Theoretical and Conceptual Bases of Sovereign Funds

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Abstract: Sovereign Wealth Funds (SWFs) have become increasingly influential in global financial and capital markets. They present a relevant role in economic and development on domestic level, but their theoretical underpinnings and conceptual frameworks remain underexplored in the literature. The diverse nature of SWFs, in terms of objectives and investment strategies, necessitates a comprehensive theoretical review to better understand their roles and implications in global and local markets. This article aims to analyze and synthesize the main existing theories and frameworks that explain the origin, development, and functioning of SWFs, and to explore the implications of these funds on the global and local level. The review is organized around key theoretical perspectives, including economic and political theories, as well as conceptual frameworks that address the strategic objectives and operational models of SWFs. This review found that increased in the international community interested in these innovative investment instruments due to their significant implications on for the stability and development of the local economies from which these funds come on the one hand and on other hand their significant implications on the international capital market, the global financial system and the international economic model. The findings also suggest potential policy implications for managing the growing influence of SWFs in international markets. This conceptual review underscores the importance of developing a more nuanced theoretical understanding of Sovereign Wealth Funds. This article offers one basis for future research that can address the complexities of SWFs and their impact on global and local financial systems.

Keywords: Sovereign funds, risk, financial markets, financial management, financial return.

1. SOVEREIGN FUNDS DEFINITION, MEANING AND COMPONENTS

Currently, both in science and in practice, the name “fund” is used in various meanings. In general, the term “fund” is defined in the Spanish dictionary, describing it as “capital, money, monetary resource intended to cover special expenses at the disposal of an organization, state”, *i.e.* money allocated for expenses that may be necessary and so on. The dictionary of foreign words indicates the etymological origin of the term fund from the Latin “fundus”, meaning earth, foundation.

Therefore, we are talking about a monetary resource, capital, accumulated funds, which should form the financial basis for the implementation of a goal or a task. Thus, the use of funds for specific purposes is clearly identified in the general concept of the fund. In this regard, in the literature, the term “purpose / target” is often added to the name of the fund. Trust funds are different, as there are different prerequisites for their creation, as well as different functions, different sources of financial support and targeted use of expenses (Brown, Papaioannou, & Petrova, 2010).

Thus, trust funds in the above general sense can be created by various entities, both individual entities (who, for example, want to accumulate funds, think about special investment purchases, or plan specific projects in the near or distant future), and business entities (for example, certain reserves created on a mandatory or voluntary basis by enterprises, banks and insurance organizations). However, a special place among the monetary resources understood in this way is occupied by targeted funds operating in the field of public finance. Most often, the essence of state targeted funds is formulated by comparing their features with budget funds. In the literature on this topic, the following features of state targeted funds are distinguished: (International Monetary Fund, 2016)

1) they are separated from the general budget in different ways and represent themselves as a whole,

2) receipts of funds are collected from strictly defined sources and are generally associated with their purpose,

3) funds are spent on specific tasks.

In this context, it is important to determine the features of state earmarked funds and the budget. The trust fund institution differs from the budget institution mainly in the degree of specialization. The budget is a more versatile device that collects income from various sources and allows you to spend the accumulated resources for various purposes, regardless of the nature and type of income sources.

A trust fund, on the other hand, is a specialized device used to finance a narrow group of goals, based on resources raised, usually by a small group, although these are often

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very efficient sources of income. The literature has long emphasized that the system of fund allocation of resources historically preceded the system of budgetary economy. Public funds were created already in ancient times, for example, in Ancient Greece there was a military fund and a fund for shows.

Accumulated funds should be directed to well-defined purposes. The fund usually operates for a period exceeding the financial year (the duration of the existence of the fund is usually not determined – the limit may be the fulfillment of the task, the achievement of the goal). The following characteristic features follow from the presented definition of the state trust fund (Fasano, 2000):

Firstly, the creation of a special purpose fund consists in allocating, in organizational and / or financial terms, part of public funds from the general pool. This allocation is usually associated with the transfer to the trust fund managers of a certain part of state revenues, for example, taxes, fees, mandatory contributions, payments. The consequence of the allocation of funds in the form of a special purpose fund is the provision of sources of financing for the selected area of state activity.

Secondly, along with the creation of a trust fund and the definition of its sources of income and the tasks to be financed from these sources, part of the public funds is associated with the tasks set. As a result, the distribution of public funds in a certain period is limited.

