



News release

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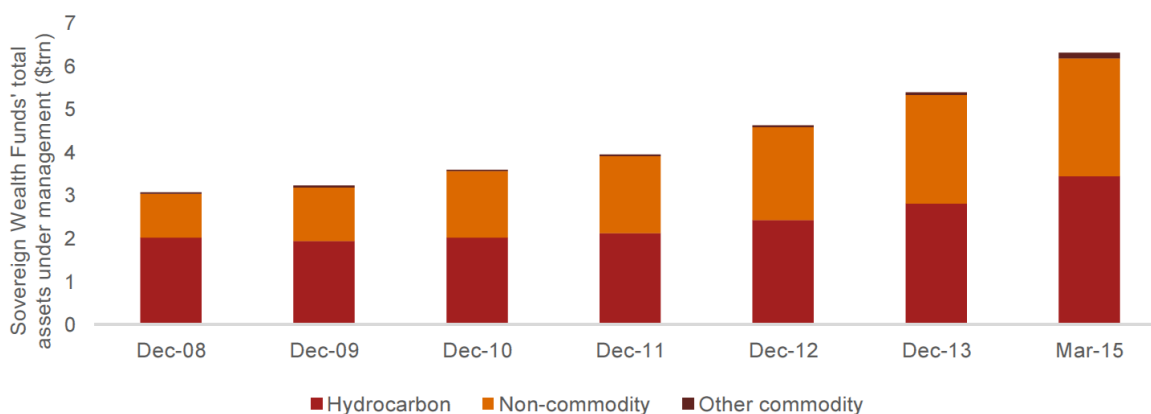
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Time to review sovereign investment funds, say PwC economists

Now is the time for policymakers to review their sovereign investment funds and question whether different objectives could be beneficial for their economy.

Since the financial crisis, sovereign investors (SI¹) have become an increasingly important feature of the global economy. For example, the total global assets Sovereign Wealth Funds manage increased from around US\$3 trillion at the end of 2008 to just over US\$6 trillion in March 2015 (see Figure 1).

Fig 1: Sovereign Wealth Fund's assets under management have approximately doubled since the financial crisis



Source: 2015 Preqin Sovereign Wealth Fund Review

Over this time, the global economy has changed with knock-on effects on SIs, say PwC economists:

- **Moving on from the crisis:** The economic downturn had a significant impact on some SIs which had to provide funding to their governments or prop up domestic financial sectors. For example, Ireland's National Pensions Reserve Fund was initially set up to fund future pension payments, but during the crisis, a large chunk of its assets were used to bailout the banks. Now, the recovery is well underway in most peripheral economies. In Ireland, the sovereign fund has become the Ireland Strategic Investment Fund with the aim of supporting 'economic activity and employment in the State.'

¹ SIs are broadly defined as any organisation which consists of a 'pool of assets owned and managed directly or indirectly by government to achieve national objectives.'

- **US monetary policy and a strong dollar:** The crisis saw a prolonged period of expansionary monetary policy in the US and other advanced economies. But this is about to change. Interest rate rises are expected to occur soon (although the developments in China may delay this even further) and the dollar has been strong for some time in anticipation of this.
- **Oil prices - lower for longer:** Over 50% of SWFs' assets under management are financed by hydrocarbons. However oil and gas prices are expected to remain relatively low up to 2020. The IMF projected in July that oil prices would rise slowly to around \$70/bbl. by 2020, but this was before recent falls and events in China led to a renewed sharp decline in oil prices.

PwC senior economist Richard Boxshall says: "In light of these changes, the current objectives of SIs may no longer be appropriate. We think now is the time for policymakers to review their sovereign investment funds and ask whether different objectives could be beneficial for their economy."

Based on a review of the stated objectives of 74 SIs, PwC has established a framework of objectives, with the three main ones being capital maximisation, stabilisation and economic development. When reviewing SIs' objectives, policymakers need to consider what their fund has been doing recently and what they want the fund to do over the next decade, which may involve a change in strategy.

PwC's economists have identified three questions that policymakers need to answer linked to the changes to the global economy:

1. Moving on from the crisis, what structure does the domestic economy need to take so that there are several sustainable and diversified drivers of growth?
2. Will a tightening monetary policy cycle in the US mean that the US dollar remains strong for a prolonged period of time?
3. Will changes to demand and supply factors in the oil market keep prices low over the medium-term?

Says Richard Boxshall: "After policymakers have taken a view on all of these questions, they will be better positioned to begin assessing whether a change is needed to their SIs' objectives. The chosen objectives should be at the heart of measuring the fund's performance. Strong investment returns, while important, are not necessarily a sign of success. The fund has to meet its macroeconomic objectives to be deemed truly successful - that is the benchmark against which SIs' performance should ultimately be assessed."

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Notes:

The September edition of PwC's *Global Economy Watch* can be found at www.pwc.com/gew in the week commencing 14th September.

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