

OVERVIEW OF ISLAMIC FINANCE, BANKING AND INSURANCE

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SECTION 22 NOT RELEVANT

GLOBAL TRENDS IN SOVEREIGN WEALTH FUNDS

TALKING POINTS

**Section 22
not relevant**

SECTION 33 INTERNATIONAL RELATIONS

BACKGROUND

Growth in Sovereign Wealth Funds

Sovereign wealth funds (SWFs) have been in existence since the early 1950s, but their total size has increased significantly over the past 10 to 15 years as a result of surging oil prices and Asian exports. According to Simon Johnson, formerly the Chief Economist of the IMF,

the total size of SWFs has increased from US\$500 billion in 1990 to between US\$2 and 3 trillion in 2007:

SWFs with oil and gas revenues as primary sources of funding are estimated to hold more than half of total SWFs assets under management. Countries such as China, Singapore and Australia hold another one third of total SWF assets.

The key challenge facing the growth of SWFs is the concern over their transparency and accountability. The potential consequence is that recipient countries of these funds may tighten their foreign investment regimes to limit SWF investment.

Size of top 25 Global Sovereign Wealth Funds

Ranking:	Country:	Fund Name:	Assets in \$ (US) Billions	Year of Inception
1	United Arab Emirate- Abu Dhabi	Abu Dhabi Investment Authority	\$627.0	1976
2	Norway	Government pension Fund-Global	\$445.0	1990
3	Saudi Arabia	SAMA Foreign Holdings	\$432.0	
4	China	SAFE Investment Corporation	\$347.1	
5	China	China Investment Corporation	\$288.8	2007
6	Singapore	Government of Singapore Investment Corporation	\$247.5	1981
7	Kuwait	Kuwait Investment Authority	\$202.8	1953
8	Russia	National Welfare Fund	\$168.0	2008
9	China	National Social Security Fund	\$146.5	2000
10	China-Hong Kong	Hong Kong Monetary Authority Investment Portfolio	\$139.7	1993
11	Singapore	Temasek Holdings	\$122.0	1974
12	Libya	Libyan Investment Authority	\$70.0	2006
13	Qatar	Qatar Investment authority	\$65.0	2005
14	Australia	Australia Future Fund	\$61.4	2004
15	Algeria	Revenue Regulation Fund	\$47.0	2000

Ranking:	Country:	Fund Name:	Assets in \$ (US) Billions	Year of Inception
16	Kazakhstan	Kazakhstan national Fund	\$38.0	2000
17	United States-Alaska	Alaska Permanent Fund	\$35.5	1976
18	Ireland	National Pensions Reserve Fund	\$30.6	2001
19	Brunei	Brunei Investment Agency	\$30.0	1983
20	France	Strategic Investment Fund	\$28.0	2008
21	South Korea	Korea Investment Corporation	\$27.0	2005
22	Malaysia	Khazanah Naional	\$25.0	1993
23	Iran	Oil Stabilisation Fund	\$23.0	1999
24	Chile	Social and Economic Stabilisation Fund	\$21.8	1985
25	United Arab Emirate-Abu Dhabi	Investment Corporation of Dubai	\$19.6	2006

Source: SWF Institute, Future Find

THE INTERNATIONAL FORUM ON SOVEREIGN WEALTH FUNDS

KEY POINTS

- In April 2009, the International Working Group of Sovereign Wealth Funds (IWG) agreed to establish the International Forum of Sovereign Wealth Funds (IFSWF).

BACKGROUND

In October 2008, the International Working Group of Sovereign Wealth Funds published the Generally Accepted Principles and Practices, known as the Santiago Principles, for SWFs. In preparing these principles the group recognised the potential benefit flowing from the continued exchange of views and study of SWF activities. To facilitate this, the IWG reached a consensus in April 2009 to establish the International Forum of Sovereign Wealth Funds (IFSWF).

The IFSWF comprises a voluntary group of SWFs meeting to discuss issues of common interest, and facilitate an understanding of the Santiago Principles and SWF activities. The IFSWF aims to generate open discussion and does not carry any legal force.

According to the IWG, the mandate of the IFSWF is to support the four underlying objectives of the Santiago Principles, namely:

- To help maintain a stable global financial system and free flow of capital and investment;
- To comply with all applicable regulatory and disclosure requirements in the countries in which they invest;
- To invest on the basis of economic and financial risk and return-related considerations; and
- To have in place a transparent and sound governance structure that provides for adequate operational controls, risk management, and accountability.

