



Global Sovereign Wealth Funds

Sovereign wealth funds (SWFs) are a force in global asset management. The need to understand them is as important as ever. SWFs vary dramatically in scale, mandate, transparency and governance. This report examines the 12 largest SWFs in the world, in case-study format, and assesses the size and the amount of assets that are addressable by fund managers.

In addition, it examines SWFs' investment style, goals, timeframes, and assessment process for external fund managers.

INSIDE LOOK:

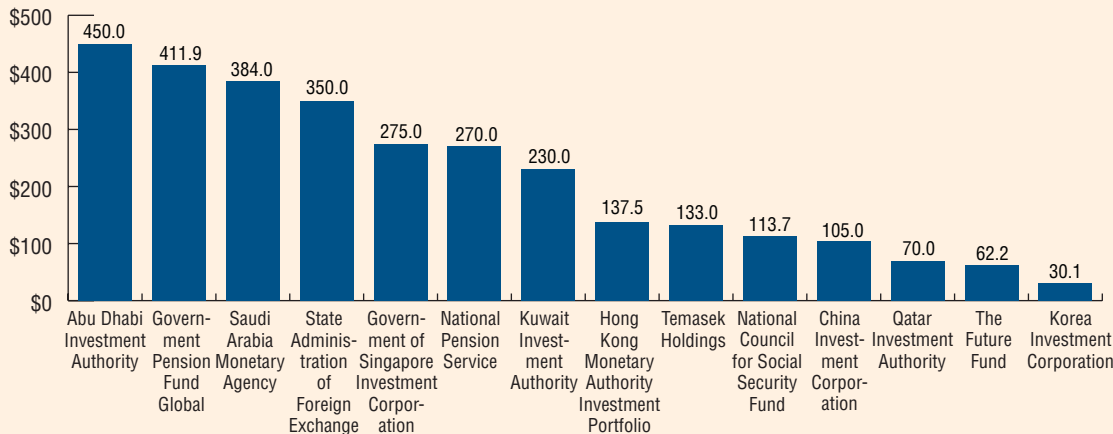
Key Findings:

- SWFs outsourced approximately US\$750 billion to external asset managers as of March 2010.
- SWFs increasingly manage money internally as their sophistication increases, forcing global managers to deliver high performance, specialist expertise, and stability to win mandates.
- SWFs tend to adopt a core-satellite approach, using core-passive strategies to get market return, and satellite-active strategies for performance.
- SWFs with set liabilities tend to be more open to equities, such as Norway's Government Pension Fund Global or the ADIA. The former has a benchmark of 60% equities, while the latter can go to 70%.

Exclusive data in this report:

- SWFs' selection and de-selection criteria for fund managers
- SWFs' use of investment consultants
- Data on the Kuwait Investment Authority (AUM, external mandates, in-house training, use of investment consultants)

Sample Exhibit: Global Sovereign Wealth Funds' Assets Under Management, March 2010, US\$Billions



Source: Cerulli Associates

This report is a guide for international fund managers targeting SWFs for asset gathering. It helps firms:

- Examine differences in the largest SWFs (AUM, asset allocation, investment styles, mandates, source of funds, liabilities)
- Identify the amount outsourced to external managers
- Understand the different selection and de-selection criteria for external managers
- Gain insight into the reclusive Kuwait Investment Authority SWF via perspective gathered from exclusive interviews
- Identify the size of SWF-like institutions in China and their performance-related metrics

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Table of contents, exhibit list, user examples, and sample pages are attached



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SPECIAL CONTENT

- Case studies on key SWFs
- Asset manager direct quotes
- Organizational charts reflecting the various SWFs' structures

REPORT ROADMAP

- Abu Dhabi Investment Authority
- The Future Fund
- China Investment Corporation
- State Administration of Foreign Exchange
- National Council for Social Security Fund
- Hong Kong Monetary Authority Investment Portfolio
- Korea Investment Corporation
- National Pension Service
- Kuwait Investment Authority
- Government Pension Fund Global
- Qatar Investment Authority
- Saudi Arabia Monetary Agency
- Temasek Holdings
- Government of Singapore investment Corporation



Global Sovereign Wealth Funds

USER SCENARIOS:

The following are examples of how this report can be applied to business planning and strategic decision-making:

Scenario 1: An international asset management firm wants to pitch to several SWFs but lacks information such as the main differences among these funds, the amount outsourced to external managers, and the selection criteria for fund managers. *Global Sovereign Wealth Funds* provides insight into the following questions:

- What are the main differences in AUM, asset allocation, investment style, mandates, sources of funds, and liabilities among SWFs?
- How much is being outsourced to external managers?
- What are the different selection and de-selection criteria for external managers?

