Inbound vs. Outbound

Sovereign Wealth Funds: An Evolving Paradigm

Margaret Niles and Charles Purcell
THREE DIFFERENT STORIES

1. Norway: Evolution from Development to Stabilization to Savings

2. Malaysia: Expanding the Savings Mandate

3. Ireland: Inbound Investment Dilemma
Case Study: Norway

Prior to 1990
- Creation of National Insurance Scheme Fund (1967) – tight focus on domestic investment
- Governmental spending in 1970’s involves large scale investment in domestic physical and social infrastructure
- 1980’s Oil Glut causes 20% decline in GDP

Refocus on stabilization
- Creation of Petroleum Fund of Norway (1990)
- Diversified global portfolio of liquid assets
STABILIZATION TO SAVINGS

- Norway (Part 2)
  - More Recent Focus on Saving
  - Change in Fund Names (2006)
    - \textit{Petroleum Fund of Norway} -> Government Pension Fund Global
    - \textit{Insurance Scheme Fund} -> Government Pension Fund Norway
  - Foreign Investment Allocation of GPF Global
    - 1998 – 40% Equities, 60% Bonds,
    - 2010 – 60% Equities, 35% Bonds, 5% Real Estate
    - 2014 – 70% Equities, 25% Bonds, 5% Real Estate (Proposed)
EXPANDING THE SAVINGS MANDATE

Case Study: Malaysia

- Initially Focused Domestically (approximately 90%)
- Drivers for Change
  - Increased sophistication of financial managers
  - Recognition of influences that cause problems in domestic investment
  - Desire to increase long-term savings for future generations
- Looking outward
  - Substantially all new investments are non-domestic
  - New regional offices
    - Kuala Lumpur, Beijing, Mumbai, San Francisco and Istanbul
INBOUND INVESTMENT DILEMMA

- Case Study: Ireland
  - Infrastructure and Development Demands at Home
    - Future generations need savings and investment
  - Legislative Action
    - 2014: National Pensions Reserve Fund -> Ireland Strategic Investment Fund (€6.8bn)
    - Investment allocation turning inbound (amount unknown)
  - Conflicting Priorities
    - Political valuations of economic impact
    - Reconcile with valuations of return maximization
    - Savings of future generations (pensioners) put at risk