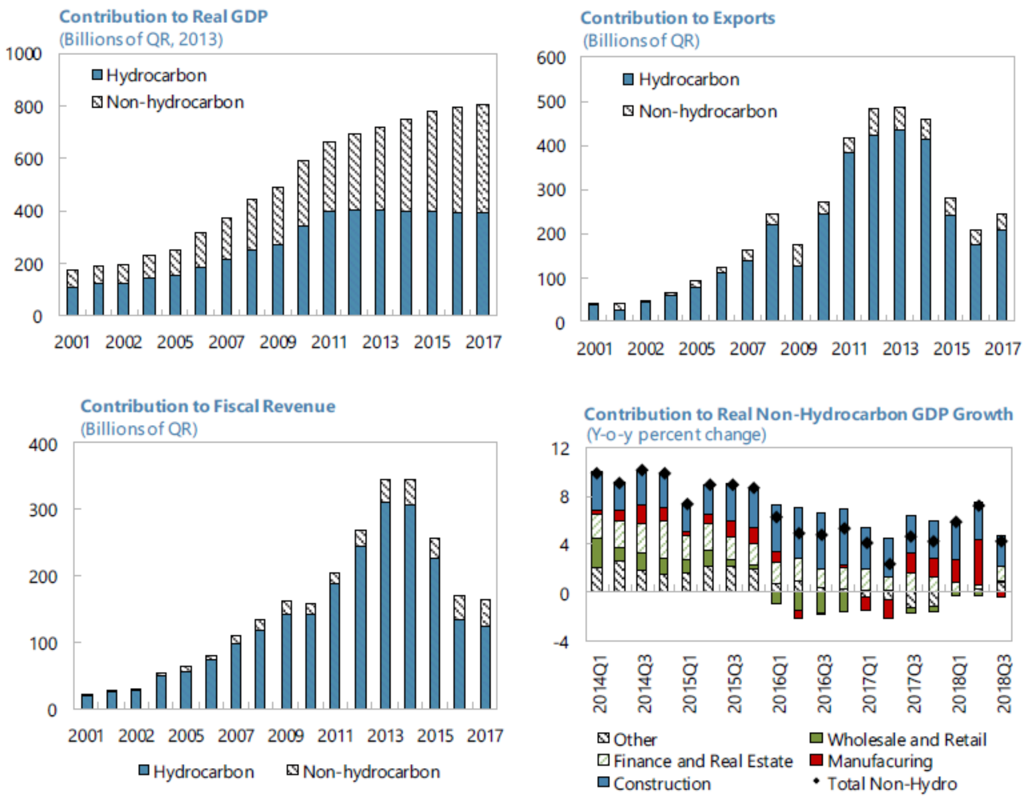

Figure 7 Contribution of hydrocarbons and non-hydrocarbons. Source: IMF Country Report No. 19/147, 2019, p. 3.

Qatar's national development strategy recognizes the need to diversify its revenues in order to manage temporary shock, or permanent shifts, in the world's economy. When a country's economy is heavily reliant on oil and gas, shocks to the hydrocarbon market can impact it significantly. The first type of possible shock in the hydrocarbon market is represented by temporary price variations. Oil prices, as already explained, are constantly varying which is not only economically dangerous by itself but it also affects natural gas prices as well; Qatar, for instance, sells most of its natural gas through long-term contracts with prices linked to oil benchmarks. Secondly, the global economic environment may shift in more permanent ways (IMF Report No. 19/147, 2019, p. 3) which means that the world demand for hydrocarbons may decrease before the country exhausts its reserves.

Even though Qatar's hydrocarbon reserves are incredibly vast, and are projected to last for over a century even at the current consumption rate, they are finite. Over-reliance on these revenues cannot build a sustainable living standard for future generations. This is the premise for the establishment and the diversification policies set in place by the Qatar Investment Authority, and most sovereign wealth funds in general. Due to its prudent fiscal management, Qatar has accumulated a substantial pool of financial assets that can significantly contribute to revenue diversification. Even if the main economic activities remain concentrated on hydrocarbons, these assets will allow the state to gain returns from other activities.

Furthermore, depending on how correlated returns on financial assets are with oil prices, they can help diversify revenues (IMF Country Report No. 19/147, p. 5). A low or negative correlation means that the general government balance can be insulated from economic shocks due to oil prices fluctuations, whereas a high correlation indicates that the government's financial position is more sensitive to these scenarios. This thesis is in line with QIA's strategic asset allocation, which will be analysed afterwards: the fund has a diversified portfolio, which does not concentrate in any specific sector, including oil and gas markets.

While financial diversification is important to achieve in order to sustain the country's economic development, it is not the only factor to consider; in fact, the real sector diversification has to complement the financial one. The importance of structural reforms to help foster economic growth has been widely recognised in Qatar's Second National Development Strategy[25]. Some of the necessary conditions for economic growth include a stable macroeconomic environment, a predictable and simple legal framework, a favourable business climate, appropriate incentives, low corruption, and a strong education system (Callen et al., 2014, IMF 2016, IMF 2018). While Qatar possesses some of these qualities, other are recognised as weak points and are the target of the development strategy. For instance, a prudent fiscal policy and a credible exchanged rate policy are factors that support the macroeconomic stability of Qatar, and other ones such as technological adoption and infrastructure are also well developed. Areas that need progress include contract enforcement and processes for dealing with insolvency and disputes (which mostly concern the private sector) and the educational system.

Some of the temporary solutions set in place by the government to support private activity, diversification and structural reforms are the so-called Special Economic Zones (SEZs). These economic poles, which include Qatar Financial Center, Ras Bufontas, Um Alhoul and the development project for Al Karaana, are only small steps towards a well-structured and regulated private economic sector, because only a slight percentage of businesses will be located in these zones (IMF 2018). For example, "Qatar Financial Center offers a legal environment based on English common law, and a special employment dispute resolution process. These, however, should not be

[25] The Second National Development Strategy (2018-2022) is a plan that gives the State of Qatar an opportunity to strategically highlight its very important contribution to the global partnership for development, including substantial humanitarian and development assistance.

treated as a substitute for improvements to contract enforcement and dispute resolution mechanisms that apply across Qatar" (IMF Report No. 19/147, 2019, p. 7).

With regards to the industrial policies that can help Qatar shape its future economy, it is important to note, before searching for new sectors for real diversification, there are industries with the potential for innovation. In fact, existing export industries can be expanded both vertically and horizontally and Qatar has had experience with both: a vertical diversification related to oil and gas, which resulted in the establishment of a petrochemical industry and horizontal ones, which brought to the creation of Qatar Airways and Qatar's airport and port. Although these are positive aspects and show a capacity to transform traditional industries into something new, they also highlight the country's dependency on oil and gas.

Even though the diversification of exports is linked to a stronger economic growth, hydrocarbons continue to be the main exporting goods. The graphic below shows the composition of exports of goods in 2016, based on IMF calculations.