Scenario 2: An asset manager with an existing institutional book of business wants to tilt more of its resources towards asset gathering from SWFs. It has already identified the Middle East as its target market but wants detailed information such as a fund's investment process, AUM, and other specific information. *Global Sovereign Wealth Funds* provides insights into the following questions:

- What is the investment and selection process like for a large SWF such as the Abu Dhabi Investment Authority?
- What is the AUM by investment objective and by geography for Middle Eastern SWFs?
- What information is available (in terms of AUM, external mandates, in-house training, and use of investment consultants), on a reclusive SWF such as the Kuwait Investment Authority?

Scenario 3: A U.S.-based asset manager is trying to determine how best to grow its book of assets for SWFs located in North Asia. However, it does not have detailed information for decision-making. *Global Sovereign Wealth Funds* provides insights into the following questions:

- What is the size of SWF-like institutions in China and what are their performance-related metrics?
- What is the history, organization, and asset allocation of SWFs in South Korea?
- What information on investment returns, fund manager selection, and external mandates is available about the investment portfolio of the Hong Kong Monetary Authority?





Global Sovereign Wealth Funds

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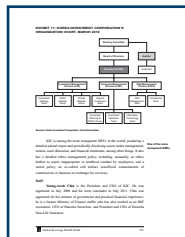
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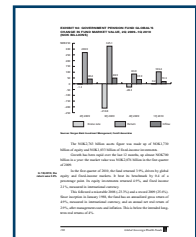
Page 39



Page 155



Page 181



Page 198



TABLE OF CONTENTS

INDEX OF EXHIBITS	8
METHODOLOGY	15
REPORT SCOPE	17
Beneficiaries of this Study	17
Report Roadmap	17
EXECUTIVE SUMMARY	18
Heterogeneous Group	18
Assets	18
Governance and Structure	18
Asset Allocation	19
Use of External Managers	19
Fees	20
Prognosis	20
Global Sovereign Wealth Funds – A Summary	20
EXCHANGE RATES	23
INTRODUCTION	24
Sovereign Fund Mandates	24
Assets	29
Governance and Structure	30
Asset Allocation	31
Use of External Managers	36
Fees	40
Proprietary Survey Analysis	40
ABU DHABI	57
ABU DHABI INVESTMENT AUTHORITY	57
History and Mandate	57
Assets and Performance	62
Structure and Staff	64
Asset Allocation	70
External Managers and Consultants	74
Fees	76

Proprietary Survey Analysis	76
Conclusion	79
AUSTRALIA	85
THE FUTURE FUND	85
History and Mandate	85
Assets and Performance	86
Structure and Staff	87
Asset Allocation	89
External Managers and Consultants	94
Fees	99
Conclusion	100
CHINA	102
CHINA INVESTMENT CORPORATION	102
STATE ADMINISTRATION FOR FOREIGN EXCHANGE ...	102
NATIONAL COUNCIL FOR SOCIAL SECURITY FUND	102
History and Mandate	102
Assets and Performance	107
Structure and Staff	109
Asset Allocation	113
External Managers and Consultants	120
Fees	122
Proprietary Survey Analysis	123
Conclusion	131
HONG KONG	138
HONG KONG MONETARY AUTHORITY EXCHANGE	
FUND – INVESTMENT PORTFOLIO	138
History and Mandate	138
Assets and Performance	140
Structure and Staff	141
Asset Allocation	142
External Managers and Consultants	144
Fees	144
Proprietary Survey Analysis	145
Conclusion	147

