TheCityUK

Sovereign Wealth Funds:

Global trends and the UK’s role in the evolving landscape for Sovereign Investment Vehicles

About TheCityUK

TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK and internationally that drive competitiveness, support job creation and enable long-term economic growth. The industry contributes 12% of the UK's total economic output and employs over 2.4 million people – with two thirds of these jobs outside London across the country's regions and nations. It pays more corporation tax than any other sector and is the largest net exporting industry. The industry plays an important role in enabling the transition to net zero and driving economic growth across the wider economy through its provision of capital, investment, professional advice and insurance. It also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and manage risk.

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Sovereign Wealth Funds (SWFs) and other Sovereign Investment Vehicles (SIVs): a summary

SWFs' assets under management grew by **7% a year** over the last decade, to

$12.7TRN

in 2023

MORE THAN HALF

of **SWF assets** come from **commodity exports**

Public Pension Funds had assets under management of

$23.1TRN

in 2023

In 2023, **Public Pension Funds** and **SWFs invested**

$26.1BN

in **'green' assets**

7 OF THE 10

largest **SWFs** are from **emerging market** and **middle-income economies**

SWFs invested

$125BN

in 2023

Over the last decade to 2023, the **UK** attracted

$46BN

per year on average in **Foreign Direct Investment inflows**

The **UK** accounted for

11%

of the **value of SWFs' deals** made between January 2022 and March 2023

Foreword

The landscape of global geopolitics, economics and investment has changed immeasurably since TheCityUK last published research on Sovereign Wealth Funds (SWFs), in 2021. Geopolitical risk has skyrocketed, and governments around the world have considered more activist approaches to facilitating more inclusive growth. In addition, medium-term challenges, such as ensuring sustainable growth aligned with the transition to net-zero carbon emissions, have become even more pressing.

In this context, Sovereign Investment Vehicles (SIVs)—with SWFs prominent among these—have become ever more important global investors because of their substantial assets and their strategic, long-term focus. SWFs' assets under management have increased significantly over the last decade, rising by an average of 7% a year from $6.7trn in 2014 to $12.7trn in 2023, due to growth of existing SWFs' assets as well as the launch of new funds. In addition, we calculate that assets under management of public pension funds—one of the main types of SIV—recorded annual average growth of 5% between 2018 and 2023 but managing almost twice as many assets as SWFs ($23.1trn in 2023). Given that nine of the top ten SWFs are in Asia and the Middle East, these trends are a testament to the changing geography of global finance and investment flows. As far as the UK is concerned, its nearly unrivalled reputation as a centre for international fund management includes management of SWF assets. Moreover, the UK remains a world leader in attracting foreign direct investment (FDI)—including investment by SWFs—ranking seventh globally as a destination for inward FDI.

In addition to quantitative analysis of assets under management and asset allocation, this new economic research report offers a taxonomy of SIVs, and a qualitative description of their characteristics and aims. In recent years, the number of such vehicles and funds has proliferated, but confusion as to the true number and size of SIVs and SWFs abounds because of varying definitions and overlapping nomenclature. In the same way that green bonds are in fact a diverse range of instruments (encompassing widely varying sizes, structures, issuer types, etc) linked only by a common (self-determined) label, so SIVs have a common feature—capitalisation (total or partial) with public funds—but are not a unitary class of instruments. Our research therefore seeks to increase understanding of these vehicles; better understanding should in turn lead to more effective engagement with existing vehicles, and more strategic approaches to establishing or recapitalising new vehicles.

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Executive summary

- This report defines Sovereign Wealth Funds (SWFs) in the context of the broader universe of Sovereign Investment Vehicles (SIVs), such as the UK's new National Wealth Fund. SWFs differ from other SIVs in terms of ownership structure, investment strategies and/or objectives.
- The main types of SWFs are stabilisation funds and savings funds. The main types of other SIVs are strategic investment funds, public pension funds and state-owned enterprises.
- SWFs' assets under management (AuM) have increased significantly over the last decade, with an average annual growth rate of 7%. AuM grew from $6.7trn in 2014 to $12.7trn in 2023.
- More than half of SWFs' assets originate from commodity exports–an average of 56% over the last decade up to 2023. Moreover, the assets from commodity exports grew at an average annual rate of 8.6% over the decade to 2023, compared to average annual growth of 6.3% for non-commodity SWFs' assets.
- China's ownership of four of the ten largest SWFs means that on a country basis, it had the largest share of SWF AuM, with around a fifth of the global total in 2023. It was followed by the UAE (16.9%) and Norway (12.6%). Countries from the Middle East are prominent in individual country rankings; for instance, Saudi Arabia had 7.5% of the total SWFs' assets, and Kuwait 7.2%.
- SWFs invested $125bn in 2023, 20% less than in 2022; however, SWF investments grew by an annual average of 16.4% between 2018 and 2023. They made 324 investments in 2023, a slight decrease compared to the 350 in 2018 and down from a peak of 512 deals in 2021, according to Global SWF data (estimates of the size of investments differ widely due to varying definitions of SWFs).
- SWFs also participate in co-investments with private equity funds, pension funds and specialist advisers. Between 2018 and 2023, the value of co-investments and the volume of deals involving private equity or venture capital firms partnering with SWFs showed a negative trend, except in 2021 when there was a rebound in transactions. However, in 2023 the value of this kind of co-investments increased by 12% compared to 2018, despite the reduction in the number of deals.
- SWFs are significant drivers of the transition to renewable energy and broader sustainability. In 2023, SIVs (PPFs and SWFs) invested $26.1bn in 'green' assets (including renewable energy and battery storage or electric vehicles–more than double the invested value in 'black' assets (including carbon-based fossil fuels, nuclear and mining).
- The UK is a world leader in attracting foreign direct investment (FDI), with a reputation for being open and welcoming to global investors. Over the last decade to 2023, the UK attracted $46bn per year on average in FDI inflows. There are numerous recent examples of investment into the UK by SWFs.
- The UK is one of the largest and most open markets in the world for fund management. This makes the UK an important centre for management of SWF assets. London is a preferred international base of operations for SWFs.

Introduction: Sovereign Investment Vehicles

Distinguishing Sovereign Wealth Funds (SWFs) and other Sovereign Investment Vehicles (SIVs)

For years many governments have created different investment schemes in order to manage and invest their assets strategically. In this context, some governments around the world have established Sovereign Investment Vehicles to pursue national macroeconomic goals, and to enable stable and sustainable growth. SIVs are government-owned investment entities that seek to generate financial returns for the nation. Our new research will focus on SWFs, which are one type of SIV. First, however, this report will set out the universe of SIVs, to better contextualise SWFs.

SWFs

According to the International Working Group of Sovereign Wealth Funds (IWG) and its Santiago Principles 2008, in general, SWFs are special funds created by governments for macroeconomic purposes that hold, manage, or administrate assets to achieve financial objectives, and employ a set of investment strategies which include investing in foreign financial assets.[1] Moreover, according to IWG, there are three main characteristics that help to differentiate a SWF from other SIVs[2]:

1. Ownership: SWFs are owned by the general government, including both central government and subnational governments.
2. Investment: SWFs' investment strategies include investments in foreign assets, and exclude those funds that solely invest in domestic assets. (See Figure 17 for detail of SWF investment destinations).
3. Objectives: SWFs, established by a government for macroeconomic purposes, are created to invest government funds to achieve financial objectives and might have liabilities, allowing SWFs to employ a wide range of investment strategies with a medium to long-term time scale.

The third point is critical. SWFs exist to invest government funds—i.e., surpluses. In terms of funding, SWFs' assets are commonly established out of current-account surpluses, official foreign currency operations, the proceeds of privatisations and fiscal surpluses, or receipts resulting from commodity exports.

In practice, all of the world's largest SWFs with the exception of funds from Greater China and Singapore manage commodity wealth that can be seen as an 'excess' that a government obtain from its foreign transactions. These commodity SWFs can be classified as follows:

1 International Working Group of Sovereign Wealth Funds, 'Sovereign Wealth Funds, Santiago Principles-Appendix I', (2008), p.27, available at: https://www.ifswf.org/sites/default/files/santiagoprinciples_0_0.pdf

2 Ibid.

Stabilisation funds usually are set up by countries rich in natural resources, having balance of payments-surpluses and/or having fiscal surpluses to provide budgetary support and protect against sharp domestic economic fluctuations. These funds are built up to decrease the volatility of government revenues. One example is the Mexican Budgetary Income Stabilisation Fund, whose primary objective is to insulate the budget and the economy against commodity price swings. The fund's inflow comes from a special levy on oil revenues and 40% of excess revenues, when the observed oil price is higher than the one set in the budget, and in the event that in the current fiscal year there is a saving or budgetary savings in the financial cost of the debt, these can also be allocated.[3,4]

Savings funds have longer-term wealth creation as a goal and are intended to share wealth across generations. For countries rich in natural resources, savings funds transfer non-renewable assets into a diversified portfolio of international financial assets to achieve long-term objectives. One example is Norway's Government Pension Fund Global, which was set up to shield the economy from ups and downs in oil revenue. It also serves as a financial reserve and as a long-term savings plan so that both current and future generations benefit from the country's oil wealth.[5]

Other SIVs

Other SIVs manage a mix of assets obtained from the public and private sector—funds that are not necessarily related to government transactions. Types of SIVs that are not SWFs include:

Government development funds, or Strategic Investment Funds (SIFs), allocate resources for funding priority domestic socioeconomic projects or key economic sectors, such as infrastructure. For instance, the UK National Wealth Fund (previously the UK Infrastructure Bank), has a total capitalisation of £27.8bn, including £5.8bn in new funding announced in October 2024. It will be part of the UK government's new Industrial Strategy, aiming to leverage private-sector investment in priority sectors. (See pg 20 for more detail.) See the shaded box for more detail on SIFs.

Public Pension Funds (PPFs) owned by a government that buys, holds and sells assets on behalf of its pensioners with the objective of financial returns; these funds have explicit liabilities that come from pension contributions. For instance, Government Pension Investment Fund (GPIF) is the fund for employees of the public sector in Japan; the fund aims to achieve investment returns for long-term public pension benefits with minimal risk for the pension system.[6]

State-owned enterprises are companies over which the state has significant control. This category includes a wide variety of entities, including manufacturing and financial firms. State-owned enterprises can themselves undertake foreign investment. For instance, Chinalco in China is a state-backed holding company established to be the primary aluminium producer; it is directly supervised by the central government and a pilot state-owned capital investment company.[7]

3 International Forum of Sovereign Wealth Funds (IFSWF), 'Budgetary Income Stabilization Fund', available at: https://www.ifswf.org/member-profiles/fondo-de-estabilizaci%C3%B3n-de-los-ingresos-petroleros-feip

4 Senado de la Republica Mexicana, 'Senado avala reformas para fortalecer Fondo de Estabilización de Ingresos Presupuestarios', (Octubre 2023), available at: https://comunicacionsocial.senado.gob.mx/informacion/comunicados/7273-senado-avala-reformas-para-fortalecer-fondo-de-esta-bilizacion-de-ingresos-presupuestarios#:~:text=El%20Fondo%20de%20Estabilizaci%C3%B3n%20de%20los%20Ingresos%20Presupuestari-os%20(FEIP)%20es,p%C3%BAblicas%20y%20la%20econom%C3%ADa%20nacional.