Thirdly, sharing revenues and linking them to specific tasks increases the importance of these tasks. The tasks of financing from earmarked funds are excluded from the routine procedure used in the budgetary method of distributing funds, which is designed to guarantee, in the event of a constant lack of sufficient funds in the "state treasury", avoiding a situation of "competing" with other public tasks. However, whether this is so, depends on how the sources of income of a particular trust fund are formed and how the financial needs change in connection with the implementation of these tasks.

A special place among the funds created in the field of public finance is occupied by sovereign wealth funds, which are investment instruments created by states. The main purpose of their activity is to manage financial assets arising mainly from the exploitation of natural resources or as a result of a permanent surplus generated in trade. Although the first structures of this type were created more than half a century ago, only the latest wave of development of this segment of the market of institutional investors had a significant impact on the perception of the role of these funds. Their activities are no longer considered only in the context of implementation of specific economic, political and social goals of individual countries, but also began to be perceived in the context of the global financial system.

Global sovereign wealth funds have rapidly expanded in recent years, and investment activity has grown in scale, attracting much attention from the international community. At many meetings of the International Monetary Fund, the World Bank, the OECD, the G8, the World Economic Forum in Davos, the US and Europe, sovereign wealth funds have become a hot topic. In view of the rapid development of sovereign wealth funds in the world and their active participation in the economy, studies and discussions have been carried out on the state of development, causes and international impact of global sovereign wealth funds. (Papaioannou, Park, Pihlman, & van der Hoorn, 2013)

Sovereign funds are not only different from traditional government pension funds, but also different from those government institutions that simply hold reserve assets to maintain local currency stability. It is an investment organization that uses professional and market-oriented working methods, has diversified business strategies, seeks long-term investments and achieves higher returns.

The IMF provides a relatively comprehensive definition of sovereign wealth funds, indicating that sovereign wealth funds should have the following characteristics: they are an instrument responsible for managing public financial assets; they participate mainly in foreign investments; investments tend to bring higher returns than short-term ones. Sovereign fund has no risk. It is usually closely linked to the national inflow of foreign exchange, forming a dependency relationship. (Rawdanowicz, Wurzel, & Ollivaud,, 2011)

Sovereign wealth funds are mainly formed from foreign exchange reserve surpluses, natural resource export surpluses, and international aid funds, but are usually linked to how excess foreign exchange reserves are managed. In recent years, the development of sovereign wealth funds around the world has been very fast.

It happened, in our opinion, because during the financial crisis of 2008-2009 these funds made a significant contribution to ensuring the financial stability of not only the economies of individual countries, but also the leading financial institutions of the world. Thus, sovereign wealth funds have proven useful as a new element in the architecture of the global financial safety net.

Sovereign funds (or sovereign wealth funds) were created by states in response to three specific economic problems. Firstly, it is a large and constant surplus of capital entering the economy, which leads to a rapid expansion of the money supply, which directly leads to inflationary processes. Thus, this is an example of a monetary problem, the solution to which is to use capital inflows to purchase assets in international markets by sovereign wealth funds. The second problem arises from large increases in tax revenues, which can lead to excessive and sustained increases in government spending. Therefore, this is a fiscal problem that can be alleviated by establishing fiscal rules that determine the procedure and circumstances for the transfer of funds from the fund to the budget, which leads to countering a sharp increase in government spending (Dixon & Monk, 2012).

The third concern is that large and sustained capital inflows into the economy can cause real exchange rate appreciation, which in turn leads to reduced export competitiveness and an over-concentration of economic activity in commodity-based industries. This is a financial problem of an international character, the solution of which is the use of excess capital by state wealth funds to purchase foreign assets in order to counteract the appreciation of the exchange rate. (Fernandez, 2009)

According to Alberto Quadrio Curzio and Valeria Miceli (Quadrio Curzio & Miceli, 2010), four stages can be distinguished in the process of development of the sovereign funds market. The first stage began in 1953 and continued until the mid-1990s. The Kuwait Investment Authority and the Income Equalization Reserve Fund were the first to be established. The first of these funds was created to invest surpluses from the extraction and sale of crude oil and reduce the dependence of the Kuwaiti economy on revenues from the extraction of non-renewable fossil fuel resources. In the case of the second fund, the main motive for its creation was the willingness to invest funds from the exploitation of natural fertilizer resources at the disposal of the former British colony of the Gilbert Islands (now the Republic of Kiribati).