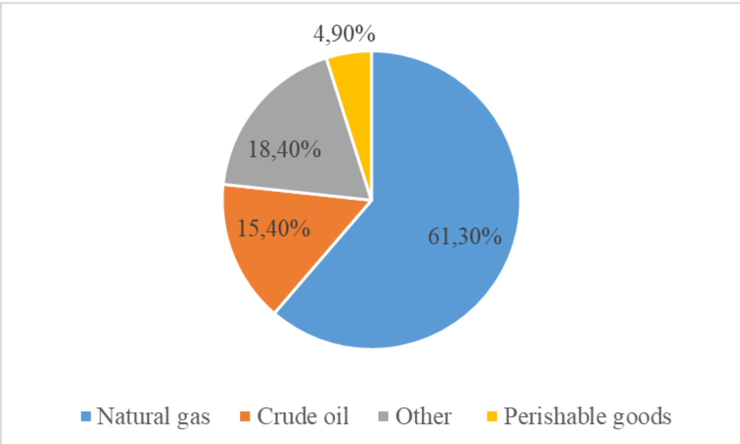

Figure 8 Composition of exports of goods, 2016. Source: IMF Country Report No. 19/147, 2019, p. 7.

Other sectors that are identified in the Second National Development Strategy as pivotal for the development and diversification of the economy are: manufacturing, finance, professional and scientific activities, tourism, logistics, and information and communication. None of these developmental ideas can be set in place without proper incentives for entrepreneurial risk taking. To that extent Qatar offers investors in priority sectors exemptions from income taxes for up to ten years or land allocations with long-term leases; also the Qatar National Development Bank (QDB) provides preferential credit to Qatari small and medium-sized enterprises.

In conclusion, Qatar's high reliance on hydrocarbons and industries revolving around hydrocarbons put its economy in risk in terms of growth and prohibit it from offering the same standards of living to its future generations. In order to foster a more diversified development, the government has started to use extensively its sovereign wealth fund: the Qatar Investment Authority, which as of 2019, is at the 10th position for number of assets under management (see Appendix). In addition to the sovereign wealth fund, Qatar has used its strong infrastructure base to establish Special Economic Zones (SZEs) that, in the short term, help to enable economic competitiveness. A number of other initiatives have been set in place as well to help Qatar manage temporary shocks of the hydrocarbon prices, most importantly the Second National Development Strategy (2018-2022). This plan identifies the country's priority sectors and therefore develops detailed strategies to encourage entrepreneurial participation.

However, it is important that in implementing this national development plan, the country takes into account the importance of building expertise, investing in human capital and ensuring the access to finance. Furthermore, these policies need to target sectors as a whole, rather than just specific firms.

4.3 Qatar as an investor: the Qatar Investment Authority

After Qatar declared its independence from the British Empire in 1971, the new emir Khalifa bin Hamad bin Abdullah bin Jassim bin Mohammed Al Thani, after a coup d'état which overthrew his father in 1972, started a process of reorganization of the government, both political and financial. For the purpose of coordinating the overall strategy of Qatar, the emir established the Qatar Investment Board in 1972, which can be considered as a predecessor to the Qatar Investment Authority. This board was led by an in-house group, coordinated by the Ministry of finance, which included an advisor to the emir, the director of the emir's private office, the director of finance and a Swiss banker (Braunstein, 2019, p. 116).

The direct connection between this board and the Qatar Investment Authority (QIA) can be found in an official statement by the authority itself, which states that "QIA builds on the heritage of Qatari Investments dating back more than three decades" (Braunstein, 2019, p. 116). The Qatar Investment Authority is currently the only sovereign wealth fund in Qatar, and it was established in 2005 with the Emiri decision n° 22/2005, in order to strengthen the economy of the State by investing into new domestic and international asset classes.

It is possible to briefly retrace the salient stages of establishment, development and international affirmation of QIA in the last decades, through a presentation from its website:

- 2000. The state of Qatar establishes the Supreme Council for the investment of State Reserves, for the purpose of investing Qatar's revenue surplus. This council set the basis for a proper investment authority.
- 2005. QIA is formally established with the Emiri decision 22/2005, to develop, invest and manage the state reserve funds and other assets assigned by the Supreme Council for Economic Affairs and Investments (SCEAI), in accordance with policies, plans and programmes approved by the Supreme Council.
- 2006. The QIA starts operating, and the organisation is set up with Investment Risk and Operational Teams.
- 2008. QIA start gradually reducing investment through third parties and therefore, activates direct investments.
- 2009. QIA established new investment teams within its organization including general portfolio, financial institutions, and real estate. The board issues a decision to move to a more dynamic allocation process with focus on asset selection.
- 2010. The fund establishes a graduate training scheme for Qatari nationals.
- 2011. QIA established a new Capital Markets Department.
- 2012. New departments that specialise in commodities, infrastructure, retail and consumer are instituted.
- 2013. His Highness Sheikh Tamim bin Hamad bin Khalifa Al Thani is named Emir of Qatar, in succession to his father. The fund receives the nomination of new Board of Directors and CEO.
- 2014. QIA hosts the 6th Annual IFSWF (International Forum of Sovereign Wealth Funds). H.E. Sheikh Abdullah bin Mohammed Al Thani is named as CEO of QIA.
- 2018. The fund changes direction again, with the nominations of Mansour bin Ebrahim Al-Mahmoud as the new CEO of the company.

According to article 5 of the above-mentioned decision, 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 and to support the development of a competitive Qatari economy, facilitating economic diversification and developing local talent. In addition to its mission, the authority's vision is to be recognized as a world-class investment institution, and to become the preferred partner of choice for investors, financiers and other stakeholders.

QIA's governing bodies, corporate officers and employees are required to follow the five established guiding values, which are set in accordance to the organisation's beliefs of honesty, integrity and professionalism. Their values are:

- Integrity. The organisation and its employees are obliged to apply the highest ethical, moral and professional standards of conduct in their daily activities.
- Mission focus. As stated on its website, QIA has a noble mission on behalf of the Qatari people, and therefore their responsibilities are aligned with this mission.
- Entrepreneurialism. QIA beliefs in a flexible approach and in encouraging economic initiatives.
- Excellence. The organisation strives for excellence in all aspects of its undertakings.
- Respect for people. QIA recognizes that people are its most valuable asset, and the organisation seeks to create a respectful workplace free of harassment or intimidation.