5 Norges Bank Investment Management, 'About the fund', available at: https://www.nbim.no/en/the-fund/about-the-fund/

6 Government Pension Investment Fund, 'About GPIF', available at: https://www.gpif.go.jp/en/about/

7 Chinalco, 'Overview', available at: https://www.chinalco.com.cn/en/en_gywm/en_qyjj/

SIFs and their relationship with SWFs

SIFs and SWFs both come under the aegis of SIVs, but, according to the World Bank, for a fund to be considered a SIF, it needs to have the following characteristics:

1. 'Are initiated, and fully or partly capitalised, by one or more governments, or by government-owned global or regional development finance institutions (quasi-sovereign entities).
2. Invest primarily in unlisted assets—either domestically or thematically (for example, by making climate-friendly investments)—to achieve financial returns as well as to fulfil a policy objective (double bottom line), with the latter sometimes referred to as the pursuit of economic returns.
3. Aim to mobilise commercial co-investment at the fund or project level.
4. Provide long-term patient capital, primarily as equity, but also as quasi equity and debt.
5. Operate as professional fund managers on behalf of their investors.
6. Are established as pools of assets (or funds) through a variety of legal structures.'

In practice, there is significant overlap between SIFs and SWFs, but among the key points of differentiation are the following:

- SWFs primarily invest abroad, and SIFs primarily invest in strategic activities domestically.
- While SWFs usually emerged in contexts of abundance, to manage excess fiscal revenues from natural resource exports or large foreign exchange reserves, SIFs have been a response to scarcity.

Moreover, SIFs aim to attract commercial capital from private investors and other entities, such as development finance institutions or SWFs, which may allocate public capital but under commercial conditions. SIFs can either be established specifically to fulfil a SIF mandate, or function as part of a broader SWF or public policy objective. These funds might operate solely to achieve a policy-driven double bottom line, or be integrated into a larger SWF with conventional roles. For example, the Nigeria Infrastructure Fund (NIF), incorporated within the Nigeria Sovereign Investment Authority (NSIA), exemplifies the latter model. SIFs can also be formed within an organisation that carries out additional public policy tasks, for instance, Malaysia's Khazanah Nasional invests its resources with a policy-oriented mandate while also acting as a holding company for selected state-owned assets.

Source: World Bank, 'Strategic Investment Funds report' (2022)

The distinctions between SWFs and other types of government investors are blurring. In the public debate, 'SWF' has been used to refer to many types of government-controlled investment vehicles with different revenue sources, goals, and investment approaches.[8] In consequence, the exact number of SWFs depends on the definition. For instance, Global SWF asserts that there are over 170 SWFs in the world; however, they also acknowledge that their definition of SWF is flexible and is driven by market interest.[9] Not all the SWFs included in their analysis could therefore be said to be SWFs according to the characteristics established by the International Working Group of Sovereign Wealth Funds and its Santiago Principles 2008.

8 International Monetary Fund, 'Economics of Sovereign Wealth Funds', (2010), p.4, available at: https://www.elibrary.imf.org/display/book/9781589069275/9781589069275.xml

9 Global SWF, '2024 Annual Report', (2024), p.50, available at: https://globalswf.com/reports/2024annual

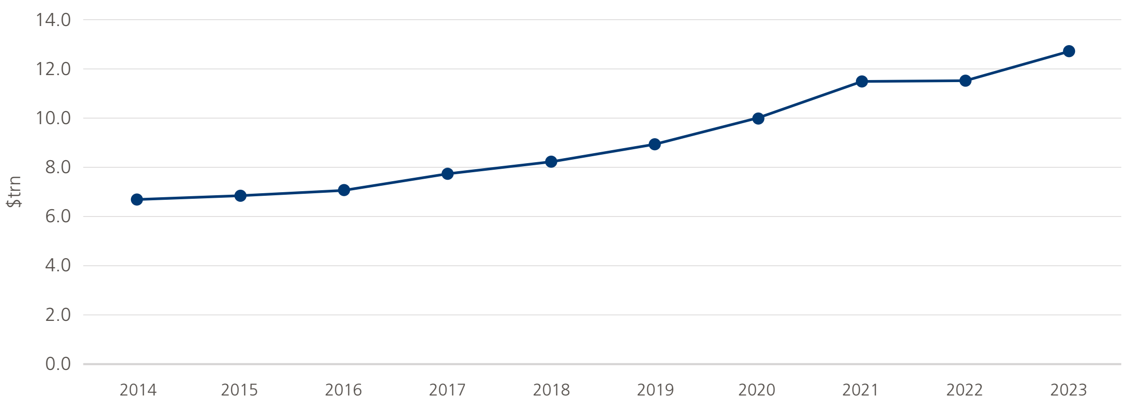
Sovereign funds' assets under management

SWFs

Total assets under management (AuM) of SWFs have increased significantly over the last decade, at an average annual growth rate of 7% (from $6.7trn in 2014 to $12.7trn in 2023), according to TheCityUK calculations based on SWF Institute data. This was due to the growth of existing SWFs' assets as well as the launch of new funds; even in 2020 and 2021, years affected by the Covid-19 pandemic, the SWF AuM registered a strong annual growth of 12% and 15%, respectively. Moreover, SWFs' global assets experienced fast growth in 2023, rising 10% year on year (Figure 1).

Figure 1: SWF assets under management, 2014-23

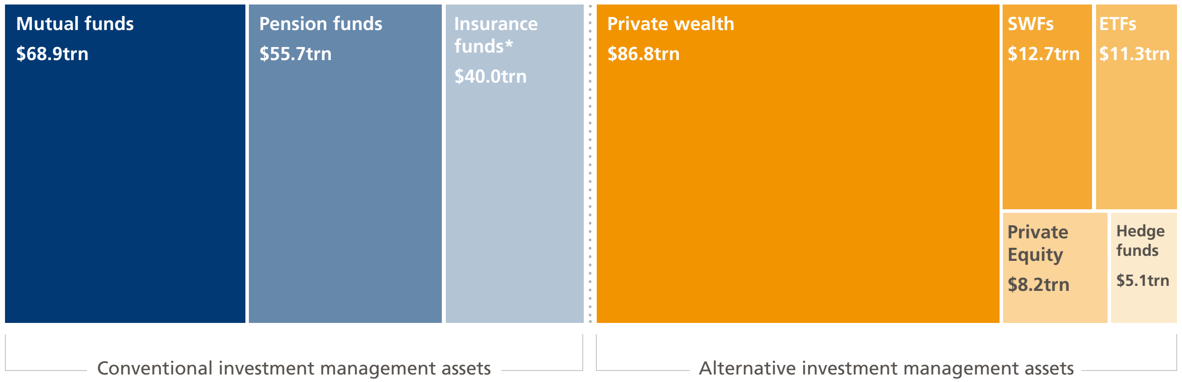
Source: SWF Institute



Within the global fund management industry, assets of SWFs ($12.7trn) are larger than those of ETFs ($11.3trn), private equity ($8.2trn) and hedge funds ($5.1trn), but still much smaller than conventional fund management assets (pension, insurance and mutual funds); for more information see Figure 2.

Figure 2: Global fund management industry, assets under management, 2023

Source: Thinking Ahead Institute, SWF Institute, Investment Company Institute, International Association of Insurance Supervisors, McKinsey, Barclay Hedge, Capgemini Research Institute



*2022

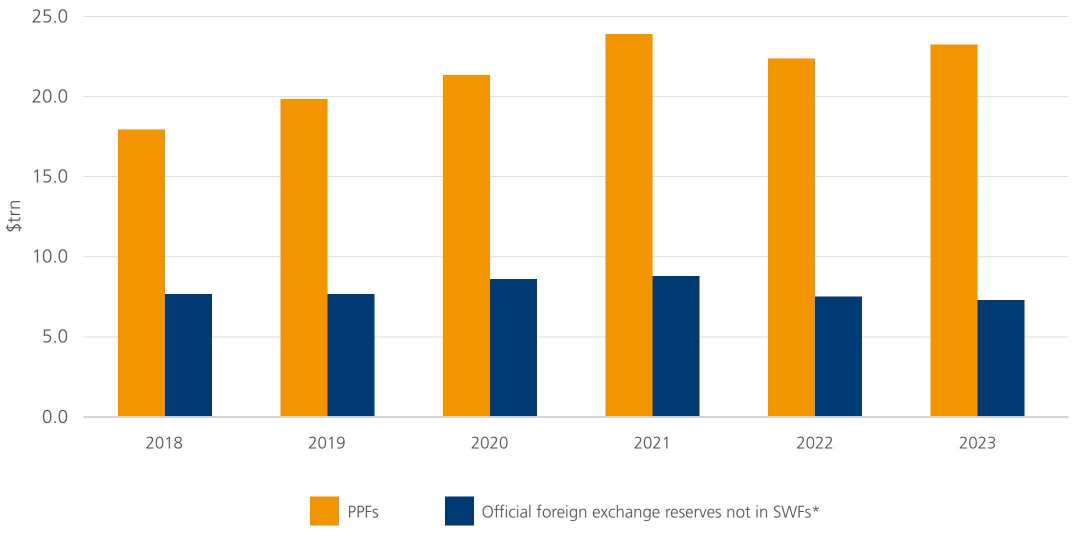
Estimates of the size of this market differ widely due to varying definitions of SWFs and limited disclosure and lack of transparency of a number of SWFs. For instance, according to Global SWF, SWFs' global AUM totalled £11.2bn in 2023. This is £1bn less than the total estimated by the SWF Institute; the discrepancy is largely on account of differences in classification of funds as SWFs or not. Transparency in the market has gradually been improving since the development and implementation of the Santiago Principles in 2008, a list of best practices for SWFs.

Other SIVs

According to TheCityUK calculations based on Global SWF data, PPF AuM showed an average annual growth of 5% between 2018 and 2023 but managing almost twice as many assets as SWFs; in 2018 PPFs managed $17.9trn assets and in 2023 the amount increased to $23.1trn. In contrast, according to TheCityUK estimates based on International Monetary Fund (IMF) data, official foreign exchange reserves (not in SWFs) rose from $7.5trn in 2018 to $8.6trn in 2021, before declining to $7.2trn in 2023 (Figure 3).

Figure 3: Other SIVs' assets, 2018-23

Source: SWF Institute, Global SWF, and TheCityUK estimates based on IMF data



*Estimates based on IMF data

Sovereign Wealth Funds: the global context

SWFs have existed for over 100 years; however, their profile has risen considerably in recent decades.[10] This report focuses on the analysis of SWFs due to the substantial size and high liquidity of their assets that have turned the government sector into an important international investor group.

Sources of funds

As discussed in the previous section, SWFs are only one of the many channels through which governments deploy their financial assets. The funding of SWFs comes from various sources, which can be combined. SWFs are generally the result of current account surpluses from: exports of oil and other commodities (commodity funds) or manufactured goods (non-commodity funds); fiscal surpluses; public savings; and privatisation receipts.

In terms of average current account imbalances, the US has run the largest deficit over the past decade up to 2023, whereas Germany and China have been the top two countries running surpluses (Figure 4).[11] However, the Chinese economy has been rebalancing and restructuring in recent years, shifting the country from being an investment- and export-based economy to more of a consumption-based economy; moreover, China's GDP growth is projected to slow to 4.5% year on year in 2025, down from an annual average of 4.7% in the preceding five years, and to continue to decelerate over the medium term to 3.3% by 2029, due to slowing productivity growth.[12,13] These factors are likely to constrain growth in its SWF assets in the next few years.