The factor that provoked the further expansion of these funds during the period under review was the sharp rise in oil prices from $5 per barrel in 1970 to $35 in 1980. This allowed the oil-exporting countries to quickly accumulate significant financial resources. Initially, they were directed to domestic financial markets, which led to the development of inflationary processes, as a result of which oil revenues began to be increasingly invested outside the exporting country (Papaioannou, Park, Pihlman, & van der Hoorn, 2013) . This is how such funds as Abu Dhabi Investment Authority from the United Arab Emirates, Future Generation Fund from Kuwait, Alaska Permanent Fund Corporation (USA) and Alberta's Heritage Fund (Canada) appeared.

In addition, during this period a new type of property funds was established – funds not based on income from the exploitation of natural resources. These funds were: Temasek Holdings, Government Investment Corporation of Singapore and Khazanah National Berhard. In the case of these funds, the main reason for their creation was the insufficient size of the domestic market, which made it impossible to effectively invest the financial surpluses received on it. During the analyzed period, the Norwegian State Pension Fund was also created (Merton, 2007) .

It should be emphasized that at the initial stage of development of the government funds market, which lasted more than 40 years, these entities were characterized, among other things, by the use of conservative investment strategies based on investing in US government debt securities, characterized by a low rate of return. All this time, these funds remained almost unknown even in financial circles.

The second stage of development of the sovereign funds market covers the period from the late 1990s to 2004. The driving force behind their expansion was the accumulation of foreign exchange reserves on an unprecedented scale by some developing countries, mainly from Asia. These reserves were a response to the financial crisis of the late 1990s, during which some Asian countries faced difficulties in accessing capital in international financial markets and were forced to turn to the International Monetary Fund for help (AlHassan, Papaioannou, Skancke, & Cheng Chih Sung, 2013).

Foreign exchange reserves have become a form of hedge against future crises. However, when their size exceeded the indicators that are usually considered optimal and adequate for a given economy (for example, the Guidotti-Greenspan rule), due to the significant costs of maintaining these reserves, some of them were transferred to new investment instruments (Baunsgaard, Villafuerte, Poplawski-Ribeiro, & Christine Richmond, 2012). This is because sovereign wealth funds offered an alternative strategy for investing these reserves, in which the rate of return was higher than liquidity. This is how new funds began their activities, including SAFE Investment Company, Hong Kong Monetary Authority Investment Portfolio and Korea Investment Corporation.

In our opinion, the factor that provoked the further development of the market for public funds during this period was again the rise in prices for crude oil. On the one hand, this has led to an increase in surpluses directed to existing property funds, and on the other hand, to the creation of new funds, for example, in Iran, Azerbaijan, Algeria and Kazakhstan. It is worth emphasizing that, unlike Asian countries, which transferred only a small part of their huge foreign exchange reserves to wealth funds, in the Middle East and other oil and gas exporting countries, the placement of accumulated assets in funds occurred due to the reduction of foreign exchange reserves.

The third stage of development covers the period from 2005 to mid-2008. In the earlier period these funds ceased to be anonymous and became recognizable, while in the current period they have become the focus of world media attention and have attracted the attention and concern of other institutional investors, as well as public opinion in Western countries. This was the result of increased awareness of the impact these funds could have on global financial markets (Brière & Bodie, 2014).

In 2005, the term “sovereign wealth funds” was first used by A. Rozanov. He did not give a precise definition of what new institutional investors were, but indicated that they are different from previously known forms. A sharp increase in interest in research funds was caused by his article “Who holds the wealth of nations?” (Rozanov, Who holds the wealth of nations? , 2005)

The factor that once again spurred the development of funds was the rise in oil prices, which in July 2008 reached $147 per barrel. During the analyzed period, these funds became recognizable due to the increasing investment activity carried out in Europe and the USA. At the same time, they began to raise concerns due to the low transparency of their activities and the fact that some of them were institutions of countries with other, non-democratic, governance systems and a different approach to the economic functions of the state.

The attitude towards funds as “barbarians at the gate” has changed radically with the rise of the financial crisis (Everhart & Duval-Hernández, 2001). At that time, sovereign wealth funds became the lenders of last resort in the volatile global financial system, including mainly financial institutions in the United States and Western Europe. In 2008, the IMF proposed a set of rules governing sovereign wealth funds, and the European Commission introduced a set of guidelines for SWFs(Venegas-Martínez, 2008).

