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A tour d'horizon of Sovereign Wealth Funds (and of the issues they raise), with Lindsay Tomlinson (Barclays Global Investors), Gerard Lyons (Standard Chartered Bank) and John Nugee (State Street Global Advisors) held Monday, February 4, 2008 at the City Marketing Suite, Basinghall Street, London, EC2P 2EJ, from 12:30-2:15pm.

Sovereign wealth funds have been around for half a century yet only now have they started to cause concern among politicians and the public. There are clear reasons for this, the first speaker said. First is their sheer scale: with up to \$3 trillion of assets they are three times the size of hedge funds and could double within five years thanks to oil wealth and Asian economic growth. Second is their role in investing in – and bailing out – key Western banks, and lastly is the “East-ernisation” of the world economy and the fact that the new dominant economies are exerting their power. The West is anxious to maintain dominance. One reaction typified by the UK is to welcome them but say they must obey local laws. The other is a call for codes of conduct, which the speaker said would be toothless and smacked of arrogance given that Western economies needed the capital.

The second speaker said SWF should be seen as part of a more general rise in state capitalism. For example, the Russian SWF was run as a commercial organisation with a transparent strategy. However it was only one part of state-owned operations such as Gazprom that operated on a different basis. From their perspective, SWFs see themselves as long-term investors. However Western governments are concerned by issues of fiduciary responsibility: what is the role of the policies of the government that owns the SWF? The speaker said that any move towards a code of conduct should be on a multilateral basis. However even if one was adopted it was an open question whether it could be enforced – SWFs would simply bypass countries that were hostile to them. The UK's view was that if one had a competition and regulatory regime in place, ownership was irrelevant. However even for the UK national security may be an issue at some point.

The third speaker said it was important to understand SWFs were not homogenous in terms of their size, their equity/debt make-up or their motives, whether it was for stability, pensions or diversification. The speaker had spoken to one SWF manager who claimed not to know what his purpose was! There is no SWF community and they can disagree violently with another's behaviour. The West's concerns can be split into appropriateness of ownership and particularly the role of state ownership; and whether their actions were market-friendly. The second speaker noted that while there was a lot of debate over the foreign origin of SWFs it was actually their state-ownership that was the real worry.

Several members on the floor said the issue became more acute when SWFs seemed to be run for non-commercial purposes. Another member asked whether sovereign tax immunity – under which government do not tax financial activities of other governments – would continue to apply as SWFs blossomed in size and number. Another posed the

question of what would happen if SWFs wanted to sell their assets and if they wanted to do so simultaneously. Could this trigger a run on the already weak dollar? One member said that SWFs needed the West's financial system as much as it needed them and would not anything intentionally.

One member asked whether the current crisis was similar to the oil crisis of the 1970s when high oil prices led to a significant transfer of wealth towards the oil-rich countries. The third speaker said the similarities were striking – the US embroiled in an unpopular war, a lame duck president, record high gold and oil prices and fears of global recession. However he said a key difference was that while the only alternative then, the Soviet Union, was bankrupt, there was a clear alternative now. The second speaker said that the political and military power had not shifted and the West would muddle through. The third speaker said that while China was not ready to take on the power of the global economic superpower it would be in 20 or 25 years. Either way, he said, power was moving permanently from the West to the East.