10 SWF Institute, 'What is a sovereign wealth fund?', available at: https://www.swfinstitute.org/research/sovereign-wealth-fund

11 TheCityUK calculations based on IMF, 'World economic outlook database', (October 2024), available at: https://www.imf.org/en/Publications/WEO/weo-database/2024/October

12 IMF, 'World Economic Outlook', (July 2024),p.94, available at: https://www.imf.org/en/Publications/WEO/Issues/2024/07/16/world-economic-outlook-update-july-2024#:~:text=The%20Global%20Economy%20in%20a%20Sticky%20Spot,-July%202024&text=Global%20growth%20is%20projected%20to,is%20complicating%20monetary%20policy%20normalization.

13 IMF, 'World Economic Outlook', (October 2024), p.119, available at: https://www.imf.org/en/Publications/WEO/Issues/2024/10/22/world-economic-outlook-october-2024

Figure 4: Largest current-account surplus and deficit economies, 2014-23 average

Source: TheCityUK calculations based on IMF data

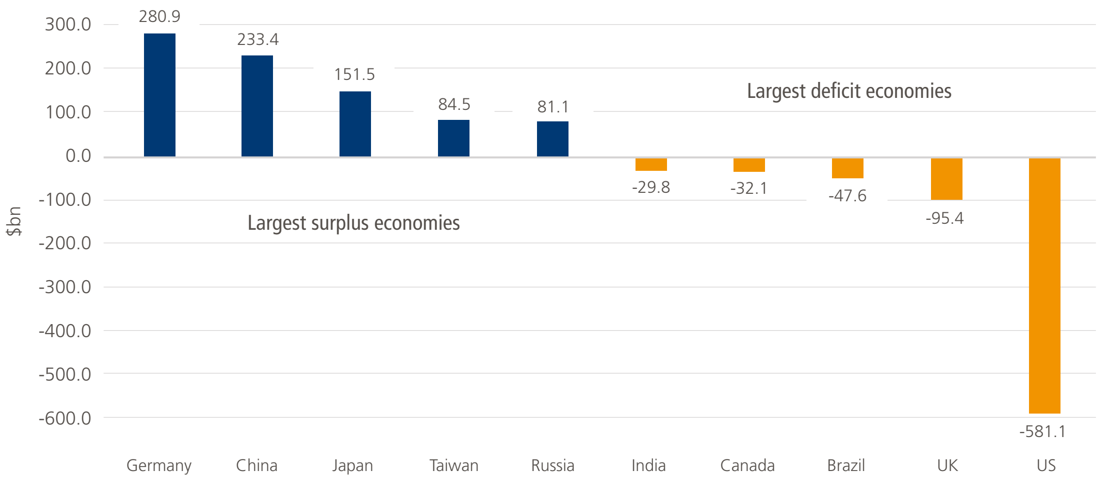
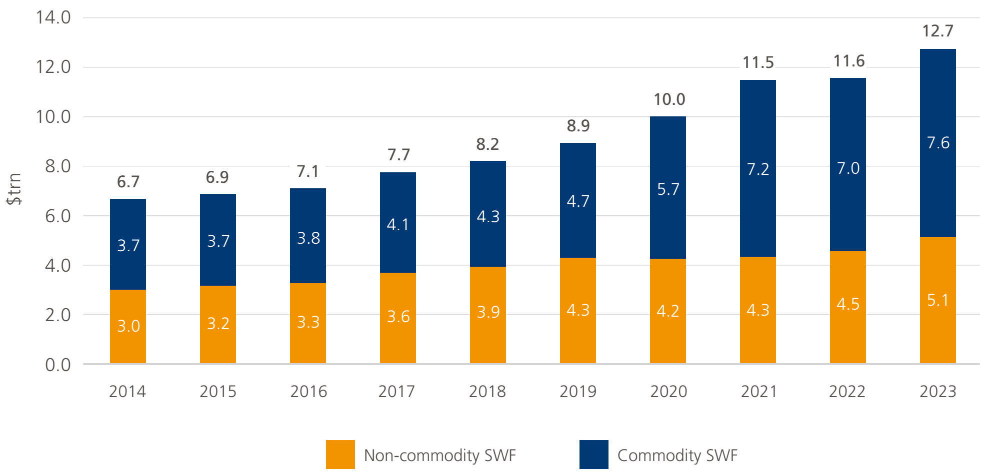


Figure 5: SWF assets under management, 2014-23

Source: TheCityUK estimates based on SWF Institute and IFSWF data



SWFs can be classified in one of two major categories according to their source:

- Commodity funds, funded predominantly from oil and gas export revenues.
- Non-commodity funds, funded mainly through transfers of assets from official foreign exchange reserves.

More than half of SWFs' assets originate from commodity exports –an average of 56% over the last decade up to 2023, although since 2021 they have represented more than 60% of total SWF assets. Moreover, the assets from commodity exports grew at an average annual rate of 8.6% over the decade to 2023, compared to average annual growth of 6.3% for non-commodity SWFs' assets (Figure 5). Assets of SWFs originating from commodity exports increased by 104% between 2014 and 2023.

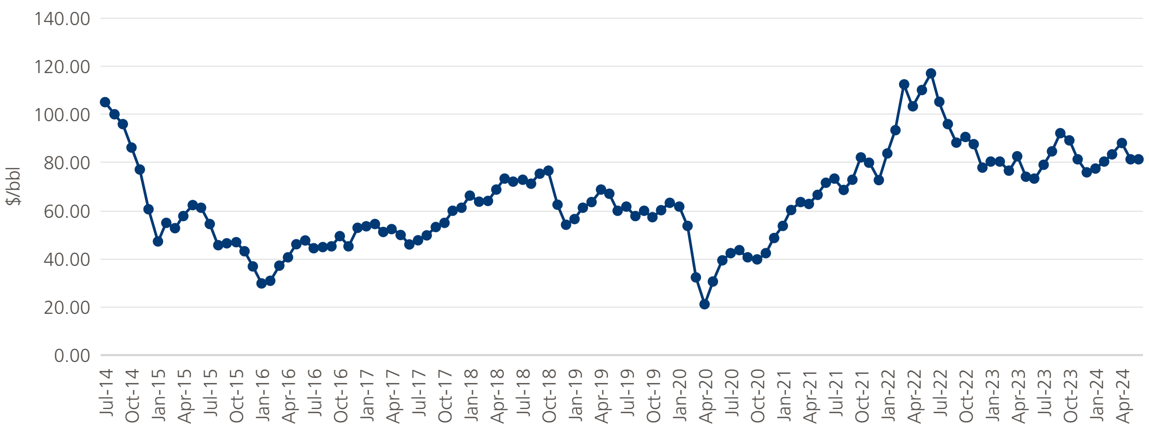
Commodity SWFs, or natural resource SWFs, are funded predominantly from oil exports, with gas and mineral revenue also representing important sources. Many oil exporting countries have set up SWFs to invest surpluses from oil exports in global financial assets. Norway Government Pension Fund Global is the largest global SWF, predominantly funded from the government's oil-related revenues.[14] For the purposes of this report we have classified this type of fund as a commodity SWF.

Growth of commodity SWFs' assets is closely linked to the price of commodities, predominantly oil. The focus of commodity SWFs is on maintaining domestic economic stability insuring against the risk of commodity price fluctuation; and providing an income stream for future generations in the event of long-term decline in export revenue from oil and other commodities. For years, major oil exporters funnelled foreign exchange reserves into funds aimed at stabilising economies and paying for pensions. In the first half of 2020, due to the rapid spread of Covid-19, the price of oil declined sharply, the average price was 37% less in H1 2020 than in the same period of 2019; this left some of these countries with a cash shortfall. The subsequent rebound in oil prices has allowed some oil-rich countries to rebuild assets in their commodity funds (Figure 6).

14 SWF Institute, 'Top 100 largest sovereign wealth fund rankings by total assets', (2024), available at: https://www.swfinstitute.org/fund-rankings/sovereign-wealth-fund

Figure 6: Monthly average crude oil price, 2014-24

Source: World Bank



As of 2023, the world's largest oil exporters were Saudi Arabia, Russia, the US and Iraq. (Despite the sanctions imposed on Russia for its confrontation with Ukraine, Russia remains the world's second-largest exporter of crude oil in terms of barrels per day, accounting for more than 10% of the world's oil exports. Strong relationships with major oil-consuming nations, such as China and India, have provided Russia with substantial markets for its crude oil despite the geopolitical conflict.)

The major oil exporting countries with commodity SWFs include the Gulf Cooperation Council and other Middle Eastern countries, with Saudi Arabia having the highest proportion (15.2%) of the total exports, and with the second-highest proven crude oil reserves (17.0%) in 2023, after Venezuela (Figure 7).

Figure 7: Top 10 crude oil exporters and their proven oil reserves, 2023

Source: Organization of Petroleum Exporting Countries

	Oil exports (Million bbl/d)	% share of total oil exports	Proven crude oil reserves (Million bbl)	% share of total oil proven reserves
Saudi Arabia	6.7	15.2%	267,230	17.0%
Russia	4.6	10.5%	80,000	5.1%
United States	4.1	9.3%	47,730	3.0%
Iraq	3.5	7.9%	145,019	9.2%
Canada	3.4	7.8%	4,711	0.3%
United Arab Emirates	2.7	6.0%	113,000	7.2%
Brazil	1.7	3.9%	14,856	0.9%
Norway	1.7	3.9%	7,642	0.5%
Kuwait	1.6	3.6%	101,500	6.5%
Nigeria	1.5	3.4%	37,500	2.4%
Others	12.5	28.6%	750,327	47.8%
Total	43.8	100.0%	1,569,515	100%

Most SWFs are funded by revenues from commodity exports. Some of the largest crude oil exporters (for example, Saudi Arabia, the United Arab Emirates, Norway and Kuwait) manage the largest SWFs. Five of the ten largest SWFs in the world are commodity funds. Meanwhile, non-commodity funds in the top 10 are accounted for entirely by Greater China (including Singapore in this designation). Norway Government Pension Fund Global is the world's largest SWF, followed by two Chinese funds (Figure 8).

Figure 8: Largest ten SWFs, as of August 2024

Source: SWF Institute

SWF	Assets under management ($bn)	Country	Region	Est. date	Source
Norway Government Pension Fund Global	1,631	Norway	Europe	1990	Commodity
China Investment Corporation	1,350	China	Asia	2007	Non-Commodity
SAFE Investment Company	1,090	China	Asia	1997	Non-Commodity
Abu Dhabi Investment Authority	993	UAE-Abu Dhabi	Middle East	1976	Commodity
Kuwait Investment Authority	980	Kuwait	Middle East	1953	Commodity
Public Investment Fund	925	Saudi Arabia	Middle East	1971	Commodity
GIC Private Limited	801	Singapore	Asia	1981	Non-Commodity
Qatar Investment Authority	526	Qatar	Middle East	2005	Commodity
Hong Kong Monetary Authority Investment Portfolio	514	China-Hong Kong	Asia	1993	Non-Commodity
National Council for Social Security Fund	414	China	Asia	2000	Non-Commodity

Non-commodity SWFs are most commonly funded by excess official foreign exchange reserves; 'excess' refers to foreign currencies, gold, and other financial assets that are managed by central banks or financial authorities but that are not held for traditional balance of payments, or to be used for monetary policy purposes. In some cases, non-commodity SWFs are also funded by other sources, such as government budget surpluses and privatisation revenues.