KOREA	150
KOREA INVESTMENT CORPORATION	150
History and Mandate	150
Assets and Performance	152
Structure and Staff	154
Asset Allocation	157
External Managers and Consultants	163
Fees	166
Proprietary Survey Analysis	166
Conclusion	169
KUWAIT	174
KUWAIT INVESTMENT AUTHORITY	174
History and Mandate	174
Assets and Performance	175
Structure and Staff	176
Asset Allocation	179
External Managers and Consultants	183
Fees	187
Proprietary Survey Analysis	187
Conclusion	190
NORWAY	195
GOVERNMENT PENSION FUND GLOBAL	195
History and Mandate	195
Assets and Performance	196
Structure and Staff	201
Asset Allocation	205
External Managers and Consultants	209
Fees	213
Proprietary Survey Analysis	213
Conclusion	216
QATAR	219
QATAR INVESTMENT AUTHORITY	219
History and Mandate	219

Assets and Performance	220
Structure and Staff	220
Asset Allocation	222
External Managers and Consultants	225
Proprietary Survey Analysis	225
Conclusion	228
SAUDI ARABIA	232
SAUDI ARABIAN MONETARY AGENCY	232
History and Mandate	232
Assets and Performance	235
Structure and Staff	237
Asset Allocation	237
External Managers and Consultants	238
Fees	238
Proprietary Survey Analysis	238
Conclusion	241
SINGAPORE	245
TEMASEK HOLDINGS	245
History and Mandate	245
Assets and Performance	248
Structure and Staff	249
Asset Allocation	253
External Managers and Consultants	258
Fees	258
Proprietary Survey Analysis	259
Conclusion	261
GOVERNMENT OF SINGAPORE INVESTMENT CORP ...	264
History and Mandate	264
Assets and Performance	265
Structure and Staff	266
Asset Allocation	273
External Managers and Consultants	278
Fees	280

Proprietary Survey Analysis	280
Conclusion	282
CONCLUSION	287
INDEX OF COMPANIES	289

INDEX OF EXHIBITS

Exchange Rates	23
1. Differences Among Global Sovereign Wealth Funds (Part 1), March 2010	26
2. Differences Among Global Sovereign Wealth Funds (Part 2), March 2010	27
2. Differences Among Global Sovereign Wealth Funds (Part 3), March 2010	28
3. Global Sovereign Wealth Funds Assets Under Management, March 2010	30
4. Global Sovereign Wealth Funds' Investment Styles, March 2010 ...	32
5. Global Sovereign Wealth Funds' Asset Allocation to Equities, March 2010	33
6. Global Sovereign Wealth Funds' Asset Allocation to Fixed Income, March 2010	34
7. Global Sovereign Wealth Funds' Asset Allocation to Alternatives, March 2010	35
8. Amount Outsourced by Global Sovereign Wealth Funds, March 2010 (Part 1)	38
8. Amount Outsourced by Global Sovereign Wealth Funds, March 2010 (Part 2)	39
9. Middle Eastern Sovereign Wealth Funds' Fund Manager Selection Criteria, March 2010	41
10. North Asian Sovereign Wealth Funds' Fund Manager Selection Criteria, March 2010	42
11. Southeast Asian Sovereign Wealth Funds' Fund Manager Selection Criteria, March 2010	43
12. Other Sovereign Wealth Funds' Fund Manager Selection Criteria, March 2010	44
13. Middle Eastern Sovereign Wealth Funds' Fund Manager De-Selection Criteria, March 2010	45
14. North Asian Sovereign Wealth Funds' Fund Manager De-Selection Criteria, March 2010	46
15. Southeast Asian Sovereign Wealth Funds' Fund Manager De-Selection Criteria, March 2010	47
16. Other Sovereign Wealth Funds' Fund Manager De-Selection Criteria, March 2010	48