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KEY SOVEREIGN WEALTH FUNDS IN THE MIDDLE EAST

KEY POINTS

- Key sovereign wealth funds in the Middle East are:
 - Abu Dhabi Investment Authority (ADIA)
 - Abu Dhabi Investment Council (ADIC)
 - International Petroleum Investment Company (IPIC)
 - Investment Corporation of Dubai (ICD)
 - Bahrain Mumtalakat Holding Company
 - Qatar Investment Authority
 - Kuwait Investment Authority
 - Saudi Arabian Monetary Agency Foreign Reserve Fund
 - Saudi Arabian Public Investment Fund (PIF)
 - Sultanate of Oman State General Reserve Fund
 - Oman Investment Fund

BACKGROUND

United Arab Emirates

Abu Dhabi Investment Authority (ADIA)

ADIA was established in 1976 and it is the largest sovereign wealth fund in the world with US\$627 billion worth of assets under management. The primary source of ADIA's funding comes from its oil revenue and, particularly from the Abu Dhabi National Oil Company. Budget surpluses are also allocated to ADIA and its sister fund the Abu Dhabi Investment Council.

The official investment mandate of ADIA is to diversify against over-reliance on oil revenue and to serve as an intergenerational savings fund. Most of ADIA's assets are managed by external managers. Around 60 per cent is passively managed through indexed funds.

Notable ADIA investments include Citigroup, Gatwick Airport and Lend lease. The Australian Financial Review reported that ADIA would provide A\$600 million towards constructing office towers at Sydney's Darling Harbour.

The fund is chaired by H.H. Sheikh Khalifa bin zayed Al Nahyan, the current President of the United Arab Emirates (UAE) and Emir of Abu Dhabi. The board of directors is heavily represented by the members of Abu Dhabi's royal family.

Sheikh Hamid bin Zayed al-Nahyan, a senior member of Abu Dhabi's ruling family, has been named Managing Director following the death of Sheikh Ahmed bin Zayed al-Nahyan, after a glider accident in Morocco in late March.

Abu Dhabi Investment Council (ADIC)

ADIC was established in 2007 as a sister fund to the ADIA. The investment mandates, governance and source of funding are similar to that of ADIA. There is no publically available information on the total value of assets under ADIC management. However, 30 per cent of Abu Dhabi's budget surplus allocated to ADIC on a periodical basis is its primary source of funding.

ADIC's investment portfolio appears to be heavily concentrated on the domestic banking industry; it currently holds majority stakes in National Bank of Abu Dhabi, Abu Dhabi Commercial Bank, and Union National Bank.

International Petroleum Investment Company (IPIC)

IPIC was established in 1984 by the Abu Dhabi government as an investment vehicle to invest in hydrocarbon industries across the world. It currently has over USD 14 billion in assets under management. The fund now has major stakes in 14 leading hydrocarbon companies which includes a 64 per cent stake in the Austrian petrochemicals company, Borealis AG. Its primary source of funding is from Abu Dhabi's revenue.

The fund is chaired by Sheikh Mansour Bin Zayed Al Nahyan, a member of the ruling royal family of Abu Dhabi.

Investment Corporation of Dubai (ICD)

ICD was established in 2006 as the investment arm of the government of Dubai. Its purpose is to reduce Dubai's reliance on the oil export industry and to better manage the performance of Dubai's state owned enterprises.

ICD currently has USD \$ 19.6 billion worth of assets under management and its investment portfolio is heavily tilted towards domestic firms across several industries such as the financial, real estate and transport industries.

The fund is chaired by Sheikh Mohammed bin Rashid Al Maktoum, the Prime Minister and Vice-President of the United Arab Emirates and the Ruler of Dubai.

Bahrain

Bahrain Mumtalakat Holding Company

Bahrain Mumtalakat Holding Company (Mumtalakat) is the SWF for the Government of Bahrain. It was established in June 2006 as an independent holding company to manage Bahrain's non-oil and gas assets. According to Mumtalakat's latest official financial statement (December 2008), it has USD 14 billion worth of assets under its management. The primary source of funding comes from oil revenue.