How each country accumulates official foreign exchange reserves depends on the nature of its trade surplus, which in turn is the result of the country exporting more goods and services than imports. For instance, although China is a net importer of crude oil, its average trade surplus over the decade to 2023 was the world's second largest, according to TheCityUK calculations based on IMF data; this surplus can be mostly explained by China's manufacturing industry and manufacturing exports help China to accumulate significant official foreign exchange reserves. By investing these reserves in excess through SWFs, countries can diversify their investment portfolios and generate long-term financial returns. In this context, China Investment Corporation, the largest Chinese SWF and the world's second largest SWF, manages part of China's foreign exchange reserves; its funding resulted from the state use of leverage and is therefore unlike other sovereign funds, which tend to be funded through state revenue from national resources.[15,16]

Global foreign exchange reserves were estimated to total $12.3trn at the end of 2023[17], having grown by 8% between 2018 and 2023, but showing an annual average growth rate of 1.7%. As result of the overall growth in foreign exchange reserves, non-commodity SWFs' share of global SWFs' assets has decreased from 48% in 2018 to 40% at the end of 2023.[18]

Geographical distribution of SWFs

China's ownership of four of the ten largest SWFs means that on a country basis, it had the largest share of SWF AuM with around a fifth of the global total in 2023. It was followed by the UAE (16.9%) and Norway (12.6%). Countries from the Middle East are prominent in individual country rankings; for instance, Saudi Arabia had 7.5% of the total SWFs' assets, and Kuwait 7.2% (Figure 9).[19]

15 With the approval of the Standing Committee of the 10th National People's Congress, the Ministry of Finance issued Rmb1.55 trillion special treasury bonds and used raised funds to purchase foreign reserves (US$200bn) to be injected into China Investment Corporation as its registered equity capital.

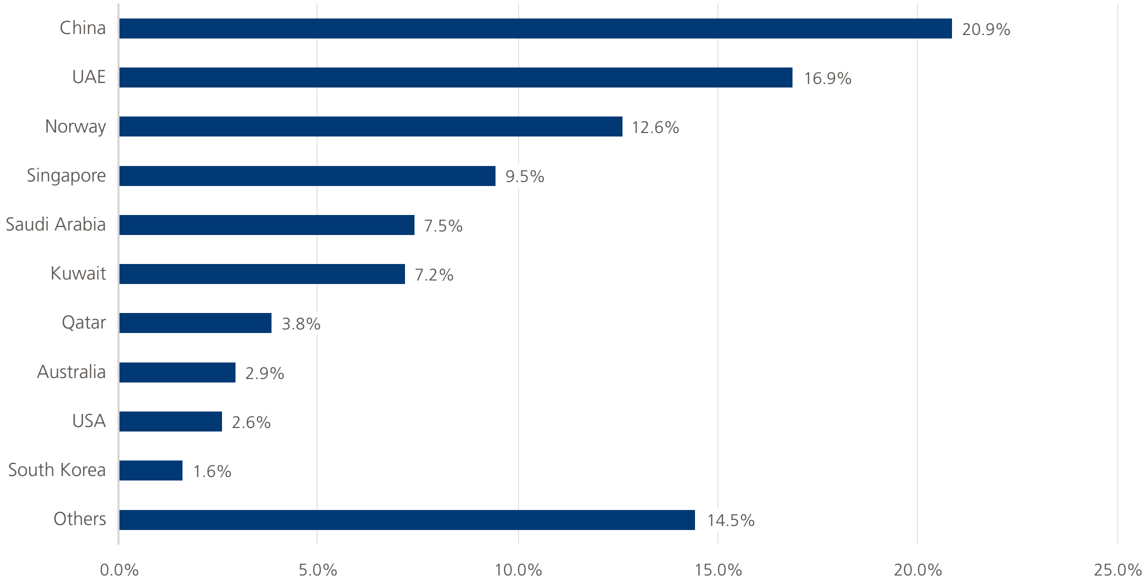
16 IFSWF, 'China Investment Corporation', available at: https://www.ifswf.org/member-profiles/china-investment-corporation

17 IMF, 'Official foreign exchange reserves (COFER)-Data tables', (2024), available at: https://data.imf.org/?sk=e6a5f467-c14b-4aa8-9f6d-5a09ec4e62a4&sid=1408243036575

18 Data related to commodity and non-commodity SWFs were provided by IFSWF.

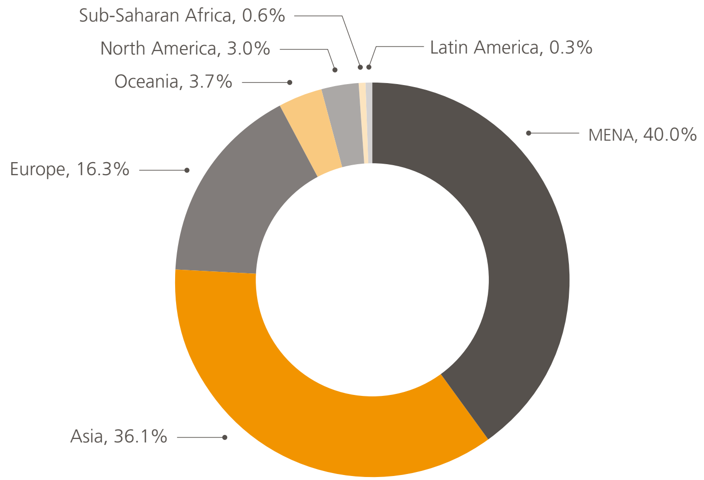
19 TheCityUK calculations based on OMFIF, 'Global public investor 2020', (February 2021), available at: https://www.omfif.org/wp-content/uploads/2020/08/GPI_2020-1.pdf

Figure 9: Global SWF assets by country as % share of global total, 2023
Source: TheCityUK calculations based on Global SWF data



Regional analysis shows that Asia, and the Middle East and North Africa (MENA) together accounted for more than three-quarters of SWFs' assets in 2023. Europe generated most of the remainder (Figure 10).

Figure 10: SWF market share by region, % of total AuM, 2023
Source: TheCityUK calculations based on Global SWF data

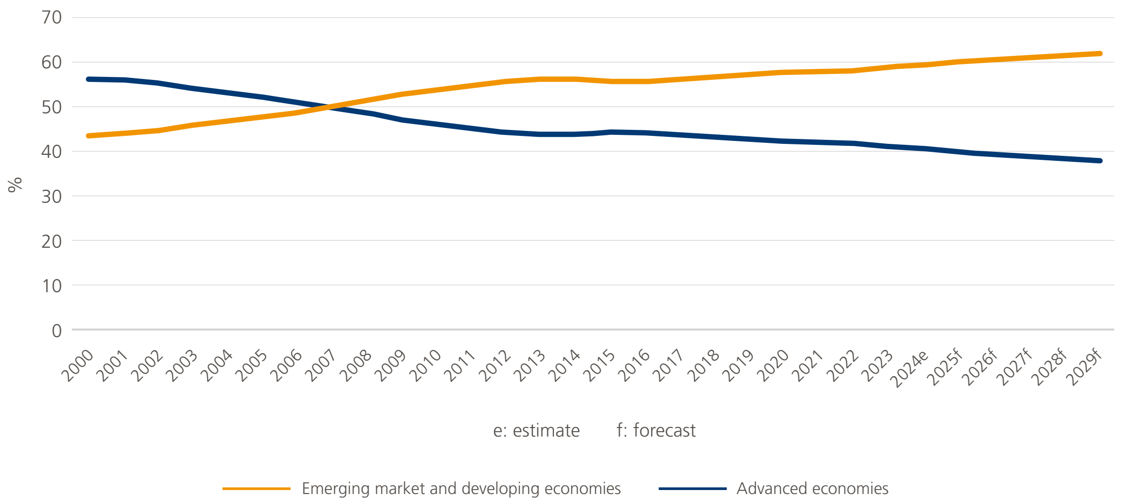


Seven of the ten largest SWFs in the world are from emerging market and middle-income economies. The weight of the world economy is gradually shifting from advanced economies to the emerging economies (Figure 11). There are a growing number of large institutional investors originating far from the traditional international financial centres. For instance, in 2021 in Brazil[20], The Fórum de Fundos Soberanos Brasileiros (FFSB) was established in order to consolidate the efforts of different municipalities and states in Brazil to form Subnational Sovereign Funds. As of December 2023, the forum supervised seven different SWFs, each managing under $1bn of capital sourced from oil and mining.[21]

20 Emerging market considered by IMF - Table A. Economy Groupings (Metadata by country April 2023)
21 Global SWF, 'Investor profile FFSB (Brazil)', available at: https://globalswf.com/fund/FFSB

Figure 11: World GDP (based on purchasing power parity) %

Source: TheCityUK calculations based on International Monetary Fund data

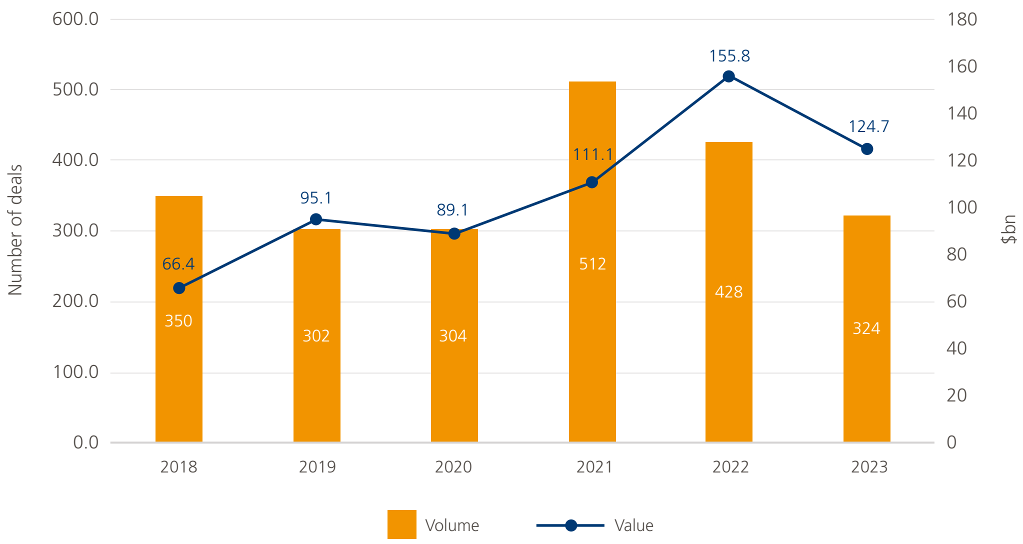


SWF investment trends

The substantial size and high liquidity of SWFs' assets have turned the government sector into an important international investor group. SWFs invested $125bn in 2023, 20% less than in 2022, but with growth showing an annual average of 16.4% between 2018 and 2023. The number of investments was 324 in 2023, a slight decrease compared to the 350 in 2018 and down from a peak of 512 deals in 2021, according to Global SWF data (Figure 12).[22] Estimates of the size of investments differ widely due to varying definitions of SWFs.