17. Middle Eastern Sovereign Wealth Funds’ Use of Investment Consultants, March 2010	49
18. North Asian Sovereign Wealth Funds’ Use of Investment Consultants, March 2010	50
19. Southeast Asian Sovereign Wealth Funds’ Use of Investment Consultants, March 2010	51
20. Other Sovereign Wealth Funds’ Use of Investment Consultants, March 2010	52
21. Abu Dhabi Investment Authority’s Source of Funds, 2009	58
22. Sovereign Wealth Funds in Abu Dhabi and the United Arab Emirates, March 2010	62
23. Abu Dhabi Investment Authority’s Annualized Returns Over 20 and 30 Years, 2008–2009	63
24. Recipients of Abu Dhabi Investment Authority’s Investments, 2009	64
25. Abu Dhabi Investment Authority’s Organization Chart, 2009	65
26. Committees and Departments Supporting the Abu Dhabi Investment Authority’s Investment Committee, 2009	67
27. Nationalities of Employees Working at the Abu Dhabi Investment Authority, 2009	68
28. Abu Dhabi Investment Authority’s Assets Allocation, 2009	71
29. Abu Dhabi Investment Authority’s Assets Under Management by Investment Geography, 2009	73
30. Abu Dhabi Investment Authority’s Investment Process, 2009	74
31. Abu Dhabi Investment Authority’s External Investment Managers, 2009	75
32. Abu Dhabi Investment Authority’s Manager Selection Process, 2009	75
33. Abu Dhabi Investment Authority’s Fund Manager Selection Criteria, March 2010	77
34. Abu Dhabi Investment Authority’s Fund Manager De-Selection Criteria, March 2010	78
35. Abu Dhabi Investment Authority’s Use of Investment Consultants, March 2010	79
36. Abu Dhabi Investment Authority’s External Mandates and Managers, March 2010	80
37. Future Fund’s Long-Term Target Asset Allocation, March 2010 ..	90

38. Future Fund’s Assets Under Management by Investment Objective, March 2010	91
39. Future Fund’s Assets Under Management by Investment Geography, 2009	92
40. Future Fund’s Benchmark Indices by Asset Class, March 2010 ...	93
41. Future Fund’s Investment Consultants, 2009	94
42. Future Fund’s External Investment Managers, 2009	95
43. Future Fund’s External Mandates and Managers, March 2010	100
44. China Investment Corporation’s Investment Performance, 2008 ...	104
45. Chinese Institutions Considered as Sovereign Wealth Funds, March 2010	107
46. Asset Size of National Social Security Fund, 2000–2009	108
47. National Council for Social Security Fund’s Annual Returns, 2001–2009	108
48. Recipients of China Investment Corporation's Investments, 2009 ...	114
49. China Investment Corporation’s Assets Under Management by Investment Objective, 2008	115
50. Central Huijin’s Stakes in China’s Banks, 2008	117
51. National Social Security Fund’s Assets Under Management by Investment Objective, 2009	118
52. State Administration of Foreign Exchange’s Assets Under Management by Investment Objective, 2009	119
53. China Investment Corporation’s Fund Manager Selection Criteria, March 2010	123
54. China Investment Corporation’s Fund Manager De-Selection Criteria, March 2010	124
55. China Investment Corporation’s Use of Investment Consultants, March 2010	125
56. State Administration of Foreign Exchange’s Fund Manager Selection Criteria, March 2010	126
57. State Administration of Foreign Exchange’s Fund Manager De-Selection Criteria, March 2010	127
58. State Administration of Foreign Exchange’s Use of Investment Consultants, March 2010	128
59. National Social Security Fund’s Fund Manager Selection Criteria, March 2010	129
60. National Social Security Fund’s Fund Manager De-Selection Criteria, March 2010	130