The last, fourth stage of development of this segment of international institutional investors began at the end of 2008 and continues to this day. This period begins with a significant decline in the investment activity of these entities, which is associated with losses recorded as a result of investments in financial institutions such as: Citigroup, Barclays, Credit Suisse, UBS, Morgan Stanley and Merrill Lynch. They accounted for 60% to 90% of the value of the investment, and while largely unrealized or announced, some estimates put them in excess of $57 billion (Urban, 2011).

Thus, it turned out that these funds are not sustainable and stable, as some researchers believed until that moment (Bahgat, 2008). Another factor that caused the decline in their investment activity is related to the deepening financial crisis, which also affected the countries from which these funds came. The resources they had at the time were diverted to the domestic market to cover budget deficits, fund stimulus packages, or support the domestic market and individual institutions.

Other impulses for the decline in the investment activity of these entities were the decline in oil prices on world markets and the global recession, which led to a reduction in the export surplus in many Asian countries. Sovereign wealth funds are projected to continue growing at a rapid pace in the near future. According to some estimates, the value of the assets that these funds will manage will soon exceed the amount of official foreign exchange reserves accumulated by central banks (Ang & Kjear, 2011). However, it should be noted that further development of the sovereign wealth market and growth rates will depend on the state of the global economy in the coming years.

2. THE ROLE OF SOVEREIGN FUNDS IN THE ECONOMY AND ITS DEVELOPMENT

In the literature, the term "long-term investor" is defined in different ways. According to A. Ang and K. Kjaer (Reilly & Brown, 2001), this is an investor who does not have short-term liabilities or is not obliged to meet certain liquidity requirements, or an investor whose short-term liabilities or liquidity needs make up only a small part of the investor's total portfolio. Therefore, long-term investors have capital at their disposal that will not be withdrawn until the distant future. On the other hand, Reilly and Brown indicate that long-term investors, in addition to lower demand for liquidity, also tend to accept a higher level of risk.

The tendency to bear higher investment risk arises from the fact that possible short-term losses can be covered by capital gains in subsequent years. According to P. Bolton, F. Samam and J. Stiglitz, a long-term investor is an investor that is resistant to short-term pressure from the market (Bolton, Samama, & Stiglitz, 2012). The study "The Future of Long-Term Investment" (Report of the World Economic Forum, 2011) (The Future of Long Term Investing. , 2011) stated that long term investing occurs when an investor with such capabilities expects to own acquired assets for an indefinite period of time.

In practice, this means the acquisition of financial assets for a period of at least 10 years or for the entire duration of the business cycle. These types of investors are less interested in temporary changes in the value of their assets and instead focus on long-term earnings growth and/or long-term capital gains. The authors of the cited study among long-term investors name state property funds, in addition to family offices, funds, pension funds and life insurance organizations.

2.1. Sovereign Wealth Funds are Characterized by a Long Investment horizon and Limited Liquidity Needs

In many cases, these funds are willing to accept short-term fluctuations in exchange for an expected higher long-term rate of return to achieve their long-term investment goals. In addition, these funds can benefit from fewer restrictions on the range of assets they can invest in, allowing for better diversification in asset allocation.

A separate point of view should be singled out regarding the features of sovereign funds, which, in comparison with other institutional investors, are characterized by the absence of the need to comply with certain capital requirements and other rules imposed by market regulators (Rawdanowicz, Wurzel, & Ollivaud,, 2011), (Dixon & Monk, 2012). The low liquidity requirements for these funds are derived from the low risk of withdrawals. This risk is below the market average, but sovereign wealth funds can differ significantly in this regard.

In the case of stabilization funds, the likelihood of having to withdraw funds from the fund is higher than in the case of funds whose purpose is to raise funds to cover the future pension obligations of the state. Moreover, sovereign wealth funds are not subject to competitive pressures, as is the case with other institutional investors. Thus, these entities can avoid investing during the emergence and development of asset bubbles in various asset classes. Given the same level of risk, these public property funds, as long-term investors, can benefit more from the risk/return ratio compared to short-term investors (Jones, 2016). The long-term nature of property fund investments is discussed by Jones Bradley, who indicates that the Norwegian property fund intends to remain a shareholder for an indefinite period from the date of the investment decision.

It should be noted that, with a few exceptions, sovereign wealth funds are predominantly a group of institutional investors who should be considered long-term investors. Some of them are designed to invest income from the exploitation of natural resources for the benefit of future generations of citizens, which means that they often have an investment horizon of more than 30 years. Sovereign funds as a group – in addition to stabilization funds – are a group of long-term investors in a sea of investment structures focused on short-term results.

