

Sovereign Wealth Funds (SWFs)

Effective financial management is vital for corporates, individuals and even countries in order to plan, organize and control their financial resources to achieve their long-term goals. Various countries may have different goals such as building up wealth to counter excessive reliance on reserves of natural resources, diversification of foreign exchange holdings to counter risk as well as provide for an ageing workforce among others. As a result, Sovereign Wealth Funds (SWFs) have grown to more than twice their size as compared to 2007 with assets under management of more than USD 7 trillion, making them increasingly influential in global financial markets.

What is a Sovereign Wealth Fund (SWF)?

A Sovereign Wealth Fund (SWF) is an investment fund that is owned and managed by the country to benefit the country's economy and citizens through investments in potential growth areas. In other words, it is a mechanism through which countries make investments. The pool of money for a sovereign wealth fund is generated from various sources such as Balance of Payments (BoP) surpluses, country's foreign currency operations, proceeds generated from privatization, fiscal surpluses and income generated through exports among other sources. SWFs have become essential for economies that are heavily reliant on a single source of income like oil revenues in the case of Norway and the Middle East. Such countries use investments made through the SWFs to diversify and become less reliant on a single source of income.

Sovereign Wealth Funds aim at managing their risk-return profile for the long-term with the goals of diversification along with planning for the future. The goal of these funds is not just focused on capital preservation but also ensuring high returns over the longer-term investments. As a result SWFs tend to prefer returns to liquidity, and therefore they have a higher risk tolerance towards investments in riskier assets like Private

Equity than traditional foreign exchange reserves.

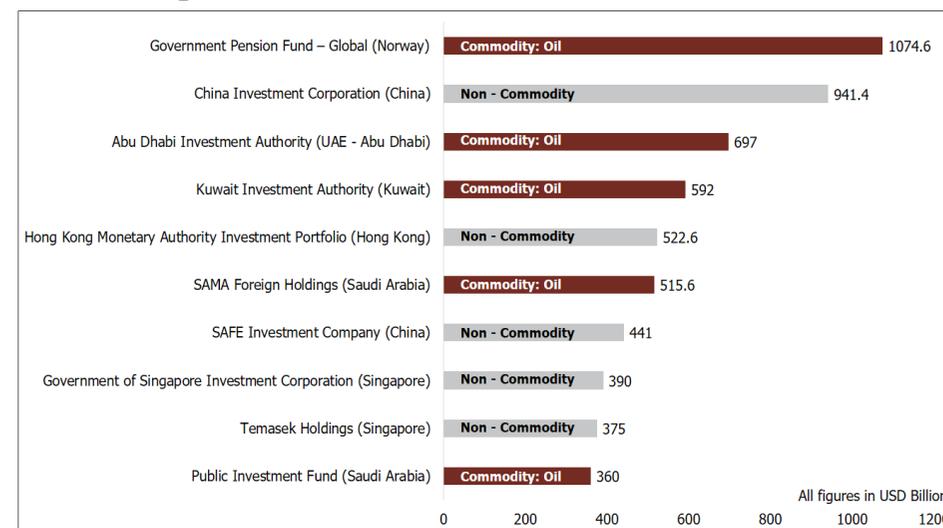
Origination of Sovereign Wealth Funds

Sovereign Wealth Funds can be classified into two broad categories on the basis of the source of their origination:

- **Commodities:** These funds are created through the income generated by the country through export of commodities. The exports can be either taxed or owned by the government
- **Non-Commodities:** These funds are created through sources such as transfer of assets from foreign exchange reserves, funds generated through privatization, government transfer payments among others.

Classification and Origination: 10 largest Sovereign Wealth Funds

Below is the list of 10 largest Sovereign Wealth Funds along with the source of origination:



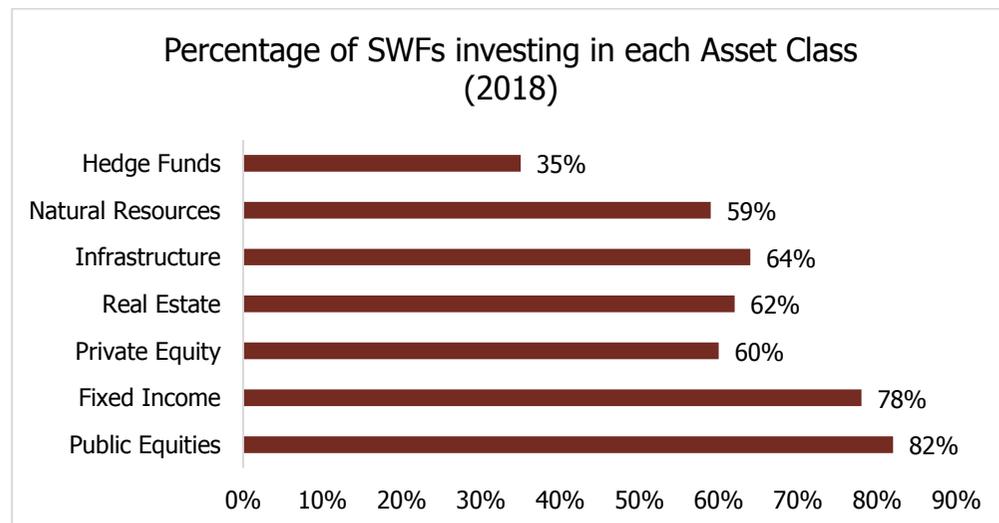
Source: SWF Institute

Where do Sovereign Wealth Funds Invest

Sovereign Wealth Funds invest their monies in a variety of asset classes taking into account their financial objectives and risk profile. For instance, the Government Pension Fund of Norway which has a medium term return target of 3% + inflation, has over USD 1 Trillion invested in real estate, equity and fixed income securities in nearly 70 countries worldwide. With equity investments worth ~USD 695 Billion in over 9000 companies worldwide (~70% of its portfolio), it owns nearly 1.3% of Global stocks and shares making it among the world's largest such funds. The Fund has nearly USD 11 Billion worth of investments in India (including nearly USD 3 Billion in G-Secs and USD 8 billion in Equities).

Alternate investment classes such as Private Equity, gold and real estate are gaining popularity with SWFs with nearly 23% of the total assets across SWFs invested in such instruments and securities. As on Aug 2017, it was estimated that SWFs had invested nearly USD 250 Billion in Private Equity deals.

As per The 2018 Preqin Sovereign Wealth Fund Review, Equities and Fixed Income securities are the most popular avenues of Investments.

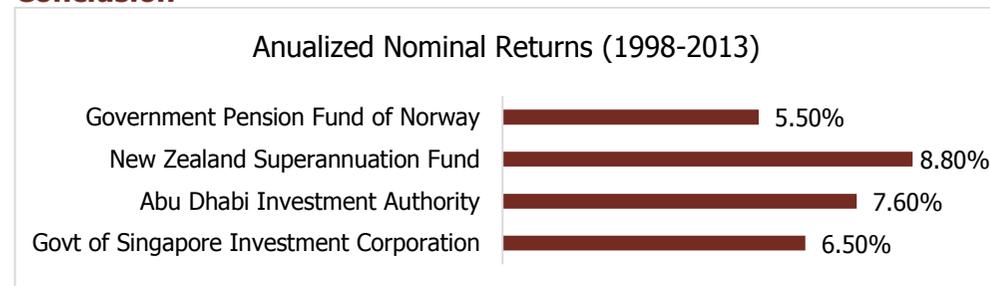


Source: 2018 Preqin Sovereign Wealth Fund Review

SWF: Indian Scenario

The National Investment and Infrastructure Fund Limited (NIIFL) is India's first sovereign wealth fund. It is unique in that when set up in February 2015 as an Alternate Investment Fund under SEBI, it was proposed that NIIFL would invest in core infrastructure sectors such as power, roads, ports etc. and would also focus on sectors and companies across sectors that were deemed as important from the perspective of the country's economic growth. Current focus areas of the Fund are investments in green energy, ports and logistics. As on September 2018, NIIFL manages funds to the tune of USD 3.4 Billion.

Conclusion



Source: Sovereign Investor Institute

The concept of SWFs has picked pace in the last decade with nearly 21 SWFs (out of the 78 SWFs today) being established since 2010 and with nearly USD 1 Trillion in investments by SWFs being made in the last one year alone. Many SWFs have been formed in countries with high dependence on natural resources so as to diversify national income in favor of stable and reliable income sources so as to support their growing or ageing populations.

Sovereign Wealth Funds are also important players in world financial markets. Their investments in emerging markets are an important source of long term funds for those countries and form an avenue for the SWF to diversify and generate extra returns. For the resident country of the Sovereign Fund, the investments and income of the SWF play an important role in the Social Welfare planning of the country. The income from investments helps fund various welfare schemes and subsidize facilities like housing and education.

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Particulars	22- Feb-2019	8- Feb-2019
FBIL 14 Day MIBOR	6.71%	6.75%
91 Day T-bill	6.38%	6.35%
364 Day T-bill	6.61%	6.55%
5 Year G-Sec	7.06%	7.15%
10 Year G-Sec	7.42%	7.33%
1 Year OIS	6.24%	6.35%
CP 3-Month Rate	7.37%	7.23%
AAA Spread	105-130 (15 February)	128-143 (8 February)
AA+ Spread	131-177 (15 February)	140-180 (8 February)
AA Spread	155-200 (15 February)	150-210 (8 February)
BSE Sensex	35,871.48	36,546.48
Nifty	10,791.65	10,943.60
Inflation (CPI)	2.05% (Jan)	2.19% (Dec)
USD/INR	71.14	71.31
Forex Reserves USD (Bn)	400.241 (15 th February)	400.241 (1 st February)
Brent Crude (\$)	67.12	62.10

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