61. National Social Security Fund’s Use of Investment Consultants, March 2010	131
62. China’s Sovereign Wealth Funds’ External Mandates and Managers, March 2010	132
63. Hong Kong Monetary Authority’s Investment Return for the Exchange Fund, 1994–2009	140
64. Hong Kong Monetary Authority’s Investment Return for the Exchange Fund in Dollar Terms, 2009	141
65. Hong Kong Monetary Authority Investment Portfolio’s Fund Manager Selection Criteria, March 2010	145
66. Hong Kong Monetary Authority Investment Portfolio’s Fund Manager De-Selection Criteria, March 2010	146
67. Hong Kong Monetary Authority Investment Portfolio’s Use of Investment Consultants, March 2010	147
68. Hong Kong Monetary Authority Investment Portfolio’s External Mandates and Managers, March 2010	147
69. Korea Investment Corporation’s Business Overview, 2009	151
70. Progress of Mandates from the Bank of Korea and the Ministry of Strategy and Finance, June 2006–December 2009	153
71. Korea Investment Corporation’s Organization Chart, March 2010 ..	155
72. Korea Investment Corporation’s Organization of Employees, March 2010	157
73. Korea Investment Corporation’s Portfolio, 2009	158
74. Korea Investment Corporation’s Assets Under Management by Investment Objective, 2009	158
75. Korea Investment Corporation’s Sector Breakdown for Bonds, 2009	160
76. Currencies and Countries in Korea Investment Corporation’s Portfolio, 2009	161
77. National Pension Service’s Asset Allocation by Year and Long-Term Plan, 2006–2014	163
78. National Pension Service’s List of External Managers, 2009	165
79. Korea Investment Corporation’s Fund Manager Selection Criteria, March 2010	167
80. Korea Investment Corporation’s Fund Manager De-Selection Criteria, March 2010	168
81. Korea Investment Corporation’s Use of Investment Consultants, March 2010	169

82. Korean Sovereign Wealth Funds’ External Mandates and Managers, March 2010	169
83. Kuwait Investment Authority’s Assets Under Management by Investment Objective, 2007	180
84. Kuwait Investment Authority’s Assets Under Management by Investment Geography, 2009	181
85. Recipients of Kuwait Investment Authority’s Investments, 2009	182
86. Kuwait Investment Authority’s External Investment Managers, 2009	183
87. Kuwait Investment Authority’s Investment Consultants, 2009	184
88. Kuwait Investment Authority’s Training Program, March 2010	187
89. Kuwait Investment Authority’s Fund Manager Selection Criteria, March 2010	188
90. Kuwait Investment Authority’s Use of Investment Consultants, March 2010	189
91. Kuwait Investment Authority’s Fund Manager De-Selection Criteria, March 2010	190
92. Kuwait Investment Authority’s External Mandates and Managers	191
93. Government Pension Fund Global’s Fund Market Value, 1998–March 2010	197
94. Government Pension Fund Global’s Change in Fund Market Value, 2Q 2009–1Q 2010	198
95. Government Pension Fund Global’s Key Figures (Part 1), 1Q 2009–1Q 2010	200
96. Government Pension Fund Global’s Key Figures (Part 2), March 2010	201
97. Government Pension Fund Global’s Governance Model, March 2010	203
98. Government Pension Fund Global’s Organization Chart, March 2010	203
99. Government Pension Fund Global’s Breakdown by Asset Class, March 1998–March 2010	205
100. Government Pension Fund Global’s Assets Under Management by Investment Objective, March 2010	206
101. Government Pension Fund Global’s Largest Equity Holdings, March 2010	206
102. Government Pension Fund Global’s Largest Bond Holdings, March 2010	206

103. Government Pension Fund Global’s Assets Under Management by Investment Geography, March 2010	207
104. Government Pension Fund Global’s Fixed-Income Portfolio Credit Rating, March 2010	208
105. Government Pension Fund Global’s Key Figures for Risk, June 2009–March 2010	208
106. Government Pension Fund Global’s External Mandates, 1998–2009	210
107. Government Pension Fund Global’s External Investment Managers, 2009	212
108. Government Pension Fund Global’s Fund Manager Selection Criteria, March 2010	214
109. Government Pension Fund Global’s Fund Manager De-Selection Criteria, March 2010	215
110. Government Pension Fund Global’s Use of Investment Consultants, March 2010	216
111. Government Pension Fund Global’s External Mandates and Managers, March 2010	216
112. Selected Recipients of Qatar Investment Authority’s Investments, March 2010	223
113. Qatar Investment Authority’s Fund Manager Selection Criteria, March 2010	226
114. Qatar Investment Authority’s Fund Manager De-Selection Criteria, March 2010	227
115. Qatar Investment Authority’s Use of Investment Consultants, March 2010	228
116. Qatar Investment Authority’s External Mandates and Managers, March 2010	228
117. Saudi Arabia’s Sovereign Wealth Funds and Similar Vehicles, March 2010	235
118. Saudi Arabia Monetary Agency’s Balance Sheet, June 2009	236
119. Saudi Arabia Monetary Agency’s Fund Manager Selection Criteria, March 2010	239
120. Saudi Arabia Monetary Agency’s Fund Manager De-Selection Criteria, March 2010	240
121. Saudi Arabia Monetary Agency’s Use of Investment Consultants, March 2010	241
122. Saudi Arabia Monetary Agency’s External Mandates and Managers, March 2010	241