2.2. Stabilizing Role of Sovereign Funds

Taking into account the characteristics of sovereign funds that were presented in the previous part of the study, it seems reasonable to ask whether and under what circumstances these funds can become investors in the future, acting as stabilizers of the global financial system. In previous studies of sovereign wealth funds, the authors seem to have shared the view that these funds can serve this purpose. These formations can act as shock absorbers and be an important source of liquidity for financial markets.

Studies of sovereign wealth funds have proven that they can have a stabilizing effect on markets during a financial crisis. Sovereign wealth funds can expand the current group of long-term investors interested in higher risk assets such as equities, corporate bonds or emerging market assets. Thus, they can have a stabilizing effect on financial markets or, moreover, contribute to a better sharing and diversification of risks at the global level.

Moreover, as a shareholder, these funds are positively assessed by the market, which is reflected in the increase in the value of the company in the long term, higher than that of other institutional ones. Stabilization participation in the case of the analyzed funds can be considered at two levels: global and domestic. With regard to the first, it should be noted that losses, in some cases reaching 30% of the value of assets in 2008, caused a discussion about the investment strategies being implemented in the countries from which these funds come.

Critics pointed, in particular, to the poor timing of investing in global stock markets and the lack of understanding of the financial situation at the start of the crisis. This led to significant losses, which are a direct consequence of the participation of funds in the rescue of the leading financial institutions in Western Europe and the United States. The consequence of this was an avalanche of criticism met by fund managers for the consequences of their global investment activities, which consisted in the recapitalization of foreign financial institutions, in a situation where the economies of the countries from which these funds come were themselves in need of support at that time (Castaneda & Villagómez, 2008).

Therefore, it can be assumed that real estate funds will avoid this type of activity in the near future. Thus, the possibilities for the stabilizing influence of funds at the global level appear to be limited. Moreover, the size of the sovereign wealth fund market—despite robust growth—relative to global GDP or stock market capitalization (estimated at 8% and 11% respectively) seems to indicate that the funds do not yet have the potential to actively participate in the financial safety net at the global level.

Perhaps they will be able to play such a role in the near future, when, for example, the volume of assets at their disposal exceeds the level of world foreign exchange reserves accumulated in the central banks of individual countries. This view seems to be shared by many researchers (Martellini & Milhau, 2010), who argue that sovereign wealth funds may soon grow large enough to play a much more important role in determining financial asset prices.

Opportunities for the participation of the analyzed entities in ensuring financial security are different at the national level. The recent financial crisis has shown that these funds can play an important role in the economies of the countries from which they came. At the time, the stabilization funds were a source of financial resources used to cover the growing budget deficit and finance stimulus packages aimed at stimulating economic activity.

In addition, some countries used these funds to support their own banks and businesses through their domestic banking system, to which they provided funds to increase liquidity or recapitalize. The assets of other funds were directed to exchange interventions in order to stimulate the market and increase the level of investor confidence. In the case of countries whose economies are largely based on the exploitation of natural resources, wealth funds provide an opportunity to hedge against the risk of commodity price fluctuations in international markets by investing in assets whose returns are negatively correlated with commodity prices.

In the light of the above arguments, it appears that sovereign wealth funds are now more likely and more effective to play the role of a new link in the global financial safety net at the country level. Thus, they are able to indirectly have a positive impact on international financial markets. These funds can play the role of a kind of substitute for national monetary authorities, complementing them in ensuring the financial stabilization of the economies of these countries. For economies with such an investment mechanism, obtaining funds, especially during a crisis when access to capital from financial markets is difficult, may be associated with the need to incur lower costs (economic and social) than those that would be incurred, for example, in the case of using the assistance of the International Monetary Fund.

In the context of the role of sovereign funds in ensuring the stability of the international financial system, researchers dealing with global finance should mention another problem. This is a constantly progressive process of shortening the investment horizon, the dominance of short-term investors and an insufficient number of long-term investors. This indicates that at the global level it is necessary to increase the share of long-term investors by reducing the share of short-term investors and speculators.

Market regulators and global policy makers should create rules in this area that would encourage the leaders of financial institutions to pay more attention to the long-term results of investments, and not just short-term results. These new rules must be adopted at the national, regional and global levels and include, in particular, such areas as the tax system, accounting standards and corporate governance.

According to D. Barton, in order to overcome the "tyranny" of short-term investments, it is necessary to take actions to convince such entities as pension funds, insurance companies, trust funds and state property funds, which are a source of capital for financial markets, that these entities support and evaluate the ongoing by them investments based on long-term criteria (Barton, 2011). The key issue is the creation of conditions for the long-term presence of entities in the market, the proposal of specific benefits and allowances for extending the term of ownership of the acquired securities.

