**Brief Analysis of the Investment Management Industry with respect to Sovereign Fund Management**

**INDUSTRY OVERVIEW Section:**

**Overview:**

The core of Investment management is the use of other people money for the sake of taking gain and benefiting both the investor and investment Management Company. It is the “buy side” of the broader financial industry. Investment managers make use of ther clients’ money to buy common stocks (equities), bonds and other fixed-income securities, commodities, or they may make use of combination of any of these. The clients can range from companies, government agencies, non-profit organizations, and individuals so they are not limited and can provide services to anyone who requires them.

The investment management company manages variety of financial instruments such as hedge funds, mutual funds, private equity, venture capital, and other financial investments for third parties, which include companies, pension funds, endowments, insurance companies, private banks, nonprofits, and individuals.

Brief description of these funds is as under for better understanding.

*Hedge funds* are professionally managed investment instruments which are more focused in positive returns, minimal change in value and keeping capital intact like all financial investments. Approximately assets of worth $2.7 trillion have been managed across globe courtesy these funds.

*Mutual funds* are a group of financial assets (such as stocks) and are handled by a portfolio manager. Approximately assets of worth $15 trillion mutual fund had been managed across globe in 2013.

*Private equity* constitutes funds received from investors and further invested in seasoned private companies. The main idea of private equity firms is to create an equity stake in the company and in long term taking over the company making profit on their investment.

*Venture capital* involves funds received from investors and investing them in brand new, inventive companies in return for an equity stake which eventually can be turned into a profit when the company becomes public or is associated or taken over by some other company.

# *Sovereign wealth fund involves m*oney taken from the reserves of any country which are kept aside solely from investment point of view which will ultimately help the economy of the country and the people at large. The funds are taken from reserves of the central bank of the country. Various countries use the funds for investment in various areas depending on the financial and economic position of the country.

**INDUSTRY Developments Section**

Andrew Rozanov used the term Sovereign wealth fund (SWF) in 2005 in an article "Who holds the wealth of nations?" In the earlier edition of the journal, it was briefed that how traditional reserve management is changing into sovereign wealth management hence it became popular.

SWFs make their investments in a various classes of assets which include stocks, bonds, real estate, private equity and hedge funds. Majority of sovereign funds are making investments directly in institutional real estate. According to the Sovereign Wealth Fund Institute's transaction database, approximately US$9.26 billion amount was recorded from SWFs in institutional real estate during the second half of 2012 while in the first half of 2014, direct deal of sovereign wealth funds were calculated to be $50.02 billion.

Sovereign wealth funds are in operation for more than 100 years now however since the year 2000, there is a dramatic shift in the number of sovereign wealth funds throughout the world. Non-Federal U.S state funds were the SWFs which were incorporated in the 19th century and were particularly built for public services. The state of [Texas](https://en.wikipedia.org/wiki/Texas) in United States therefore was the pioneer in establishing this scheme to generate fund for public education.

In 1854, The [Permanent School Fund](https://en.wikipedia.org/wiki/Permanent_School_Fund) (PSF) was built to help primary and secondary schools and later on in 1876 the [Permanent University Fund](https://en.wikipedia.org/wiki/Permanent_University_Fund) (PUF) was established to assist universities. Public land was used whose ownership remained with the state using terms of the annexation treaty amongst the US and [Republic of Texas](https://en.wikipedia.org/wiki/Republic_of_Texas)and in 1845.However the foremost SWF established for a country was Kuwait Investment Authority which was created as commodity in the year 1953 derived from the revenue they generated through oil after the independence from the UK. The fund has now expanded to approximately US$600 billion

[Revenue Equalization Reserve Fund](https://en.wikipedia.org/wiki/Revenue_Equalization_Reserve_Fund) of [Kiribati](https://en.wikipedia.org/wiki/Kiribati). Created were also amongst the pioneers & were established in 1956. The reason behind its creation was the placement of levy on the export of [phosphates](https://en.wikipedia.org/wiki/Phosphates) used in [fertilizer](https://en.wikipedia.org/wiki/Fertilizer) by the British administration of the [Gilbert Islands](https://en.wikipedia.org/wiki/Gilbert_Islands) in [Micronesia](https://en.wikipedia.org/wiki/Micronesia).  The fund has been estimated to grow to $520 million.

**Industrial Growth in SWFs**

## The first SWF was developed in 1953 by Kuwait with the name of the Kuwait Investment Authority (KIA). The major objective of KIA was to diversify the revenue streams as Kuwait was largely dependent on revenue from oil exploration and oil sales. However it was only in 1970s where the SWFs gain large popularity. The countries like Singapore, Abu Dhabi and Canada came in forefront and went to make their own managed SWFs respectively. Norway then followed it up and produced the most transparent and the world’s largest SWF in 1990. Later on in the new millennium another wave of SWF formation hit the globe. China formulated the China Investment Corporation in 2007 with a start up endowment of almost $200 billion, and Russia further set up a pair of SWFs with a combined wealth estimated at $150 billion. There are many countries currently using these funds and many others have shown t heir keenness to establish their own SWF. It is important to note that 8 most advanced SWFs are either in oil-producing nations or in economies running trade surpluses.

## In 2008 US and Germany made proper roadmaps related to the management of SWFs keeping their large public and economic interest in forefront. Further in 2008 code of conduct drafted by IMF for the operation of SWF which was agreed in a summit in Chili.

Various other SWFs have also been established across globe after 2010 mainly due to hike in the energy related commodities prices. Few of them are the North Dakota Legacy Fund (2011) and the Western Future Fund (2012). The Bank of Israel is also working to formulate Israeli Sovereign Investment fund which is expected to be operative by 2016 having deployed many years and expertise as preparation for successful launch.

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**MARKET DATA Section**

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|  |  |  | amount in $ Billions |  |
| **Rank** | **Fund** | **Country** | **Type** | **Jun-15** |
| 1 | Social Security Trust Fund | United States | National Pension | 2,789.50 |
| 2 | Government Pension Investment Fund | Japan | National Pension | 1,150.00 |
| 3 | Government Pension Fund – Global | Norway | Soverign Wealth Fund | 882.00 |
| 4 | Abu Dhabi Investment Authority | United Arab Emirates | Soverign Wealth Fund | 773.00 |
| 5 | China Investment Corporation | China | Soverign Wealth Fund | 746.70 |
| 6 | SAMA Foreign Holdings | Saudia Arabia | Soverign Wealth Fund | 671.80 |
| 7 | Kuwait Investment Authority | Kuwait | Soverign Wealth Fund | 592.00 |
| 8 | SAFE Investment Company | China | Soverign Wealth Fund | 567.90 |
| 9 | National Pension Service of Republic of Korea | South Korea | National Pension | 455.00 |
| 10 | Stiching Pensionfonds ABP | Netherlands | Public Pension | 440.00 |

**Competitor Information**

The leader of the SWF industry is currently Social Security Trust Fund founded in United States of America with $2.8 trillion of assets in 2014, and established in 1977. Coming up at close second is Government Pension Investment Fund – Japan; this is a Japanese SWF and was founded in 2006 with its head quarter in Tokyo and is being governed by the Japan’s ministry of health, labor and welfare. Abu Dhabi Investment Authority comes 4th in term of dollar value and with the head quarter in Abu Dhabi.

**CITATIONS:**

Link to overview and history, Online, <http://www.vault.com/industries-professions/industries/investment-management.aspx>

Wikipedia

Tracking the Activity of Sovereign Wealth Funds, Pensions and other public funds, Online, http://www.swfinstitute.org/fund-rankings/