123. Temasek Holdings' Subsidiaries, March 2010	248
124. Temasek Holdings' Assets Under Management by Industry, March 2010	253
125. Temasek Holdings' Assets Under Management by Investment Geography, March 2010	254
126. Temasek Holdings' Assets Under Management by Investment Geography, 2005	255
127. Recipients of Temasek Holdings' Investments, March 2010	256
128. Temasek Holdings' Assets Under Management by Liquidity, March 2010	258
129. Temasek Holdings' Fund Manager Selection Criteria, March 2010	259
130. Temasek Holdings' Fund Manager De-Selection Criteria, March 2010	260
131. Temasek Holdings' Use of Investment Consultants, March 2010 ..	261
132. Temasek Holdings' External Mandates and Managers, March 2010	261
133. Government of Singapore Investment Corporation's Annualized Returns Over 20 Years, March 2008 and March 2009	266
134. Nationalities of Employees Working at the Government of Singapore Investment Corporation, 2009	268
135. Boards of the Government of Singapore Investment Corporation, 2009 (Part 1)	270
135. Boards of the Government of Singapore Investment Corporation, 2009 (Part 2)	271
136. Government of Singapore Investment Corporation's Assets Under Management by Investment Objective, 2009	275
137. Government of Singapore Investment Corporation's Assets Under Management by Investment Geography, 2009	276
138. Government of Singapore Investment Corporation's Fund Manager Selection Criteria, March 2010	280
139. Government of Singapore Investment Corporation's Fund Manager De-Selection Criteria, March 2010	281
140. Government of Singapore Investment Corporation's Use of Investment Consultants, March 2010	282
141. Government of Singapore Investment Corporation's External Mandates and Managers, March 2010	283

METHODOLOGY

Global Sovereign Wealth Funds is a thematic report looking at the 13 largest sovereign wealth funds (SWFs) in the world, from the Middle East to China, Norway to Australia. The report aims to bring clarity to the very blurred data published on the funds' overall size and the amount of assets that is addressable by fund managers. Our firm is striving to sort through the anecdotes and begin assembling more actionable data in two forms:

- *Consultative qualitative information* designed to help asset managers and other service providers decide whether, and when, to target SWFs as part of their asset-gathering strategy. Over the past decade the focus of most international asset managers has been on the bigger and higher-profile SWFs in Europe and the Middle East. While that continues to be the case for some, there are those managers who now want to explore opportunities in Asia.

- *Granular quantitative information* that provides a better picture of the true current and potential opportunities in all 13 SWFs. This quantitative information aims to reduce uncertainty regarding metrics such as fund size, investment goals, and product development demand.

Cerulli is one of the few research houses anywhere in the world to have conducted a proprietary survey of local and foreign asset managers for these SWFs. The asset manager survey included questions designed to help us understand the selection criteria of fund managers as well as their views on the use of investment consultants.

This report also provides a general overview of SWFs around the world and the opportunities that these 13 funds may provide asset managers over time; in addition, our analysts have added significant qualitative analysis of other key metrics that we examine across all 13 SWFs. Scores of in-depth interviews—in person and by telephone, among manufacturers and distributors—help wrap all the data points together.

Information in this report was obtained from public and non-confidential sources, as well as proprietary surveys. Cerulli believes the data

herein are reliable and has made every effort to verify statistics presented; however, Cerulli does not guarantee its accuracy or completeness.