Figure 12: Value and volume of SWF investments, 2018-23

Source: Global SWF



Note: Figures include private market transactions and sizable and long-term equity deals, and exclude domestic developments and Government transfers.

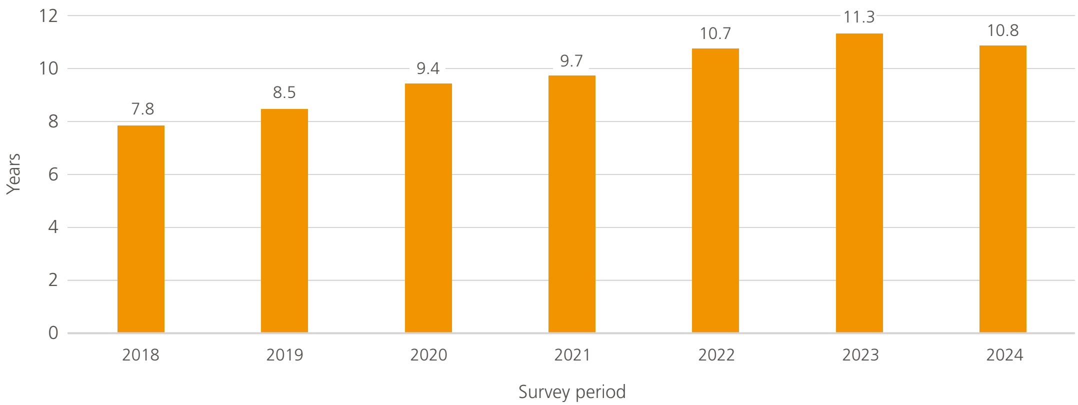
SWFs can differ significantly in their asset-allocation and risk-management strategies, reflecting their different objectives and constraints. SWFs typically adopt a long-term investment approach and low leverage, although stabilisation SWFs have shorter-term investment horizons in order to take into account possible shorter-term national liquidity and financing needs. Public disclosure of investment-management strategies varies widely among SWFs, but overall is limited. According to a study conducted by Invesco in the first quarter of 2024, SWFs reported an average investment horizon of 10.8 years, a slight decrease from the 11.3 years reported in 2023, and three more years than reported in 2018 (Figure 13).[23]

22 Global SWF, '2024 Annual Report', (2024), p.10, available at: https://globalswf.com/reports/2024annual

23 Invesco, 'Invesco Global Sovereign Asset Management Study 2024', (2024), available at: https://www.invesco.com/apac/en/institutional/insights/multi-asset/global-sovereign-study.html

Figure 13: SWF investment horizons, years, 2018-24

Source: Invesco

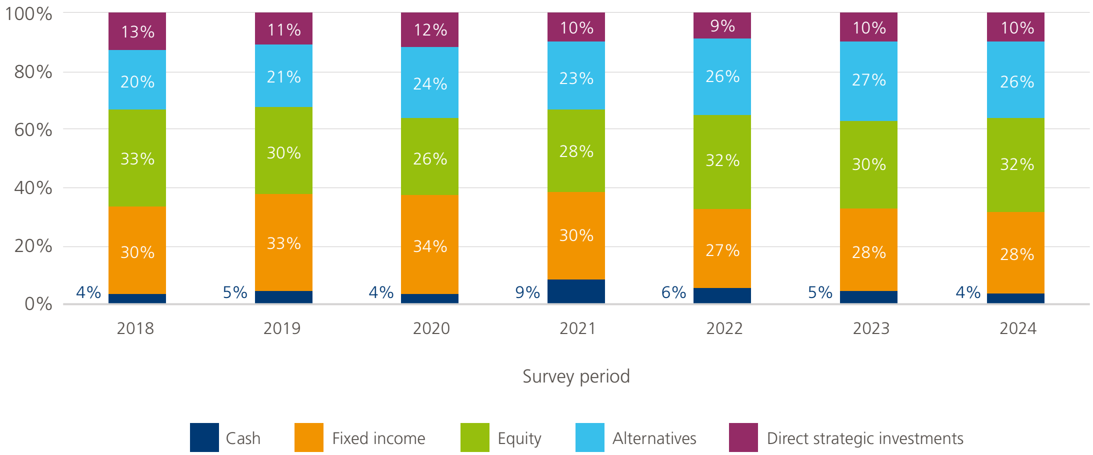


Note: Sample sizes were 2018 = 64, 2019 = 65, 2020 = 58, 2021 = 56, 2022 = 62, 2023 = 73, 2024 = 72.

SWFs have considerable freedom in their asset-allocation decisions and are usually not confined to certain asset classes or currency exposures in the way institutional investors often are. Commodity SWFs have a long-term approach to investment decisions and prefer investment in equity and alternative investments. Non-commodity SWFs have been an important source of liquidity on global capital markets and tend to invest in US assets, like US government bonds. Moreover, according to Invesco's survey, SWF allocations to equities represented 32% of their AuM, followed by fixed income (28%), and alternatives (26%); this trend has remained steady since 2018. Cash and direct strategic investments were the assets with the smallest allocations, at an average 5% and 11% respectively (Figure 14).

Figure 14: Asset allocation trends, % of AuM, 2018-24

Source: Invesco



Notes: Sample sizes were 2016 = 57, 2017 = 62, 2018 = 63, 2019 = 53, 2020 = 78, 2021 = 54, 2022 = 74, 2023 = 80, 2024 = 74.

Direct strategic investments are direct investments (not via funds) made with development objectives. In most cases, these investments will seek to promote GDP or jobs within a country or skill transfers to a country via partnerships with private sector firms.

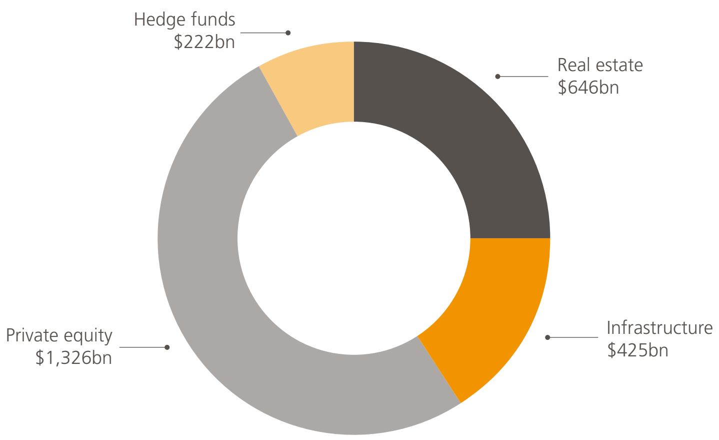
The focus on equities is reinforced by a study from State Street Global Advisors[24], which found that the overall share of assets devoted to public equities has been stable since the mid-2010s at about 38% of assets, with no meaningful differences between regions, fund size or fund nature. However, SWF investors have opted in recent years for asset classes that offer more protection against inflation, for example, inflation-linked securities and asset-backed securities, compared to the previous preference for traditional bonds.

SWFs' private market investments have continued growing, and reached $2.6trn as of December 2023, an increase of $556bn since 2020. Of total private market investments, 51% was dedicated to private equity (around $1.3trn), followed by real estate ($646bn), infrastructure ($425bn), and hedge funds ($222bn) (Figure 15).[25]

24 Study based on Global SWF data. From the database of about 200 names, it was taken a sub-set of 33, located in 26 different countries.

25 State Street Global Advisors, 'Investment Trends Among Sovereign Wealth Funds', (2024), p.8, available at: https://www.ssga.com/uk/en_gb/institutional/insights/investment-trends-among-sovereign-wealth-funds

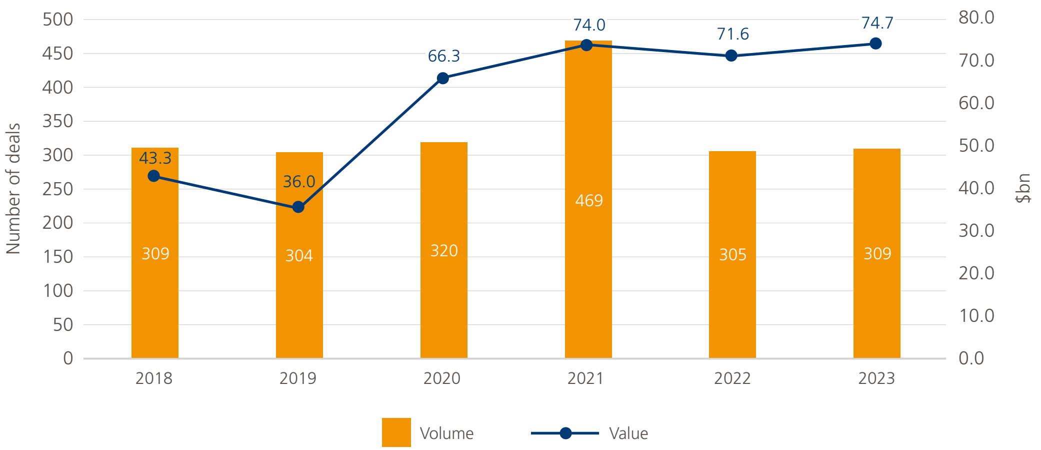
Figure 15: SWF assets invested in private markets, as of December 2023
Source: State Street Global Advisors based on Global SWF data



SWFs' direct investments

SWFs' direct investments declined by 3.2% year on year in 2022, to $71.6bn; there were 164 fewer deals than in 2021. However, in 2023 the amount invested reached $74.7bn and 309 deals, a similar number to that in 2018; direct investments showed an average annual growth rate of 16% between 2018 and 2023 (Figure 16). Over the six-year period to 2023, overseas direct investments were almost six times higher than domestic investments, representing, on average, 84% of the total direct investments.

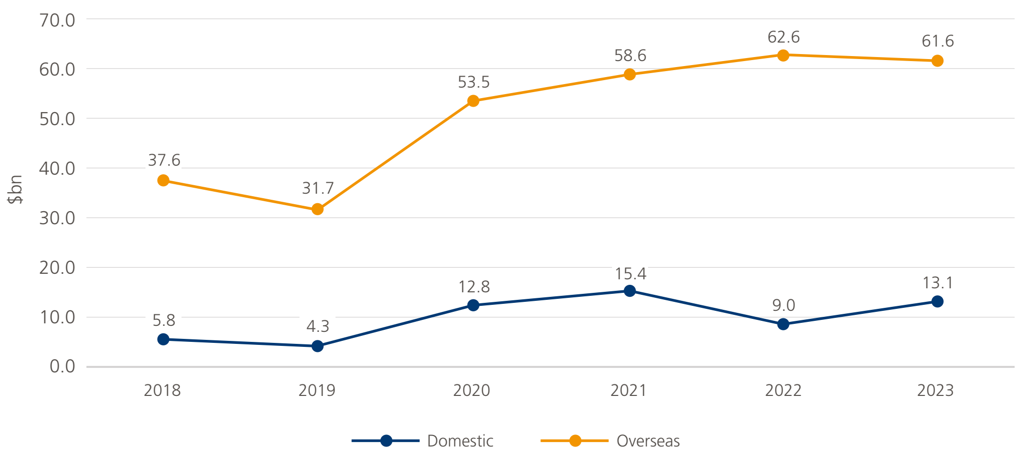
Figure 16: SWF direct investments, 2018-23
Source: IFSWF



Between 2018 and 2023 home-market investments showed an average annual growth rate of 39%; however, 2019 marked the beginning of a trend of increasing domestic investment.[26] On the contrary, overseas investment presented slower growth (from a much higher base), at an annual average rate of 21% over the period analysed (showing a slight year on year decrease of 2% in 2023), according to IFSWF data. (Figure 17).