With regards to the legal framework, as mentioned in the beginning, QIA was established by the Emiri Decision No. 22/ 2005 of the State of Qatar, and as such is a specially created statutory entity, wholly-owned by the State, with a Board of directors, a chairman, a vice chairman, a chief executive officer and an executive management team. QIA, however, has to report by law to the Supreme Council for Economic Affairs and Investment (SCEAI). The SCEAI, an entity presided by His Highness the Emir[26], which approves investment strategy, assigns funds and approves the budget as well as other QIA internal regulations. Its members include the most prominent people in Qatar as well as the most influential Ministries, and are:

- His Highness the Emir Tamim Bin Hamad Bin Khalifa Al Thani (Chairman)
- Prime Minister (Vice Chairman)
- Minister of Energy and Industry
- Minister of Finance
- Minister of Economy and Trade
- Governor of the Central Bank
- Economic Adviser to the Emiri Diwan[27]
- Representative of QIA (CEO)
- Representative of the Development Bank (CEO)

[26] Qatar's Emir is Tamim Bin Hamad Bin Khalifa Al Thani; he is the fourth son of the previous Emir, Hamad Bin Khalifa Al Thani, and entered in office after his father's abdication in 2013.

[27] The Emiri Diwan is the sovereign body and the administrative office of the Emir; as such, it is the official figurative and bureacratic center of Qatar.

Despite the fact that QIA is accountable for its actions to the SCEAI, there is still a separation between Owner, the Government and operational management as defined by their key decisions and policies. The governing body of QIA is its Board of Directors, which is responsible for implementing investment strategies, delegating responsibilities, appointing and removing the SWF management, as stated by Article 7 of the QIA Constitution.

The board of directors, presided by His Highness the Emir who appoints its members and decides their remunerations, is comprised as follows:

- Sh. Abdullah Bin Hamad Bin Khalifa Al Thani, Vice Chairman and Deputy Emiri of the State of Qatar
- Ali Sharef Al Emadi, Minister of Finance
- Sh. Ahmed Bin Jassim Bin Mohammed Al Thani, Minister of Business and Trade
- Sh. Abdullah Bin Saoud Al Thani, Governor of Central Bank
- Dr. Hussain Al Abdulla, Independent

The board has all the powers and competences necessary for achieving the Authority's objectives that, as declared on their official website, are:

- Stating the authority's general policies, within the limits given by the SCEAI
- Approving the investment programs and projects of the Authority and following up on their execution
- Evaluating the performance of the investments
- Approving the standards and criteria of investments
- Approving the organisational structure
- Issuing internal regulations, such as Human Resources (HR) regulations for the employees
- Approving all the important policies for the Authority, the annual budget and the closing account, considering the periodical reports and follow-up reports concerning the Authority's work which will be submitted to the CEO and the SCEAI
- Any other work assigned to it by the Emir or the SCEAI

Another important figure within the authority is the CEO, who is appointed by an Emiri Decision and, as of 2018, is Mr. Mansoor Bin Ebrahim Al-Mahmoud. He is accountable to the Board of Directors and is responsible for the daily management of the authority. Some of his most important administrative, financial, legal or investment affairs are:

- Buying and selling stocks, bonds, bill notes and other securities, foreign currencies, gold (and other precious metals) or real estates

- Making cash deposits in the banks and financial institutions in Qatar or abroad
- Establishing investment portfolios
- Approving the establishment of companies or setting up investment projects
- Preparing annual reports of the Authority's activity and its financial position during the fiscal year or at the request of the Board. It is important to note that, even though these reports are annually prepared, they are not always published for the general public.
- Preparing the annual budget and the closing account

The governance structure and the activity of the fund is in compliance with the Santiago Principles, a set of 24 voluntary guidelines that assign best practices for the operations of sovereign wealth funds. This framework of generally accepted principles and practices (GAPP) were issued in 2008 as a joint effort between the IMF and the International Working Group of Sovereign Wealth Funds. They cover three key areas:

- Legal framework, objectives and coordination with macroeconomic policies
- Institutional framework and governance structure
- Investment and risk management framework

QIA was one of the founding members of the Santiago Principles, as it was involved in both the drafting of the initial and the final version. The organizational structure of the SWF includes five Investment Teams, whose responsibilities range from investment origination to portfolio management. The teams are investment execution, active investments, fixed income, indexed equities and Qatar Investments.

The investment execution team can be divided into three departments: business development, capital markets, mergers and acquisitions. The business development department is responsible for new investment ideas for QIA and for originating, evaluating and recommending investments for other QIA departments. Additionally it is also responsible for strategic investment projects with foreign governments and sovereign entities. The capital markets department has the task of structuring and executing trades, hedges and other structured deals for the overall portfolio. Some of the typical deals executed by this department are equity investments or block trades in overseas publicly-listed companies, participation in initial public offerings, investments in credit, fixed income securities and hybrid instruments, real estate and equity financing. Lastly, the mergers and acquisitions team deals with the sourcing, screening and execution of off-market deals in private companies, block trades in listed or private companies, real estate investments and co-investments. These sub-entities cooperate on multiple deals and are usually supported by external advisors for due diligence or other important aspects, especially in the case of capital markets and mergers and acquisitions.

Active investments are at the centre of QIA's investment strategy and as such its teams are organized to enable effective portfolio management. The purpose of a specific active investments team is in line with the authority's belief for specialization and market access in order to strengthen their position and ability to deliver superior and sustainable risk-adjusted returns. Some of the sectors for which this team is responsible are commodities, financial institutions, health care, industrials, infrastructure, real estate, retail and consumer, and technology. Fund investments, on the other hand, allows QIA to collaborate in co-investment and to access investment themes or strategies that would not be available otherwise. The managed portfolio team is responsible for advising on the suitability of investments to be allocated to the portfolio in line with its long-term investment objectives.

Fixed income is the third department and, as the name suggests, it is responsible for the management of the fixed income portfolio, which spans in a broad spectrum of sectors.

The indexed equities department's main task is to facilitate any asset allocations decisions taken and to better equip the authority to meet the challenges of the global financial world. This is possible through an increased diversification that enhances QIA's flexibility, therefore lessening any concentration risk and increasing the asset liquidity profile.

Lastly, the Qatar investments department manages any domestic investment and supports its portfolio companies in terms of new investment, disinvestments, financing, strategy, and governance while aiming to maximize the return. It also provides help to domestic investments to ensure that they comply with the fund's long-term strategic objectives.

These five teams (or departments) would not be able to operate efficiently without the support provided by the investment support department. The investment support activities touch upon multiple operative areas, such as:

- General counsel and legal. This division's main goals are to protect QIA from legal risks and to ensure that all its transactions and operations are properly executed and aligned with the laws of the countries in which the fund is active. The teams are divided further into five different units: mergers and acquisitions (covers finance, funds, M&A), tax, compliance, governance and government affairs, and local and regional corporate. Some of the typical activities are preparing and negotiating legal documents for all the investments, organising legal, tax and regulatory due diligence, ensure compliance with all relevant regulations.

- Risk. The risk management division is comprised of three different units, divided by type of activity and risk; the units are market risk management, credit and liquidity risk management, operational risk management.
- Macro strategy. This department is responsible for providing macro-economic advise to the upper management and for recommending future actions in order to achieve a sustainable progress.