Our analysts are especially grateful for the information from the following:

- Abu Dhabi Investment Authority
- The Future Fund (Australia)
- China Investment Corporation
- State Administration of Foreign Exchange (China)
- National Council for Social Security Fund (China)
- Hong Kong Monetary Authority Investment Portfolio
- Korea Investment Corporation
- National Pension Service (Korea)
- Kuwait Investment Authority
- Government Pension Fund Global (Norway)
- Qatar Investment Authority
- Saudi Arabia Monetary Agency
- Temasek Holdings (Singapore)
- Government of Singapore Investment Corporation

REPORT SCOPE

Beneficiaries of this Study

The primary beneficiaries of this research are *global asset management firms* who target sovereign wealth funds as a key part of their asset-gathering strategy.

In addition, this research will prove to be a most useful benchmarking exercise for those *international or regional fund management firms* that have existing relationships with these SWFs.

Finally, the data and supporting analysis in this report will also benefit those *asset management and distribution firms—be they banks or brokerage firms*—in understanding the *asset-gathering landscape* of these SWFs, as it continues to develop.

Report Roadmap

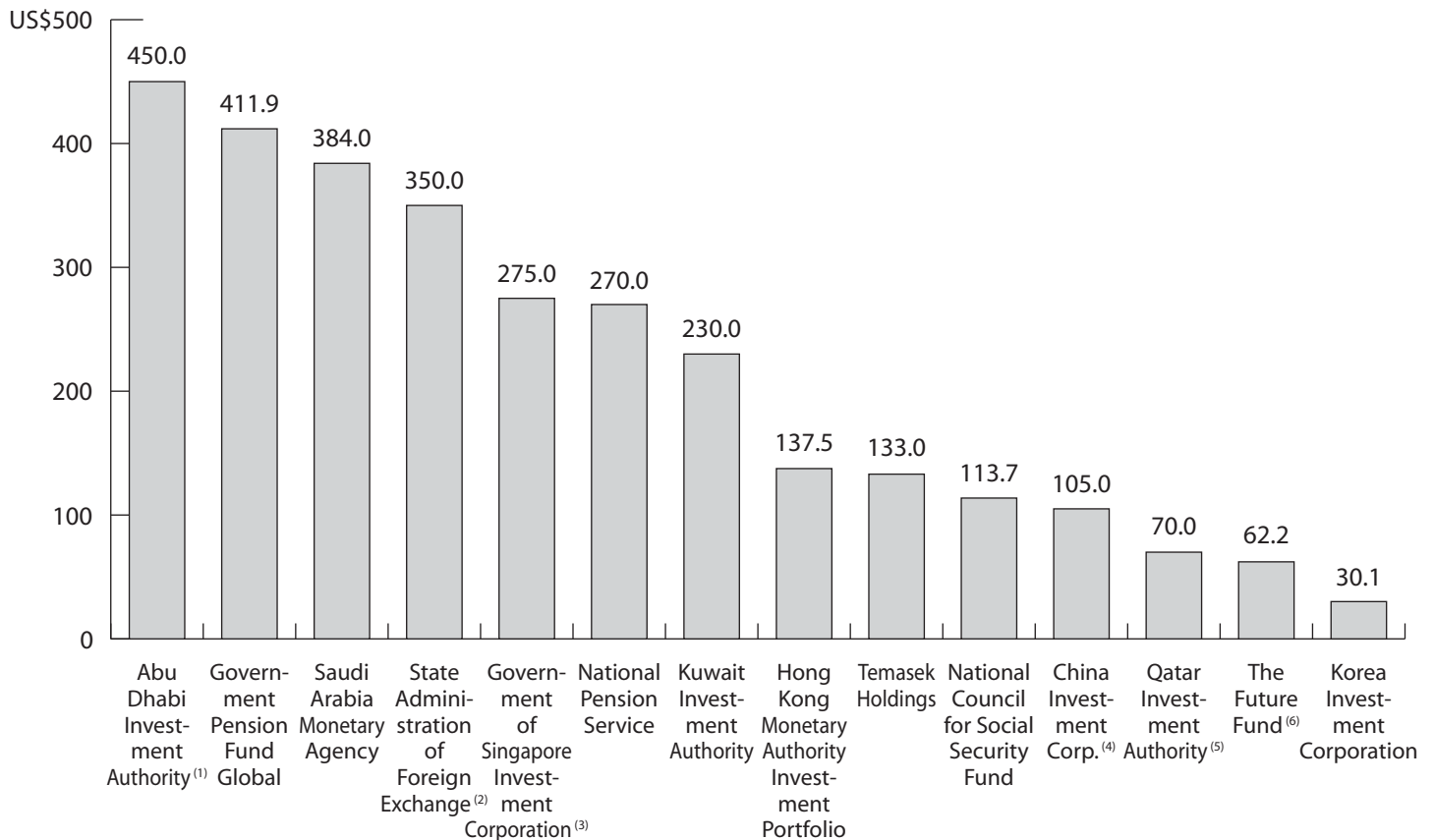
Global Sovereign Wealth Funds has 12 main sections:

- **Introduction** sets the stage for the rest of the report and is a summary of the quantitative analysis, supported by a qualitative assessment of the asset management opportunities among the 13 SWFs featured in this report.
- The next 10 sections shed light on individual SWF. Each section covers the main research themes that Cerulli focuses on: their overall size and the addressability of assets by fund managers.
- Each chapter also looks at an SWF's investment style, its goals, timeframes, and the way it assesses external fund managers.
- For all SWFs in this analysis—apart from Australia's Future Fund and Korea's National Pension Service—we are very pleased to include in the report an in-depth proprietary survey conducted among asset managers of each of these SWFs.
- Finally, this report ends with **Conclusions** for asset managers seeking sovereign wealth fund mandates.

SAMPLE SECTION
from
THE CERULLI REPORT

GLOBAL SOVEREIGN WEALTH FUNDS

EXHIBIT 3: GLOBAL SOVEREIGN WEALTH FUNDS ASSETS UNDER MANAGEMENT, MARCH 2010 (US\$ BILLIONS)



Source: Cerulli Associates

Notes: (1) AUM is between US\$400 billion and US\$500 billion (estimate). (2) US\$2.44 trillion in total reserves, but approximately US\$350 billion invested internationally. (3) AUM is between US\$250 billion and US\$300 billion (estimate). (4) AUM is US\$200 billion (of which approximately US\$105 billion is deployed overseas). (5) AUM is between US\$65 billion and US\$75 billion (estimate). (6) AUM is A\$67.62 billion, including Telstra shares valued at A\$3.9 billion.

Governance and Structure

Transparency and governance are the biggest differences among SWFs

One of the biggest areas of variation is transparency and governance. At one extreme is Norges Bank Investment Management, entrusted with the management of Norway’s fund; it will this year start disclosing total funds under management on a *daily* basis, in addition to its voluminous quarterly disclosure of asset allocation, risk metrics, external mandates, and numerous other items of information. Australia’s Future Fund is similarly transparent (and so, perhaps surprisingly, is the Petroleum Fund of East Timor, much the most transparent emerging market fund).

EXECUTIVE SUMMARY

Heterogeneous Group

This report covers the largest sovereign wealth funds worldwide, and includes both classic sovereign funds and some central bank or pension funds that have sovereign wealth characteristics.

In recent years, it has become popular to refer to SWFs as a US\$3 trillion bloc, as if they represent a force of money acting in concert. In fact, SWFs have as little in common with one another as any other institutional investors, and perhaps even less. Seeing sovereign funds as homogeneous is a mistake. They differ markedly in mandate, source of funds, scale of assets, transparency, and investment technique.

Assets

Few subjects around sovereign wealth funds attract more attention than their assets. Cerulli's analysis suggests that total assets of these largest and most prominent SWFs stand at just more than US\$3 trillion, a figure quite a lot lower than the US\$5 trillion that has often been ascribed to this group of very powerful institutional investors. Further, our analysis suggests that the Abu Dhabi Investment Authority (ADIA), Norway's Government Pension Fund Global, and the Saudi Arabia Monetary Agency (SAMA) alone account for more than US\$1 trillion in assets.

Governance and Structure

One of the biggest areas of variation is transparency and governance. At one extreme is Norges Bank Investment Management, entrusted with the management of Norway's fund; it will start disclosing total funds under management on a *daily* basis this year.

At the other extreme, several institutions have never disclosed their total assets under management. ADIA's AUM number is one of the most sought-after numbers in contemporary finance, although ADIA did take a dramatic leap forward in transparency with the launch of an annual report earlier this year.