26 IFSWF, 'Annual review 2022', (2022), available at: https://review2022.ifswfreview.org/emerging-markets.html

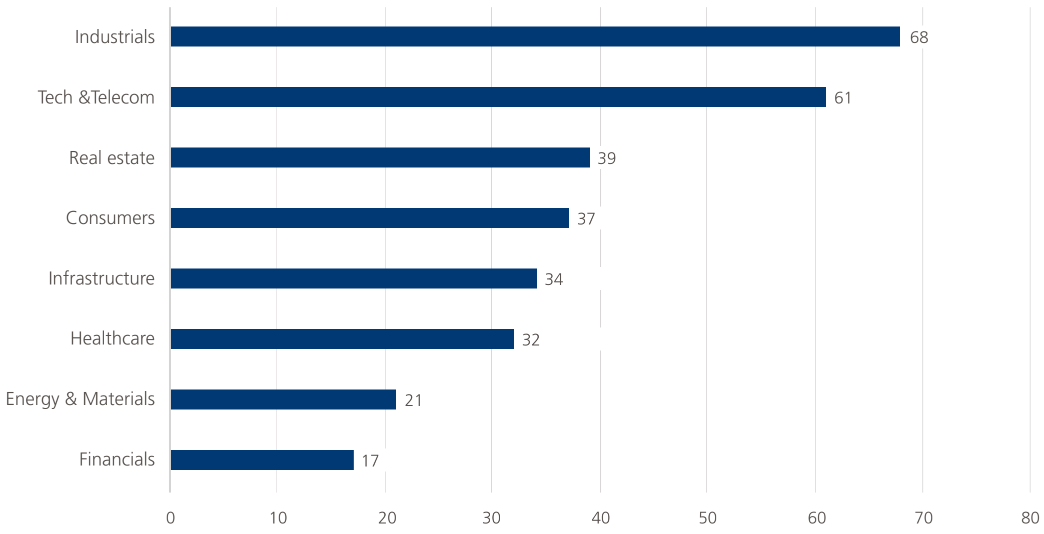
Figure 17: SWF direct investments in domestic and overseas markets, 2018-23
Source: IFSWF



According to IFSWF data, SWFs invest in three main asset classes: equity, real state, and infrastructure. In 2023, direct investments in equity represented 60% of the total, or $45bn, similar percentage to that in 2022; investments in real estate and infrastructure represented 20% each, or $15bn; however, infrastructure investments showed a decrease of four percentage points year on year, while real estate increased its participation by five percentage points.

Moreover, according to the latest IFSWF annual review, over the past decade, SWFs have been interested in industrial and logistics real estate. This is a long-term trend resulting from investment opportunities arising from the ongoing expansion of e-commerce and the need for resilient supply chains. In 2023 industrials registered the highest number of inward investment deals, with 68 direct investments and co-investments, and over $6bn invested; these investments were spread over both developing (16 deals) and developed markets (52 deals).[27] This sector was followed by tech and telcoms, with 61 deals, and real estate, with 39 deals (Figure 18).

Figure 18: SWF direct investment by sector and number of deals, 2023
Source: IFSWF



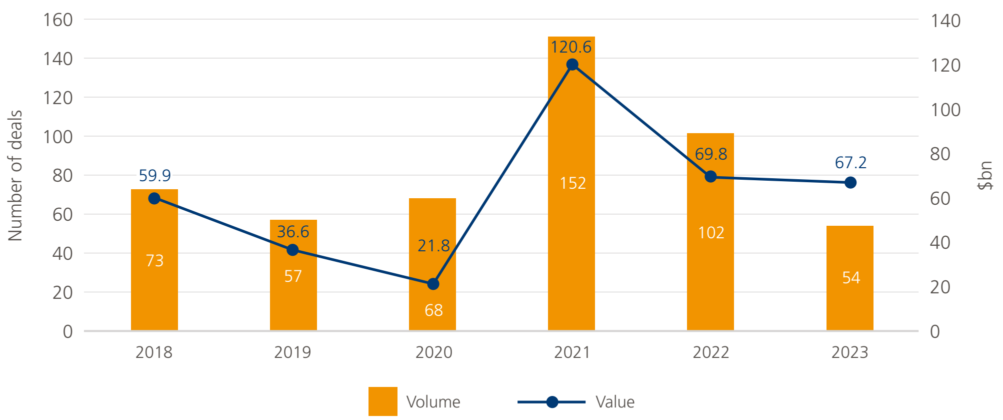
SWFs' co-investments

SWFs also participate in co-investments with private equity funds, pension funds and specialist advisers. Such partnerships offer co-investors access to new markets, the potential for greater returns, and lower fees, depending on the structure of the co-investment. In addition, these transactions could involve taking minority or majority stakes in companies through cross-border mergers and acquisitions.

According to the data available from S&P Global, between 2018 and 2023, the value of co-investments and the volume of deals involving private equity or venture capital firms partnering with SWFs showed a negative trend, except in 2021 when there was a rebound in such transactions. However, in 2023 the value of this kind of co-investments increased by 12% compared to 2018, despite the reduction in the number of deals (Figure 19).

27 IFSWF, 'Annual review 2023', (2023), available at: https://ifswfreview.org/real-estate-back-in-fashion-twist.html

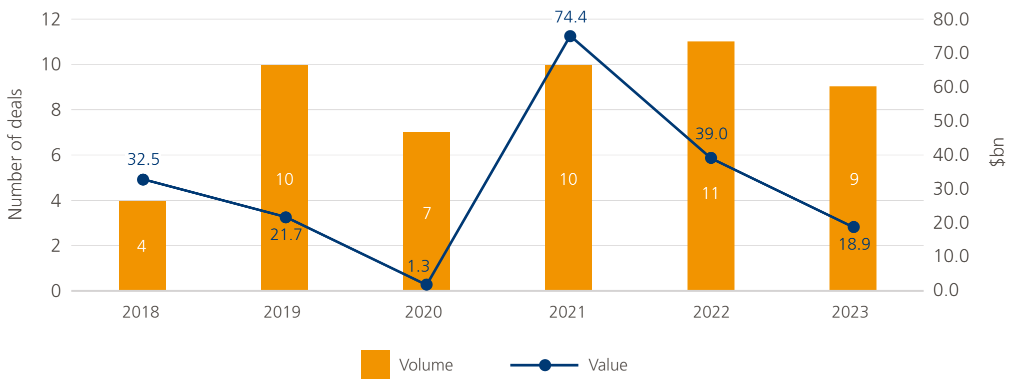
Figure 19: Private equity and venture capital- backed investments with SWFs, 2018-23
Source: TheCityUK estimations and S&P Global data



Note: 2023 is an estimated figure based on S&P Global data.

Moreover, according to S&P Global, in 2023 SWFs participated with private equity or venture capital firms in nine merger and acquisition (M&A) investments with an announced value of $18.9bn. This was 51.5% less than in 2022, when the total reached $39bn across 11 investments (Figure 20). In 2023, Abu Dhabi Investment Authority, one of the largest SWFs by AuM, participated in three of the top six largest global M&A co-investments valued at nearly $13bn.[28]

Figure 20: Global M&A investments with SWFs and private equity or venture capital, 2018-23
Source: S&P Global



In 2022, the median value of a co-investment with an SWF increased 23% year on year to $185m, showing an average annual growth rate of 19% since 2018; as of April 2023, it reached a median value of $127m, according to S&P Global Market Intelligence data.

SWFs’ sustainability-focused investments

SWFs are significant drivers of the transition to renewable energy and broader sustainability. Their mandates are often aligned with public policy objectives, such as achieving net-zero carbon emissions. SWF investments are therefore often aligned with sustainability investments—for example, minimising their investments in conventional oil-related industries and increasing their investment allocations to green technologies. According to research by Freshfields, there is no data on the portion of global AuM being invested specifically for sustainability impact.[29] Accordingly, the actual impact of sustainable sovereign investments is not easy to measure, partly due to the fact that these funds are not always required to disclose and report on their governance or sustainability performance. According to the United Nations, among SIVs, PPFs are, in general, relatively better at disclosing sustainability-related information than SWFs.[30] A 2024 survey conducted by Invesco showed that 69% of SWFs have and ESG policy compared to 46% in 2017 (Figure 21).

Given the significant value of AuM by SWFs and the long-term horizon of these funds’ investments, their emphasis on green investments could have a significant positive impact. In recent years SWFs have been involved in several important transactions and initiatives related to green investments and sustainability. For example:

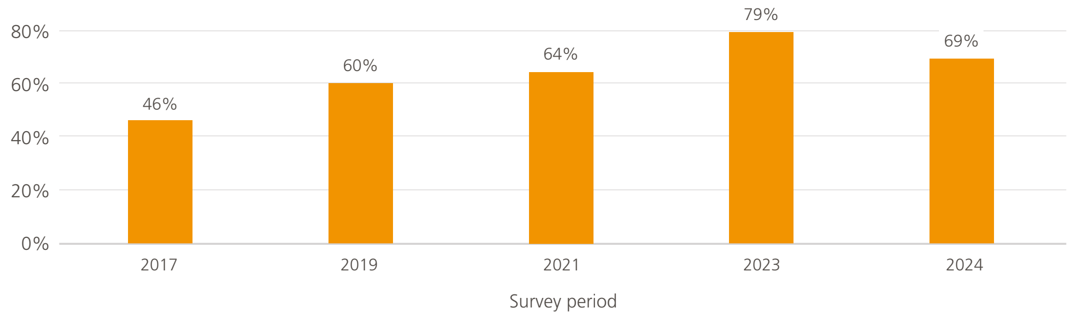
28 S&P Global, ‘Sovereign wealth fund-backed M&A fell sharply in 2023’ (February 2024), available at: https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/sovereign-wealth-fund-backed-m-a-fell-sharply-in-2023-80300695

29 Freshfields, ‘A legal framework for impact: Sustainability impact in investor decision-making’, (2021), p.48, available at: https://www.freshfields.com/4a199a/globalassets/our-thinking/campaigns/legal-framework-for-impact/a-legal-framework-for-impact.pdf

30 United Nations, ‘2024 World Investment report’, (2024), p.88, available at: https://unctad.org/system/files/official-document/wir2024_en.pdf

- In April 2024 Norges Bank Investment Management, which manages the Norwegian Government Pension Fund Global, signed an agreement to acquire a 49% interest in a portfolio of solar plants in Spain, investing around €203m (around $224m); the new portfolio comprises two solar plant projects with a total installed capacity of 644 MW, equivalent to the annual electricity consumption of 400,000 Spanish households.[31]
- In 2023, the Abu Dhabi Investment Authority agreed a $100m repo facility at COP28 with the Liquidity and Sustainability Facility (LSF) and the African Export-Import Bank to incentivise sustainability-linked investments in Africa.[32]
- In 2022, the UN-convened Net-zero Asset Owner Alliance signed a partnership with the SWF of Gabon (the first African SWF). This fund, with nearly $2bn in AuM, committed to reach net-zero greenhouse gas emissions in its portfolio by 2050, set intermediate targets every five years, and report on progress annually.[33]
- The Saudi SWF, Public Investment Fund, acquired 9.5% of Skyborn Renewables in 2022, a leading offshore wind developer and operator, alongside Global Infrastructure Partners. The investment allowed this fund to participate in the acceleration of energy transition and clean energy at an international scale through an investment in a geographically diversified offshore wind energy platform. The Saudi SWF has investments in the low carbon sector such as electric vehicles and solar energy projects, as part of a commitment to develop 70% of Saudi Arabia's renewable energy by 2030.[34]
- The One Planet Sovereign Wealth Funds (OPSWF) group, a partnership between six SWFs, was launched in 2017 in Paris. Today, its 46 members include SWFs, asset managers, and private investment firms, with over $37trn in assets under ownership and management. This group aims to accelerate efforts to integrate financial risks and opportunities related to climate change in the management of large, long-term asset pools.[35]

Figure 21: SWFs with an ESG policy, % of citations, 2017-24
Source: Invesco



Note: Sample sizes were 2017 = 55, 2019 = 60, 2021 = 75, 2023 = 84, 2024 = 81.