In addition to the investment support's units, QIA has an operation support department as well which covers three areas of service: administration, human capital and information technology.

Lastly, an important structure of the authority is the audit department. The group internal audit is responsible for providing independent and objective guaranty, and consulting activities to evaluate and improve QIA and its subsidiaries' activities; this group reports to the Board of Directors and the Board of Directors Audit Committee.

QIA's organisation structure and its corporate governance are fundamental for the implementation of a successful investment strategy. Most of the investments are made through direct investment teams, as explained above; for instance, "fund investment" teams invest in third-party funds across all asset classes in order to access investment themes or strategies that would not be available otherwise. As quoted in their 2016 Report, QIA's investment process is designed to focus on "the deals that matter" (QIA, 2016, p. 28) to ensure long lasting returns on every project. The process is divided into four stages:

- Origination. QIA's activities come from multiple proprietary sources that include both in-house and strategic partnerships such as investments banks, private equity funds, governments.
- Evaluation. QIA conducts several evaluations for its investments. The key parameters of the evaluations include financial and legal due diligence, investment thesis and risk assessment.
- Execution. After the approval, one, or more, QIA internal teams, will execute the investments.
- Active portfolio management/value creation. QIA uses internal resources to manage the portfolio whenever these are sufficiently expert for the task and external resources in areas

where they will benefit the most from outside aid; investments are not only managed but also assessed against specific performance benchmarks.

Taking into consideration the investment strategy and approach, QIA has built a diversified and global portfolio over the years. The majority of the fund's investments are outside of the State and, generally, the permissible asset classes for investment for their portfolio are listed equities, unlisted equities, real assets (such as commodities and precious metals), real estate, credit and fixed income securities, cash, foreign currencies and derivatives. Figure 9 shows the long-term asset class allocation in the acceptable percentages; for example, listed equities/ private equity, which are the most important asset class can constitute up to 80% of the portfolio (the percentage depends on the overall portfolio composition and market conditions at the time being).

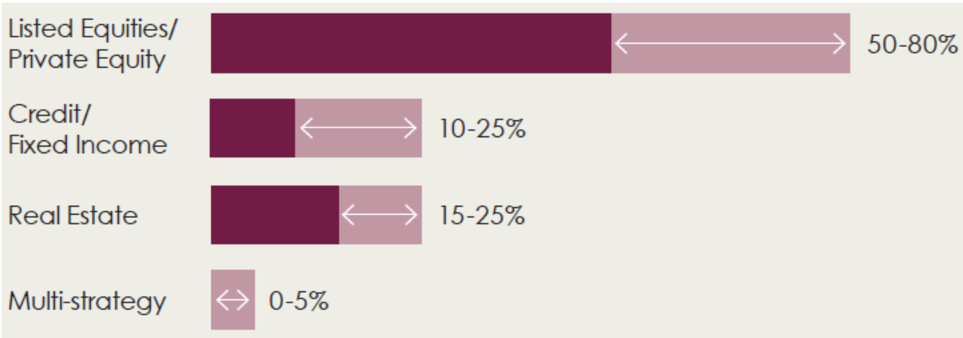

Figure 9 Long-term asset class ranges. Source: Qatar Investment Authority 2016 Report, p. 36

Even though QIA tends to invest internationally, it also plays a crucial role in Qatar's local economy by participating in national companies as a majority shareholder or sole owner. Although sovereign wealth funds tend to be passive investors and do not partake in the management of their investee companies, QIA has recognised as one of its objectives to support the development of its national subsidiaries by offering the support of their highly trained teams.

The Qatari companies that QIA owns, partially or entirely, and that constitute its portfolio are:

- Qatar National Bank. Established in 1964, it is the first Qatari-owned commercial bank, with an ownership of 50% in the hands of QIA and 50% held by members of the general public. QNB has been ranked as "One of the World's Strongest Banks" since 2013 by Bloomberg Markets and is one of the highest-rated regional banks (receiving an A+ by Standard & Poor amongst other international rating agencies). QNB owns stakes in many international companies such as Turkey's Finansbank A.S. (99,81%), Ecobank Transnational Incorporated (20%), the Egyptian QNBA ALAHLI (97,12%), Al Jazeera Finance Company (20%) and other financial institutions.

- Ooredoo (Qatar Telecom). Oooredoo is a leading international communications company with services ranging from mobile to broadband internet and corporate managed services for consumers or businesses across the Middle East, North Africa and Southeast Asia. Qatar represents less than 20% of the Group revenues.
- Qatar Airways. Qatar Airways is a global airline leader with flights operating from and to its hub, the state-owned Hamad International Airport in Doha. It connects more than 150 destinations every day and has a fleet of 179 aircrafts.
- Qatari Diar. Qatari Diar Real Estate Company was established in 2005 by QIA to support Qatar's growing economy and to coordinate the country's real estate development priorities. Alongside its national projects, Qatari Diar has stakes in the construction sector at an international level, including the Chelsea Barracks (London), US Embassy (London), City Center (Washington D.C.), Sea Pearl Atakoy (Istanbul) and City Gate (Egypt).
- Qatar Stock Exchange.
- Qatar Holdings LLC.
- Katara Hospitality. Through the Katara Hospitality group, QIA owns properties across three continents. Some of the most famous hotels owned are The Westin Excelsior (Rome), The Savoy (London), InterContinental Carlton (Cannes) Royal Savoy (Lausanne), and Excelsior Hotel Gallia (Milan).
- Mowasalat. Mowasalat is a transport services company established in 2004.
- Al Rayyan Hospitality. Al Rayyan is a subsidiary that owns luxurious properties in Qatar and in the UK.
- Hassad Food. Established in 2008, Hassad Food is the premier investor in the food and agri-business sectors in Qatar.

Although these companies are nationally based, they account as subsidiaries to QIA, and as it was briefly shown above, through them QIA has made several international investments therefore diversifying its portfolio. Internationally, Qatar has shown great interest for the luxury sectors as it possess shares in Tiffany & Co (9,75%)[28], Valentino S.P.A. (100%)[29], LVMH (1.03%)[30], Harrods

[28] Retrieved from Tiffany & Co's annual report of form 10-k for the year ended January 31, 2020. Document available in the references

[29] Valentino S.P.A. was acquired by Mayhoola Investments S.P.C. in 2012 for an alleged $700 million. The only available information for Mayhoola Investments is that it is a state-owned investment vehicle but it is unclear whether it is an indirect subsidiary for the Qatar Investment Authority.

[30] Information retrieved from Vogue, article of March 16, 2012

(100%)[31], Porsche (10,00%, acquired in 2009 and sold in 2013 to the Porsche and Piech families)[32], Volkswagen (14,6%)[33], Sainsbury's (21,99%)[34].

