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**Summary**

**Part 1: Sovereign wealth fund overview**

1.       In most cases, the funds for SWF sourced from oil revenues.



2.       SWF in China and Singapore sourced from trade surpluses.

3.     Rapid growth in SWF:  from 1990 to 2013.

4.       24% annual growth rate between 2010-2013.

5.       3 distinct roles of SWF:

a.        serve as a **source of capital** for future generations,

e.g. Kiribati Revenue Equalization Reserve Fund, extraction of guano stopped in 1979, but funds remains key economic contributor.

- The fund is 10x the Gross Domestic Product (GDP) of Kiribati.

- Interest rate of the fund contributes 30% of the Kiribati’s revenue.

b.       a **stabilizing role** by reducing the volatility of government revenues

-          stabilizing role for countries that depend heavily on commodity revenue.

-          e.g. alleviate pressure on falling prices of oil for certain countries

c.        as **holding companies**, with which the government places its strategic investments.

-          For strategic investment purposes by public leaders in domestic/foreign firms

**Part 2: Mixed Legacy**

1. Case study on Norway in 1970s & 1980s
   1. Oil prices surge, sudden increase of funds
   2. Most of the money was spent immediately, some of the spending were **not** beneficial long term (increase in minimum wage leading to an uncompetitive economic sectors in the global market)
   3. Some of the funds spent on dying sector (shipbuilding).
   4. Some of the funds spent on new ventures of the friends and relatives of parliamentarians or of the bureaucrats responsible for allocating the funds.
   5. Oil prices dropped in the 1980s, which led to a drop in Norway’s GDP () between 1985 to 1988.
2. SWF can address this downside of wealth accumulation in 2 ways:

a.        **Disallowing immediate spending**, preserving the gains for future generations.

b.       Reduce the risk that government officials spending these revenues in an unwise or corrupt manner (assuming, of course, the sovereign fund is run in a professional manner.)

1. Structure of SWF can face an serious agency problem – introduce short-run pressures on SWF to financially support local firms or subsidize industrial policies within the country.

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**Summary**

**Abstract**

* Sovereign wealth fund allows for temporary windfall (large amount of unexpected money, e.g. striking oil) into a permanent stock.
* Through sovereign wealth fund, countries can avoid volatility and [Dutch disease](https://www.investopedia.com/terms/d/dutchdisease.asp) effects.

**Theory**

* SWFs are crucial for harnessing the benefits of natural resource rents, if the are tailored to the level of development of the country.
* In general, SWFs are a ‘future generations fund’ for developed countries for **developed countries**.
* Whereas for developing countries, they are for repaying debts, domestic investments and serves asa temporary parking fund to avoid issues from investing too quickly.
* Simply because must need to repay debts and invest domestically **before** saving abroad.

**Permanent income hypothesis**

* **Permanent income hypothesis** states that a resource revenue should be saved to convert temporary windfall into permanent stick of financial assets in form of an offshore SWF.
* Afterwards, the government can then consume (read: spend) a constant amount from the windfall in perpetuity (‘forever’), equal to the windfall’s present value.
* Governments should spend the interest from the SWF.
* Spending should be a constant fraction of the total wealth.
* Percentage of spending (relative to SWF) in the early stages of windfall should be high relative to the asset.
* As resources are extracted and fund grows, then spending percentage should be half of the SWF.
  + **Example:**

In recent years, Norway’s Government Pension Fund–Global (GPFG), which has been described as a model for other funds, has done exactly this by lowering its *handlingsregelen* (budgetary rule) from 4% to 3% in 2017.

* SWFs in developed countries should invest offshore and not domestic.
  + Reason:
    - framework assumes easy access to global capital, projects that are profitable at the world rate will already be financed.
    - If resource windfall is large (relative to country size), and all is invested in domestically, then this excess of savings pushes domestic ROI below the potential of that abroad.
    - If capital does not move freely, domestic economy sees overinvestment in unnecessary projects and dismal rates of return.

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