In 2023, SIVs (PPFs and SWFs) invested $26.1bn in 'green' assets (including renewable energy and battery storage or electric vehicles–more than double the invested value in 'black' assets (including carbon-based fossil fuels, nuclear and mining). Gulf SWFs were responsible for almost half of the value of green investments, according to Global SWF. Between 2018 and 2023 the value of green investments grew at an annual average rate of 49%, while the value of black investments grew at just 4% a year. In addition, the number of green deals showed a significant increase since 2020, rising from 21 deals in that year to 91 deals in 2023; in contrast, there were 17 black deals in 2020 and only 15 in 2023 (Figure 22).

31 Norges Bank Investment Management, 'New investment in renewable energy infrastructure', (April 2024), available at: https://www.nbim.no/en/the-fund/news-list/2024/new-investment-in-renewable-energy-infrastructure/#:~:text=Norges%20Bank%20Investment%20Management%20has,solar%20plants%20located%20in%20Spain.&text=The%20agreement%20was%20signed%20on%2023%20April%202024.

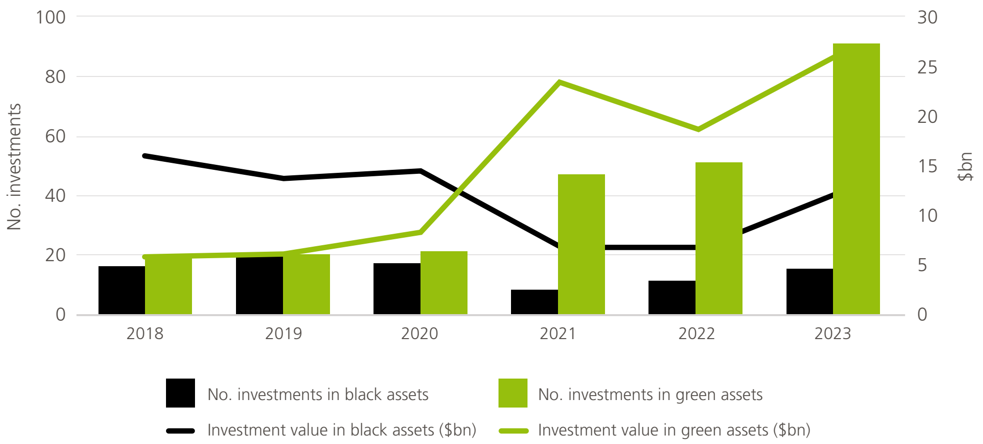
32 Abu Dhabi Investment Authority, Press Release-ADIA, (December 2023), available at: https://www.adia.ae/media/azure/adia/media/2023/01/press-release-adia-agrees-repo-facility-at-cop28-with-lsf.pdf

33 UN environment programme, 'Net-Zero Asset Owner Alliance welcomes Sovereign Wealth Fund of Gabon (FGIS)– the first African SWF', (June 2022), available at: https://www.unepfi.org/industries/investment/net-zero-asset-owner-alliance-welcomes-sovereign-wealth-fund-of-gabon-fgis-the-first-african-swf/

34 PIF, 'PIF Acquires up to 9.5% Stake in Skyborn Renewables, a Leading Global Offshore Wind Energy Developer and Operator', (December 2022), available at: https://www.pif.gov.sa/en/news-and-insights/press-releases/2022/skyborn-renewables/#:~:text=The%20Public%20Investment%20Fund%20(%E2%80%9CPIF,global%2C%20independent%20infrastructure%20investment%20fund.

35 One Planet SWF Network, 'Framework Companion Document', (2022), available at: https://oneplanetswfs.org/wp-content/pdfjs/web/viewer.html?file=/download/155/6oct2022/1959/companion-document_2022.pdf

Figure 22: Investment by SIVs in black vs green Assets, 2018-23
Source: Global SWF

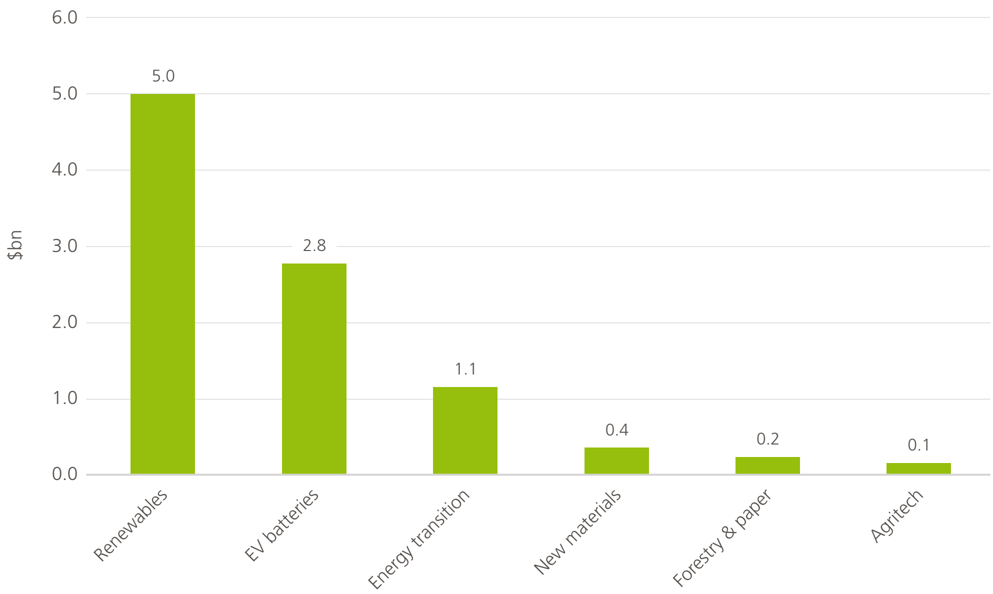


*SIVs refer here to SWFs and PPFs

**Green assets include renewable energy and batter storage or electric vehicles; black assets include carbon-based fossil fuels, nuclear and mining

Sector-wise, SWF direct investments in climate opportunities were concentrated in renewables, registering $5bn worth of investment in 2023; this was followed by investments in EV batteries ($2.8bn) and energy transition ($1.1bn), according to IFSWF data (Figure 23).

Figure 23: SWF direct investment in climate opportunities, 2023
Source: IFSWF



Sovereign Wealth Funds and the UK

The new National Wealth Fund

In October 2024, the new UK government announced that the UK Infrastructure Bank (UKIB), established in 2021, would be rebranded the National Wealth Fund (NWF). The NWF has a total capitalisaton of £27.8bn, with £5.8bn in new capital being added to the £22bn it inherited from UKIB. It will be part of the UK government's new Industrial Strategy, aiming to leverage over £70bn of private-sector investment in sectors designated by the Strategy as priorities: "green hydrogen, carbon capture, ports, gigafactories and green steel". The objective is to obtain approximately £3 of private funding for every £1 of government funding. The NWF will work in collaboration with public financial institutions like the British Business Bank. Moreover, the NWF aims to maximise the potential of cities and regions by aligning its strategic priorities with local objectives; it will collaborate with Mayors, devolved governments, and local leaders to support investment plans and key sector clusters across the UK.[36]

In October 2024, the NWF announced financial guarantees enabling Barclays UK Corporate Bank and Lloyds Banking Group to provide £1bn for retrofitting social housing in the UK, supporting both short and mid-to-long duration loans.[37]

As discussed in the introduction to this report, SWFs are established by governments to manage and invest wealth generated from current-account surpluses, usually accumulated by commodity exports. As such, the new NWF is a SIF rather than a SWF. (The UK runs a current-account deficit (equivalent to 3.3% of GDP in 2023 and averaging 3.5% of GDP over the past decade). In the 20 years to 2023, the UK registered a crude oil trade deficit in most years; in 2023 the deficit reached £6.3bn. The UK also runs a sizeable budget deficit, equivalent to 4.4% % of GDP in 2023/24, and 5% on average over the past decade).

British Growth Partnership

In October 2024, the government also announced the establishment of the British Growth Partnership by the British Business Bank. This initiative aims to increase investment from UK pension funds into dynamic and innovative companies.

The fund's investments will be executed on a long-term, fully commercial basis. The Bank intends to start making investments by the end of 2025.[38]

36 HM Government, 'National Wealth Fund: mobilising private investment' (October 2024), available at: https://assets.publishing.service.gov.uk/media/670d0d873b919067bb4830df/NWF_IIS_Publication.pdf

37 National Wealth Fund, 'National Wealth Fund, Barclays UK Corporate Bank and Lloyds Banking Group join forces to unleash £1bn to retrofit social housing', (October 17, 2024), available at: https://www.ukib.org.uk/news/national-wealth-fund-barclays-uk-corporate-bank-and-lloyds-banking-group-join-forces-unleash

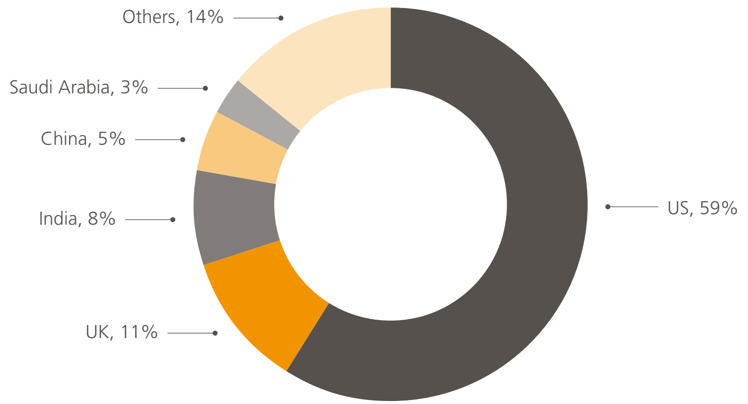
38 British Business Bank, 'British Growth Partnership', (October 2024), available at: https://www.british-business-bank.co.uk/finance-providers-equity-finance/british-growth-partnership

Destination for SWF investment

The UK is a world leader in attracting foreign direct investment, aided by its reputation for being open and welcoming to global investors. Over the decade to 2023, the UK attracted an annual average of $46bn in FDI inflows. The UK ranked seventh in the world, and second in Europe, just behind Ireland, in terms of inward FDI flows, according to TheCityUK calculations based on UNCTAD data.[39] A recent survey from Invesco found that government-related agencies considered the UK to be a more favourable investment destination than its European peers, which an attractiveness score or 6.1 (out of 10), compared with 5.7 for Germany, 5.6 for France and 5.0 for Italy. In contrast, the US scored 7.9.[40]

As discussed in the preceding chapter, there has been an increase in SWFs' investment into global infrastructure in recent years. Between January 2022 and March 2023, the US was the most attractive destination for investments made by SWFs; the US received 59% of SWFs' total global investment value, followed by the UK with 11%, and India with 8%. SWF investment is highly geographically concentrated: the top five destinations accounted for 86% of the total SWFs' investment value, according to IE Center for the Governance of Chance data (Figure 24).