Although one of QIA's strategies is to minimize the country's dependency on natural resources, and their price fluctuations, and generally tends to invest outside of the energy sector, the authority still has stakes in some of the largest oil companies in the world. In 2012, through Qatar Holding LLC, it purchased shares in Royal Dutch Shell (reportedly less than 3% which at the time equated to an alleged $4,94 billion as estimated by the Financial Times)[35] and another reported 2% in Total of France[36].

With regards to financial institutions, QIA has shares in some of the major world banks such as Barclays, when a controversial buyout in 2008 amidst full financial crisis allowed them to purchase significant shares in the British bank. As reported by the BBC, "the bank avoided a UK government bailout in 2008 by raising funds from Middle Eastern investors, more specifically Qatar Investment Authority and its subsidiary Qatar Holding for a reported £4 billion"[37]; this astronomical number allowed Qatar to become the second largest investor of the bank. The controversy was shut down in February of this year (2020), when all of Barclays's executives were cleared of fraud charges over their dealings with Qatar. QIA is also the largest shareholder in Credit Suisse Bank as it raised its stakes from 5,07% to 5,21% in 2018, according to SEC filings.

Qatar's passion for luxury investments, whether it is haute couture or real estate, combined with the United Kingdom and Italy's "laissez-faire" policy has brought them to acquire significant stakes in emblematic companies for these two countries.

In Italy, the first major acquisition came in 2006 when the Qatar Investment Authority bought the Excelsior Gallia, a five star hotel in Milan. The passion for luxury real estate did not stop there and following that purchase it also acquired The Gritti Palace (Venice), the St. Regis and the Westin Excelsior (Rome), the Baglioni and the Four Seasons (Florence); the Westin Excelsior acquisition was made through the Katara Hospitality Subsidiary and it allegedly cost €222 million. In addition to these, they have also invested in the island of Sardinia by buying the luxury conglomerate Cala di Volpe in Costa Smeralda, shares of the Smeralda Holding for allegedly €200 million, Marina di Porto

[31] Information retrieved from the BBC, article of May 8, 2010
[32] Information retrieved from the Guardian, article of June 17, 2013
[33] Information retrieved from Volkswagen's official website's shareholder structure
[34] Information retrieved from Reuters, article of April 29, 2018
[35] Information retrieved from the Financial Times, article of May 11, 2012
[36] Information retrieved from the Wall Street Journal, article of March 14, 2012
[37] Information retrieved from the BBC, article of January 23, 2019

Cervo, Pevero Golf Club and land for more than 2300 hectares[38]. In 2017, QIA, through the Qatar Airways Company, acquired 49% of Air Italy, an Italian aircraft company that declared bankruptcy in 2020.

Qatar's wealth reached Milan as well, after the company decided to buy the Bosco Verticale, the Unicredit Tower and the skyscrapers around the two iconic Milan buildings. Furthermore, Qatar, from 2015, is the owner of the entire central Milanese neighbourhood of Porta Nuova, which according to informal information reported by the Sole 24 Ore, it is allegedly worth €2 billion[39].

In the United Kingdom, Qatar's main focus over the years has been the capital, London and, more specifically its real estate. Qatari Diar, a subsidiary of QIA, has a 95% stake in the Shard, one of the highest buildings in the world and a conglomerate of luxury apartments, a luxury hotel and offices. In 2017, the Daily Mail reported that the Qataris not only own some of London's emblematic buildings but a total of 24 million square feet of prime real estate, which puts them ahead of the Queen herself as London's biggest landlords.

In addition to the Shard, they own the Canary Wharf Group estate, five star luxury hotels such as the Claridge's, the Connaught, the Knightsbridge Berkeley and the Park Lane InterContinental, the former American Embassy in Grosvenor Square, Chelsea Barracks and the Olympic Village. As mentioned above, QIA also owns Harrods magazines and 22% of Sainsbury's, a line of supermarkets. Another of their London luxury properties is No 1 Hyde Park, a 380000 square feet of 83 apartments, considered to be the most expensive address in Europe. Furthermore, Qatar provides the UK of nearly of all of its liquefied natural gas supplies, which come through the South Hook Terminal at Milford Haven (67,5% owned by Qatar Petroleum). Other strategic ownerships are London's Heathrow airport, of which QIA has 20%, and British Airways (20%)[40].

In the rest of Europe, the most famous activities concern a 14,6% acquisition in Volkswagen and the ownership of the French football club Paris Saint-Germain (through its subsidiary Qatar Sports Investment)[41].

Qatar's ties with the US are well established, as the small Gulf country hosts the largest American airbase in the Middle East, and their search for economic opportunities has made them one of the biggest owners of Manhattan proprieties. After pledging $35 billion for US investments in

[38] Information retrieved from the Corriere della sera, article of April 3, 2019
[39] Information retrieved from the Sole 24 Ore, article of December 27, 2016
[40] Information retrieved from the BBC, article of June 9, 2017
[41] Information retrieved from Qatar Sports Investment's official website

2016, QIA underlined their ambition to boost this number to $45 starting from 2019. These resources have allowed them to buy, among other things, a 9,9% share in the Empire State Realty Trust[42], a 24% stake in a portfolio of five ground-level stores along a swath of Fifth Avenue and two sites in Times Square[43].

Although the above-mentioned investments are the most significant, and famous, possessions of the sovereign wealth fund (or other Qatari state owned companies), the real wealth of the fund goes way beyond these acquisitions. With more than $300 billion in assets under management, Qatar, through its sovereign wealth fund or other state-owned investment entities, has managed to buy portions or entire companies and buildings that were emblematic to their countries of origin.

[42] Information retrieved from The Real Deal, article of August 24, 2016
[43] Information retrieved from Reuters, article of April 19, 2019

CONCLUSION

Sovereign wealth funds, a term that was first coined in 2005 by Andrew Rozanov, are special purpose investment funds or arrangements that are owned by the general government and that have macroeconomic purposes. They started to gain worldwide attention during the financial crisis of 2008, and have been at the centre of the financial markets' biggest investments ever since. In a way, due to their huge amount of financial means, their legal framework and the fact that they have been able to mobilize the economy in a particularly tough moment, they have become the new expression of the financial globalization.

They have specific and distinctive features that differentiate them from other investment vehicles, both public and private. In synthesis, these characteristics are state-ownership, investments in foreign currency, low level of debt and absence of withdrawals in the short term, long-term horizons in investments and the separation from central banks' official reserves. Furthermore, there are distinctions between the types of sovereign wealth funds based on their source of assets (commodity of non-commodity) or their goals (stabilization, savings, reserve investment corporations, development of pensions reserve funds). Considering these features, we can distinguish SWFs from other major financial players such as foreign exchange reserves, state owned enterprises, hedge funds of private equity funds.