The official investment mandates of Mumtalakat are to create a balanced portfolio of national, regional and international investments to achieve high returns and spread risk through geographic and industrial diversification. Mumtalakat's current investment portfolio is heavily weighted to the local Bahrain economy with a focus on the financial services, real estate, and transport sectors.

Notable investments include Gulf Air, Bahrain's national airline, national telecoms operator Batelco and the National Bank of Bahrain. Mumtalakat also holds a 30 percent stake in McLaren Group Limited.

Mumtalakat is chaired by Sheikh Ahmed bin Mohammed Al Khalifa, Bahrain's Minister of Finance and a member of Bahrain's ruling royal family. The chief-executive of the company is Talal Al Zain, concurrently the chairman of Gulf Air and a member of the Board of Directors of the Economic Development Board. Al Zain is a veteran international banker with past experiences at Investcorp, Chase Manhattan and Citibank.

Apart from the exclusively local-based Board of Directors, the executive management of the company has a large number of expatriate fund managers occupying leading positions such as chief operating officer and chief investment officer.

Qatar

Qatar Investment Authority (QIA)

QIA was established by Qatar in 2005 as the principal vehicle to diversify the country's economy from its over-reliance on the commodity export industry and to hedge against energy price volatility. It currently has USD 65 billion in assets under management. The primary source of funding comes from export earnings of oil and liquefied natural gas (LNG).

The official investment mandate of QIA is to achieve revenue diversification for the government that relies heavily on the export of petroleum and LNG.

Notable portfolio investments include a 27.2 per cent holding in the British retail giant Sainsbury, 15.1 per cent in the London Stock Exchange and other investments in banks such as Barclays and Credit Suisse.

The fund is chaired by H.H. Sheikh Tamim bin Hamad Al Thani, the heir apparent to the Qatari crown. Members of the royal family are also heavily represented on QIA's Board.

Saudi Arabia

Saudi Arabian Monetary Agency Foreign Reserve Fund

The foreign reserve fund of the Saudi Arabian Monetary Agency is the de facto SWF of Saudi Arabia. It currently manages USD 432 billion worth of assets and it principally invests in low risk assets such as sovereign debt. The primary source of funding is Saudi Arabian oil revenue.

The foreign reserve fund is managed by the Saudi Arabian Monetary Agency (SAMA).

Public Investment Fund (PIF)

The PIF was established in 2008 by the Saudi Arabian government. It currently has USD 5.3 billion to invest. The Saudi government has mandated PIF to invest in equities, bonds, real estate, foreign currencies and commodities in Saudi Arabia and abroad.

According to Saudi Arabia's Finance Minister Ibrahim al-Assaf, PIF is looking at investment opportunities in technology and auto parts and industries where he believes that Saudi Arabia has a competitive advantage.

Sultanate of Oman

State General Reserve Fund

The State General Reserve Fund of Oman was established in 1980. According to the US based Sovereign Wealth Fund Institute, it currently has USD 8.2 billion worth of assets under management.

There is very limited information available on the investment mandates and destinations of this fund. The fund is administered by the Ministry of Finance of Oman. The primary source of funding is oil and gas revenue.

Oman Investment Fund

There is little publically available information on this fund. Its activities in Australia include a \$160 million strategic partnership with Becton Property Group in retirement villages.

Kuwait

Kuwait Investment Authority (KIA)

The KIA was established in 1953 by Kuwait's ruler Sheik Abdullah Al-Salem Al-Sabah as a vehicle to invest oil revenue and reduce Kuwait's reliance on a single non-renewable resource. KIA currently has USD 202.8 billion in assets under management. The primary source of funding for KIA is oil revenue. The government is required to transfer 10 per cent of oil revenue into the Reserve for Future Generations (one of the funds under KIA's management) on an annual basis.

KIA's investment mandate is to achieve returns on Kuwait's financial reserves, which are intergenerational savings. KIA pursues a passive investment strategy and, according to its managing director, KIA does not seek operational control. KIA has been investing globally since its establishment and it holds a diversified portfolio including in firms such as Daimler, BP, Citigroup and Merrill Lynch.

The fund is chaired by the Minister of Finance and with other seats allocated to the Energy Minister, the Governor of the Central Bank of Kuwait, Undersecretary of the Ministry of Finance, and 5 other nationals.

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**Section 22
not relevant**