Figure 24: Top 5 destination countries for SWFs' investments by deal value, % of total deal value, Jan 2022- Mar 2023
Source: IE Center for the Governance of Change



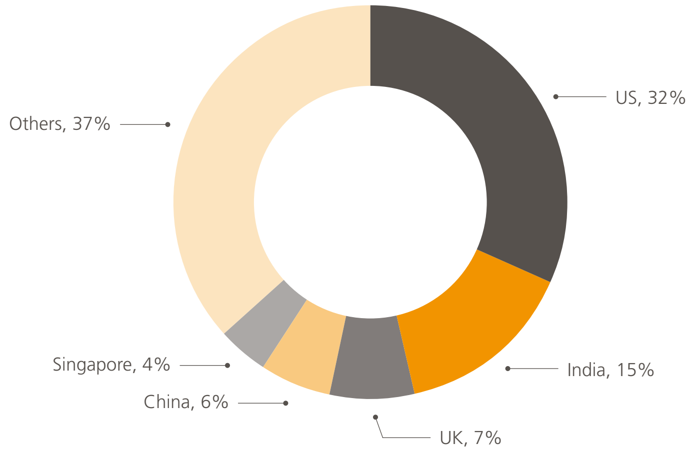
In terms of number of deals, the UK ranked third, with 7% of SWFs' total deals made between January 2022 and March 2023, after the US (32%) and India (15%), but ahead of China (6%) and Singapore (4%). (Figure 25).

39 TheCityUK calculations based on UNCTAD data, 'Foreign direct investment: Inward and outward flows and stock, annual', available at: https://unctadstat.unctad.org/datacentre/dataviewer/US.FdiFlowsStock

40 Score 1-10 where 10 = very attractive

Figure 25: Top 5 destination countries for SWFs' investments by deal count, % of total number of deals, Jan 2022- Mar 2023

Source: IE Center for the Governance of Change



The UK's diverse economy and stable regulatory environment make it an attractive destination for SWF investments. Its strategic infrastructure and thriving real estate market continue to draw substantial interest from major global investors. Recent examples of SWF investment in the UK include the following:

- In August 2024, London-based Revolut secured a $45bn valuation and drew in investment from Abu Dhabi's sovereign wealth fund Mubadala.[41]
- The world's largest SWF, Norway Government Pension Fund Global, has made significant investments in the UK in several sectors. As of December 2023, the UK represented 6.3% of the fund's investments; 4.3% was invested in equity, 1.6% in fixed income, and 0.4% in unlisted real estate. About one-fifth of the Norwegian SWF's unlisted real estate investments were in London as of December 2023.[42] According to Global SWF, this fund is one of London's largest landlords thanks to its partnerships with The Crown Estate (25%) and with The Pollen Estate (58%), owning 150 properties in Central London. In addition, the Norwegian SWF directly owns six other buildings (including its UK office).
- In the last quarter of 2023, the Saudi SWF announced its share purchase agreement to acquire a 10% stake in FGP TopCo, the holding company of Heathrow Airport Holdings, from Ferrovial. Ardian, a world-leading private investment house, participated also in the transaction, acquiring 22.6% of TopCo. The deal was valued at more than £3.26bn.[43]
- Kuwait Investment Authority investments in the UK have increased to $42bn from $9bn in the two decades up to 2023. Investments have focused mainly on real estate and infrastructure.[44]
- In 2022, the UK and Qatar signed a Strategic Investment Partnership which will see Qatar invest up to £10bn over five years in key sectors of the UK economy, including FinTech, zero emissions vehicles, life sciences and cyber security. This agreement allowed the Qatar Investment Authority (Qatari SWF) to drive investments into the UK; recent investments were made in financial technology, technology, e-commerce spaces and other domains, according to its CEO.[45,46]
- Mubadala Investment Company, the UAE's SWF, invested £500m into CityFibre, the UK's largest independent Full Fibre platform, as part of a wider financing in 2021. In addition, in 2022, Mubadala committed a further £300m in equity to support CityFibre's accelerated growth plans and enable participation in Building Digital UK's 'Project Gigabit' rural programme. CityFibre is currently engaged in a £4bn investment programme to roll-out dense Full Fibre infrastructure to up to eight million homes by 2025.[47]

In addition, UK's commitment to reduce carbon emissions and increase renewable energy capacity have made it an attractive destination for sustainable investment. Examples include:

- In the second quarter of 2024, Norges Bank Investment Management, responsible for the investments of the Government Pension Fund Global, acquired a 37.5% interest in a 573 MW operational offshore wind farm in the UK, investing £330m.[48]
- In 2024, Associated British Ports announced its 'Ready for Tomorrow plan' to invest £2bn in both decarbonising its business by 2040, and in using its land to deliver major projects that help others develop new renewable energy supplies. One of owners and investors is Wren House Infrastructure, a global investment vehicle of the Kuwait Investment Authority.[49]

41 Financial Times, 'Revolut prepares for India launch next year', available at: https://www.ft.com/content/c8b1379a-dde1-4f61-80f3-3ac40b1171fc

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49 Global Infrastructure Investor Association, 'Getting ports ready for net zero', (February 2024), available at: https://giia.net/about/case-studies/getting-ports-ready-net-zero

- In 2022, Masdar, owned by the Abu Dhabi National Oil Company, Mubadala Investment Company (the UAE's SWF), and Abu Dhabi National Energy Company PJSC, bought the UK-based battery company Arlington Energy. In February 2024, Masdar Arlington Energy began the construction of two plants in the UK as part of a £1bn investment in battery energy storage systems (BESS). Masdar's acquisition marked a significant shift for the company from being an investor to an active developer and supporter of the UK's energy transition through BESS and offshore wind.[50]

An important centre for SWF management

The UK, and particularly London, is generally considered one of only two international hubs offering the full range of financial services–the other being New York. London's role as a hub is based in large part on the co-location of banking, insurance, fund management, securities, derivatives, foreign exchange expertise, and skilled labour, along with its developed market infrastructure.

The reputation of London and the UK as a leading international centre for fund management in particular is built on a number of factors, including the safe and stable regulatory environment. The Financial Conduct Authority (FCA) ensures that the UK industry offers a level playing field with no preferential treatment for domestic firms or investors. Fund managers can therefore have confidence in the strength and impartiality of the UK's regulatory system, together with the financial stability of a well-regulated G7 economy.

Additional factors supporting the UK as a centre for fund management include the openness of the UK to foreign business; the structural strengths and network effects associated with the cluster of financial and related professional services; a broad skills base; the pivotal international position of English law; the availability of specialist expertise in investments; and an ecosystem that promotes growth of non-conventional key markets such as Islamic Finance, renminbi trading, and green and sustainable finance. Indeed, in 2022, the Saudi SWF, Public Investment Fund, began issuing green bonds on the London Stock Exchange's Sustainable Bond Market to help meet the heavy funding requirements of implementing the sustainable development component of the Saudi Vision 2030 plan. The green bond issue was the first by a SWF with a value of $3bn, issued in three tranches to be repaid in 2027, 2032 and 2122.[51] This makes the UK an important asset management centre.

The UK is the world's second-largest investment management centre, after the US, overseeing 9% of global AuM in 2023. London-headquartered investment funds account for over three-quarters of UK-based funds under management; in 2023, firms headquartered in London managed 80% of UK-managed assets, Moreover, Scotland is a major European centre for asset servicing and wealth management; Scotland-headquartered investment funds account for 17% of UK-based funds under management.[52]

SWFs have established international offices in order to be closer to the markets in which they operate, to have access to more and better deal flows and to gain access to local talent and expertise. The major international centres such as London and New York offer economies of scale and network effects in addition to a wide range of complementary services for investors.

London is a preferred international base of operations for SWFs and many largest SWFs have offices there. For example, the Kuwait Investment Authority has had a representative office in London since 1953; its AuM grew from $27bn in 2003 to $250bn in 2023.[53] In 2022 the Saudi Public Investment Fund opened a subsidiary in the UK. Other SWFs with offices in London include Norway Government Pension Fund Global, and GIC Private.

Recent research by the City of London Corporation found that over the last decade to 2023, sovereign investors (some of them SWFs) who have opened a UK office more than doubled their investments across the UK in the five years after establishing a UK presence compared with the five years preceding it. They also have collectively invested in 36 locations outside London after setting up an office during the same period analysed. The research estimates that by supporting the establishment of UK offices by SWFs currently without a presence in the UK, additional investment of £3.8bn-£7.7bn could be realised by 2030.[54]

50 MASDAR, 'Masdar Arlington Energy breaks ground on two UK sites as part of £1 Billion Battery Energy Storage System Investment', (February 2024), available at: https://masdar.ae/en/news/newsroom/masdar-arlington-energy-breaks-ground-on-two-uk-sites

51 London Stock Exchange, 'The London Stock Exchange to admit $3 billion green bond from the Public Investment Fund to its Sustainable Bond Market', (October 2022), available at: https://www.lseg.com/en/media-centre/press-releases/2022/london-stock-exchange-admit-3-billion-green-bond-public-investment-fund-its-sustainable-bond-market#:~:text=The%20green%20bond%20listing%2C%20including%20a%20100%2Dyear%20tranche%2C,8%20times%20oversubscribed%20by%20investors.

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54 City of London Corporation, 'Catalysing UK economic growth through financial services foreign direct investment: a call to action' (September 2024), available at: https://www.theglobalcity.uk/PositiveWebsite/media/Research-reports/Catalysing-UK-Economic-Growth.pdf

Conclusion

SIVs are an increasingly important part of the universe of global capital flows on account of their recent proliferation and the large sums they manage, mobilise, and/or deploy. SWFs—one type of SIV—have become particularly prominent in recent years. Estimates of the size of SWFs' investments and AuM differ widely due to varying definitions of SWFs. However, these funds are undeniably a crucial part of the wider fund management sector due to their long-term investment horizons, and the size and high liquidity of their assets. SWFs enable sovereign capital to be deployed as investment in countries and sectors across the globe. These sovereign vehicles also provide economic-stabilisation functions: providing budgetary support, protecting against sharp domestic economic fluctuations, and sharing wealth across generations.

SWFs have an important role to play as investors in various countries, including in the UK. SWFs could contribute to long-term and sustainable growth through their funding of infrastructure and other long-term investments. The UK has been a key destination for inward foreign investment due to its regulatory environment, expertise in growing innovative markets, and its talent pool. These factors support the efficient management of large-scale projects. Combined with the UK's position as a leading international centre for fund management, the potential for stronger and deeper partnerships between the UK and SWFs is significant.

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