The last two decades not only made SWFs famous, but also saw the constitution of more than 60% of the total number of SWFs in existence. The two main factors for this rise are the surpluses in the balance of payments in China, the Gulf and other old exporting countries and the recent industrialization of Asian countries, and the dynamics of the international quotation of oil and other raw energy materials. In order to place the wealth generated by these events, SWFs need to develop an effective investment strategy, which ultimately comes to the country in which they need to operate and the amount of resources to invest. What is interesting, and emblematic of the countercyclical effect SWFs have, is that a financial crisis not only positively affects the possibility of an investment but it also plays a significant role in the dimensions of the investment itself.

Investments made by SWFs, due to their large size, have several effects on the financial markets. The establishment of sovereign wealth funds has had an overall positive impact on the stability of the global financial markets; some of the factors that have contributed to this stabilization are the tendency to invest on long-term horizons after a careful risk management analysis, their low level of indebtedness and leverage, their anticyclical behaviour. On the other hand, there are also downsides to SWFs investment. These include their size and the size of the investments they make that tend to create herd behaviour, their low levels of transparency that can lead to systemic risks in the financial markets and their recent shift towards higher risk activities.

In the short term they also affect the stock prices of the companies they choose for their operations: investment tend to increase the stock value whereas disinvestments will decrease it. In the long term, however, there are no effects on the recipient company's corporate governance, profitability and growth. With regards to the capital flow, SWFs effectively promote the circulation of funds from countries that have a balance of payments surplus towards countries that are in deficit. SWFs have also impacted the structure of the capital market, as they have become over the years one of the major financial players, surpassing both hedge funds and private equity funds.

One of the world's biggest sovereign wealth funds is the Qatar Investment Authority, an investment vehicle that at the end of 2019 ranked at the 10th position, with more than $300 billion of assets under management. It belongs to the State of Qatar, an emirate in the Arab Gulf peninsula, an area that despite being characterized by many rivalries between the states has managed to thrive economically. In particular, there are three developmental phases, which allowed the Gulf States to "become and stay wealthy": the first one saw a rapid economic growth linked to oil prices and the consequent infrastructural development, the second one was influenced by the high levels of globalization and integration in the world's economy. The last phase focuses on projects aimed at aiding the local economies in a diversifying process that will allow the countries to be less dependent upon the export of natural resources. These three developmental phases have not been easy due to some structural characteristics of the area such as rentierism and its consequences, demographic pressures and other structural deficiencies that exert negative pressures and push back against developmental objectives.

The theory of the rentier state is a political economics theory that explains the relation between society and state in those countries that derive the majority of their national income from the exploitation of a rent. Said rent usually consists in royalties and payments for the export of oil and natural gas but it can also derive from taxes and subsidies. The basics of this theory is that, given the fact that the state receives its income externally and distributes it to the general society, it is obliged to not impose taxes on its citizens. During the last decades, the Gulf States have all transitioned from a more simplistic and classic model of rentierism to a late rentier model, characterized by a more entrepreneurial state that is more reactive to change and supportive of development. The rentier theory, and its development, allow us to explain Qatar's economy and ultimately how its sovereign wealth fund gets the financial means for its investments.

Qatar, despite a political crisis that occurred in 2017 with the other GCC countries, has managed to prosper economically; as said this can be in part explained with the rentierism theory as hydrocarbons still represent a significant share of its economic activity, exports, and fiscal revenues.

Even though Qatar's hydrocarbon reserves are incredibly vast, and are projected to last for over a century even at the current consumption rate, they are finite. Over-reliance on these revenues cannot build a sustainable living standard for future generations. This is the premise for the establishment and the diversification policies set in place by the Qatar Investment Authority. Due to its prudent fiscal management, Qatar has accumulated a substantial pool of financial assets that can significantly contribute to revenue diversification. Even if the main economic activities remain concentrated on hydrocarbons, these assets will allow the state to gain returns from other activities.

Instituted in 2005, the Qatar Investment Authority quickly became one of the most important and prominent sovereign wealth funds in the world. The Qataris' passion for luxury and exclusive name brands has brought them to acquire shares (or entire companies) all around the world. Nowadays, it is difficult to walk around London, New York or Milan and admire the sights without looking at something owned, entirely or partially, by Qatar; furthermore, as reported by the BBC (9 June 2017), it is alleged that Qatar owns more land in London that the Queen herself.

In conclusion, although sovereign wealth funds may still not be as popular as other investment vehicles, even despite gaining international momentum during the world financial crisis of the last decade, their positive role in the economy is undeniable. During the crisis, due to their countercyclical behaviour they acted as stabilizers, allowing a quicker recovery of the economy with the injection of massive amounts of wealth into world-renowned financial institutions. Negative implications of their investments and controversies aside, which as mentioned are to an extent outweighed by the positive ones, sovereign wealth funds are slowing becoming the absolute protagonists of the capital market. As of now, only time can tell if they will, once again, help bring the world out of an economic crisis that might follow the COVID-19 global pandemic that we are experiencing.

Lastly, to give an answer to how it was possible for a small Gulf country to buy itself "the world" or, at the very least, several among the world's most emblematic companies and buildings, we need to understand the implications of the theories mentioned above: rentierism and late rentierism. A mixture of wealth accumulated through rents from the extensive hydrocarbon reserves, the influence of globalization and the realization that the economy, in order to be sustainable in the long term needs to be diversified, has allowed Qatar to become one of the wealthiest countries (as measured by the GDP per capita) and the owner of many of the world's most important assets, worth over $300 billion.

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Appendix 1

Country	Fund name	Score
	Nonpension SWFs	
Norway	Government Pension Fund—Global	98
New Zealand	New Zealand Superannuation Fund	94
United States	Permanent Wyoming Mineral Trust Fund	93
Azerbaijan	State Oil Fund of the Republic of Azerbaijan	92
Canada	Alberta Heritage Savings Trust Fund	91
Chile	Economic and Social Stabilization Fund	91
Chile	Pension Reserve Fund	88
Timor-Leste	Petroleum Fund of Timor-Leste	88
United States	Alaska Permanent Fund Corporation	88
Australia	Future Fund	87
United States	New Mexico State Investment Council	84
Ireland	Ireland Strategic Investment Fund	82
United States	Alabama Trust Fund	82
Trinidad and Tobago	Heritage and Stabilization Fund	81
Korea	Korea Investment Corporation	78
Palestine	Palestine Investment Fund*	77
Nigeria	Nigeria Sovereign Investment Authority	76
Singapore	Temasek Holdings	76
United States	Texas Permanent School Fund*	73
China	China Investment Corporation	70
United States	(Texas) Permanent University Fund*	70
France	Caisse des Dépôts et Consignations*	68
Hong Kong	Exchange Fund	68
Kuwait	Kuwait Investment Authority	68
Mexico	Budgetary Income Stabilization Fund	68
United Arab Emirates	Mubadala Development Company	68
Angola	Fundo Soberano de Angola	67
Italy	Fondo Strategico Italiano*	67
France	BPIFrance Investissement*	65
United States	North Dakota Legacy Fund*	64
Malaysia	Khazanah Nasional Berhad	61
Singapore	GIC Private Ltd.	61
Brazil	Sovereign Fund of Brazil	60
Botswana	Pula Fund	59
United Arab Emirates	Dubai Holding	59
United Arab Emirates	Abu Dhabi Investment Authority	58
Rwanda	Agaciro Development Fund*	57

United Arab Emirates	Investment Corporation of Dubai	55
United Arab Emirates	International Petroleum Investment Company	55
Bahrain	Bahrain Mumtalakat Holding Company	52
Oman	State General Reserve Fund	52
Russia	National Welfare and Reserve Fund	49
Iran	National Development Fund of Iran	48
Kazakhstan	National Investment Corporation*	48
Mexico	Fondo Mexicano del Petroléo para la Estabilización y el Desarrollo*	48
Peru	Fiscal Stabilization Fund*	48
Kazakhstan	Samruk-Kazyna JSC*	47
Morocco	Moroccan Fund for Tourism Development*	47
Ghana	Ghana Petroleum Funds	45
Venezuela	Macroeconomic Stabilization Fund	42
Qatar	Qatar Investment Authority	40
Vietnam	State Capital Investment Corporation	39
Russia	Russian Direct Investment Fund*	36
Kiribati	Revenue Equalization Reserve Fund	35
United Arab Emirates	Abu Dhabi Investment Council*	33
Brunei	Brunei Investment Agency	30
Algeria	Revenue Regulation Fund	26
Libya	Libyan Investment Authority	23
United Arab Emirates	Istithmar World	23
Equatorial Guinea	Fund for Future Generations	11
Subtotal (60 SWFs)		**62**
	Government pension funds	
United States	California Public Employees' Retirement System	95
Canada	Canada Pension Plan Investment Board	94
France	Fonds de réserve pour les retraites	94
Netherlands	Stichting Pensioenfonds ABP	92
Canada	Caisse de dépôt et placement du Quebec	91
Canada	Ontario Teachers' Pension Plan	86
Thailand	Government Pension Fund	86
Japan	Government Pension Investment Fund	83
China	National Council for Social Security Fund	59
Subtotal (9 GPFs)		**87**
All funds (69)		**64**
* = indicates a fund that was included for the first time in this scoreboard		

Appendix 1 Source: Elaboration of Sarah E. Stone and Edwin M. Truman, October 2016, Uneven Progress on Sovereign wealth fund Transparency and Accountability, pp. 4-5. Peterson Institute for International Economics

Appendix 2

Fund	Transparency Index
Alaska Permanent Fund Corporation	10
Alberta Investment Management Corporation	10
Chile Pension Reserve Fund	10
Fondo de Ahorro de Panama	10
Future Fund	10
Mubadala Investment Company	10
Mumtalakat Holding	10
National Pensions Reserve Fund	10
New Zealand Superannuation Fund	10
North Dakota Legacy Fund	10
Norway Government Pension Fund Global	10
Samruk-Kazyna	10
Social and Economic Stabilization Fund	10
State Oil Fund of Azerbaijan	10
Temasek Holdings	10
Alabama Trust Fund	9
New Mexico State Investment Council	9
Nigeria Sovereign Investment Authority	9
Timor-Leste Petroleum Fund	9
Wyoming Retirement System	9
Hong Kong Monetary Authority Investment Portfolio	8
Ireland Strategic Investment Fund	8

Khazanah Nasional	8
Korea Investment Corporation	8
China Investment Corporation	7
GIC Private Limited	7
Heritage and Stabilization Fund	7
Public Investment Fund	7
Russian Direct Investment Fund	7
Abu Dhabi Investment Authority	6
Kuwait Investment Authority	6
Pula Fund	6
Fundo Soberano de Angola	5
Investment Corporation of Dubai	5
National Council for Social Security Fund	5
National Development Fund of Iran	5
Qatar Investment Authority	5
Libyan Investment Authority	4
Oman Investment Fund	4
Oman State General Reserve Fund	4
SAFE Investment Company	4
State Capital Investment Corporation	4
Emirates Investment Authority	3
Diversified Healthcare Trust	2
Kazakhstan National Fund	2
Brunei Investment Agency	1
FEM	1

National Fund for Hydrocarbon Reserves	1
Revenue Regulation Fund	1
Average	**6,86**

Appendix 2 LMTI Index. Source: SWF Institute website;most recent data available

Appendix 3

Rank	Profile	Total assets ($bn, US dollars)	Region	Country	Established	Classification
1.	Norway Government Pension Fund Global	1047,05	Europe	Norway	1990	Commodity
2.	China Investment Corporation	940,6	Asia	China	2007	Non-Commodity
3.	Abu Dhabi Investment Authority	745	Middle East	UAE	1976	Commodity
4.	State Administration of Foreign Exchange	690	Asia	China	1997	Non-Commodity
5.	Hong Kong Monetary Authority Investment Portfolio	529,43	Asia	Hong Kong	1993	Non-Commodity
6.	Kuwait Investment Authority	527	Middle East	Kuwait	1953	Commodity
7.	Saudi Arabian Monetary Authority – Reserve Assets[44]	512,14	Middle East	Saudi Arabia	1952	Commodity
8.	National Social Security Fund	437,9	Asia	China	2000	Non-Commodity
9.	Government Investment Corporation (GIC)	407	Asia	Singapore	1981	Non-Commodity
10.	Qatar Investment Authority	304	Middle East	Qatar	2005	Commodity
11.	Public Investment Fund	280	Middle East	Saudi Arabia	1971	Commodity
12.	Investment Corporation of Dubai	239,39	Middle East	UAE	2006	Commodity
13.	Temasek Holdings	231	Asia	Singapore	1974	Non-Commodity
14.	Mubadala Investment Company	229,98	Middle East	UAE	2002	Commodity
15.	Korea Investment Corporation	131,6	Asia	South Korea	2005	Non-Commodity
16.	National Wealth Fund	124,14	Europe	Russia	2008	Commodity

[44] The SWF Institute classifies the Saudi Arabian Monetary Agency as a central bank. The 2019 report issued by the IE Center for Governance of Change, considers it as a SWF.

17.	Future Fund	112	Australia and Pacific	Australia	2004	Non-Commodity
18.	National Development Fund of Iran	68	Middle East	Iran	2011	Commodity
19.	Samruk-Kazyna	67,43	Asia	Kazakhstan	2008	Non-Commodity
20.	Lybian Investment Authority	67	Africa	Lybia	2006	Commodity
21.	Alaska Permanent Fund Corporation	66,3	North America	USA-Alaska	1976	Commodity
22.	Kazakhstan National Fund	59,94	Asia	Kazakhstan	2000	Commodity
23.	Texas Permanent School Fund	46,52	North America	USA-Texas	1854	Commodity
24.	Emirates Investment Authority	45	Middle East	UAE	2007	Commodity
25.	State Oil Fund of Azerbaijan	42,46	Asia	Azerbaijan	1999	Commodity
26.	Turkey Wealth Fund	40	Europe	Turkey	2016	Non-Commodity
27.	Brunei Investment Authority	39	Middle East	Brunei	1983	Commodity
28.	Khazanah Nasional	32,72	Asia	Malaysia	1993	Non-Commodity
29.	New Zealand Superannuation Fund	28,09	Australia and Pacific	New Zealand	2001	Non-Commodity
30.	State General Reserve Fund	25	Middle East	Oman	1980	Commodity
31.	New Mexico State Investment Council	24,63	North America	USA-New Mexico	1958	Non-Commodity
32.	Ireland Strategic Investment Fund	19,66	Europe	Ireland	2001	Non-Commodity
33.	Bahrain Mumtalakat Holding Company	16,67	Middle East	Bahrain	2006	Commodity
34.	Timor-Leste Petroleum Fund	15,8	Asia	Timor-Leste	2005	Commodity
35.	Fondo de Estabilidad Economica y Social	14,19	South America	Chile	2007	Commodity
36.	Alberta Heritage Savings Trust Fund	13,82	North America	Canada	1976	Commodity

37.	Fondo de Reserva de Pensiones	10,44	South America	Chile	2006	Commodity
38.	Russian Direct Investment Fund	10	Europe	Russia	2011	Non-Commodity
39.	China-Africa Development Fund	10	Asia	China	2007	Non-Commodity
40.	Oman Investment Fund	8,2	Middle East	Oman	2006	Commodity
41.	Permanent Wyoming Mineral Trust Fund	8,07	North America	USA-Wyoming	1974	Commodity
42.	North Dakota Legacy Fund	6,28	North America	USA-North Dakota	2011	Commodity
43.	Heritage and Stabilization Fund	6,01	South America	Trinidad and Tobago	2000	Commodity
44.	Quebec's Generations Fund	5,93	North America	Canada	2006	Commodity
45.	Fondo de Estabilizacion Fiscal	5,77	South America	Peru	1999	Non-Commodity
46.	Pula Fund	4,9	Africa	Botswana	1994	Non-Commodity
47.	Bpifrance	4,67	Europe	France	2014	Non-Commodity
48.	CDP Equity	4,23	Europe	Italy	2011	Non-Commodity
49.	Fondo de Ahorro y Estabilizacion	3,7	South America	Colombia	2011	Commodity
50.	State Capital Investment Corporation	3,62	Asia	Vietnam	2006	Non-Commodity
51.	Gulf Investment Corporation	3,5	Middle East	Kuwait	1982	Commodity
52.	Fundo Soberano de Angola	3,4	Africa	Angola	2012	Commodity
53.	Alabama Trust Fund	3,24	North America	USA-Alabama	1985	Commodity
54.	National Investment and Infrastructure Fund	3	Asia	India	2015	Commodity and Non-Commodity
55.	Idaho Endowment Fund	2,47	North America	USA-Idaho	1969	Commodity

56.	Ithmar Capital	1,8	Africa	Morocco	2011	Non-Commodity
57.	Nigeria Sovereign Investment Authority	1,69	Africa	Nigeria	2011	Commodity
58.	Partnership Fund	1,64	Europe	Georgia	2011	Commodity
59.	Louisiana Education Quality Trust Fund	1,44	North America	USA-Louisiana	1986	Commodity
60.	Fondo de Ahorro de Panama	1,35	South America	Panama	2011	Non-Commodity
61.	Fondo Mexicano del Petroleo-Reserva Largo Plazo	1,04	North America	Mexico	2015	Commodity
62.	Palestine Investment Fund	1	Middle East	Palestine	2003	Non-Commodity
63.	Revenue Equalization Reserve Fund	0,99	Australia and Pacific	Kiribati	1956	Commodity
64.	Western Australian Future Fund	0,9	Australia and Pacific	Australia	2012	Commodity
65.	Future Generations Fund	0,73	Middle East	Bahrain	2006	Commodity
66.	National Development and Social Fund (Malta)	0,53	Europe	Malta	2015	Non-Commodity
67.	Ghana Stabilisation Fund	0,49	Africa	Ghana	2011	Commodity
68.	Ghana Heritage Fund	0,38	Africa	Ghana	2011	Commodity
69.	Egypt Fund	0,28	Africa	Egypt	2018	Non-Commodity
70.	Future Heritage Fund	0,22	Asia	Mongolia	2019	Commodity
71.	COFIDES	0,2	Europe	Spain	2018	Non-Commodity
72.	National Fund for Hydrocarbon Reserves	0,15	Africa	Mauritania	2006	Commodity
73.	National Investment Corporation	0,11	Asia	Kazakhstan	2012	Commodity
74.	Petroleum Revenue Investment Reserve	0,09	Africa	Uganda	2015	Commodity

75.	Fund for Future Generations	0,08	Africa	Equatorial Guinea	2002	Commodity
76.	Intergenerational Trust Fund	0,06	Africa	Nauru	2015	Commodity
77.	Agaciro Development Fund	0,06	Africa	Rwanda	2012	Non-Commodity
78.	Fonds Gabonais d'Investissements Strategiques	0,02	Africa	Gabon	1998	Commodity
79.	FONSIS	0,02	Africa	Senegal	2012	Non-Commodity
80.	Northwest Territories Heritage Fund	0,02	North America	Canada	2012	Commodity
81.	Fondo para la Estabilizacion Macroeconomica	0,003	South America	Venezuela	1998	Commodity
82.	Fonds de Stabilisation des Recettes Budgetaires et Reserves pour Generations Futures	0,002	Africa	Republic of the Congo	2005	N/A
83.	Permanent Fund for Future Generation	N/A	Africa	Sao Tomé e Principe	2004	Commodity
84.	West Virginia Future Fund	N/A	North America	USA-West Virginia	2014	Commodity
85.	National Investment Fund	N/A	Europe	Cyprus	2019	Commodity
86.	Natural Resources Fund	N/A	South America	Guyana	2018	Commodity
87.	Dubai World	N/A	Middle East	UAE	2006	Commodity
88.	Dubai Holding	N/A	Middle East	UAE	1997	Non-Commodity
89.	Oil Revenue Stabilization Fund	N/A	Africa	South Sudan	2008	Commodity
90.	Turkmenistan Stabilization Fund	N/A	Asia	Turkmenistan	2008	Commodity
91.	Zimbabwe Sovereign Wealth Fund	N/A	Africa	Zimbabwe	2014	Commodity
92.	Papua New Guinea SWF	N/A	Australia and Pacific	Papua New Guinea	2011	Commodity

93.	Savings and Stabilization Fund	N/A	South America	Suriname	2017	Commodity
94.	Fund for Israel Citizens	N/A	Middle East	Israel	2014	Commodity

Source: Personal elaboration from data collected from the Sovereign Wealth Fund report (2019) and funds' official websites