The adoption of such measures can lead to a better use of the investment potential of sovereign wealth funds, some of which are not fully managed on the basis of maximizing long-term returns and implement short-term investment strategies. The aim of the study was to provide evidence supporting the thesis that sovereign wealth funds may represent a new element in the architecture of the global financial safety net that has a serious impact on the economy of states and its development. The goal was achieved by presenting the stages of development of the sovereign funds market and demonstrating that this group of institutional investors is increasingly making its presence felt in the financial markets. The goal was also supported by the demonstration that these funds have the characteristics to qualify as long-term investors; as well as bringing arguments indicating that these entities may constitute one of the links in the global system of institutions whose activities can contribute to the stabilization of the global financial system.

The section shows that at present the sphere of influence of funds is likely to be limited to the economies of individual countries, but, nevertheless, these entities will indirectly influence the international situation. There are indications that funds will continue to grow in strength and importance in the coming years, suggesting that this group of institutional investors could soon play an important stabilizing role for the global financial system.

The study made it possible to identify several trends in the investment of sovereign funds in recent years:

1) Expanding investment strategies

The share of alternative placement of assets has increased. Growing uncertainty in the public market and high asset valuations make it increasingly difficult to find a satisfactory return on investment. Sovereign wealth funds move from liquid assets to illiquid assets based on their own sources of funding, including global infrastructure, private equity funds, hedge funds, real estate projects, etc. For example, the Saudi Arabian Public Investment Fund has invested heavily in Softbank’s Vision Fund, mainly in new technologies and other areas, totaling $90 billion.

The share of direct investments has increased. In recent years, in order to ensure the stability of investment income, sovereign wealth funds have increased the investment of resources in the field of private equity, increased capacity development, adopted active management practices, and obtained liquidity through centralized shareholding and strategic investments in the premium segment.

2) Post-investment management is more active. Sovereign wealth funds focus on the role of active shareholders, adhering to the principle of financial investors. It is necessary to begin the transition from the former pure financial investor to the “active shareholder”. On the one hand, participation in corporate governance is necessary. For example, it is necessary to actively use the right to vote in the field of ecology, environmental protection, internal management and other aspects. At the same time, it is necessary to focus on responsible investment and provide value-added services for investment enterprises and add value.

3) Emphasis on long-term investments and stable profits. The main goal of long-term investments is to generate stable profits, and this strategy is an important means of combating financial market volatility. Over the past few years, sovereign wealth funds have expanded their long-term investments in infrastructure and other areas to reduce portfolio volatility and increase stability.

4) The investment strategy should pay more attention to integration with domestic development. As it becomes increasingly difficult to achieve long-term, stable returns, many sovereign wealth funds are actively or passively repositioning themselves, moving from pure “financial investors” to “development investors” in an attempt to partner with their economies. Development is more tightly integrated and strengthens its own strategic positioning.

3. SOVEREIGN WEALTH FUNDS ARE AN IMPORTANT SOURCE OF GLOBAL LONG-TERM CAPITAL

1) The source of funds is long-term. Although there are various sources of funds, there are no hard limits on the outflow of funds from sovereign wealth funds, and capital is stable. There are two main sources of sovereign wealth funds: the first is an excess of foreign exchange reserves caused by rapid economic development, for example, in China, Singapore and South Korea. The second source of sovereign wealth funds is raw materials, as in the Middle East, Latin America, Russia and other countries.

2) The goal is long term. While the underlying objectives are different, all sovereign wealth funds focus on long-term rolling returns and achieving long-term asset value appreciation. There are five main goals of public wealth funds: first, income stabilization, smoothing out intertemporal fluctuations in national income and reducing the significant impact of unexpected income fluctuations on the economy and budget; second, the diversification of reserves and the diversion of the central bank's foreign exchange; third, to preserve wealth, smooth the national wealth between generations, to preserve wealth for future generations; fourth, to prevent economic crises and promote stable economic and social development; fifth, to support the country's long-term development strategy.

3) Distribution of long-term investments. The strategic allocation of sovereign funds is very instructive, with long-term asset allocation ratios or obvious benchmark portfolios. Therefore, investments are much disciplined. Most of them carry out rebalancing operations and avoid short-term speculation or profit-seeking investment methods. The professional and highly disciplined method of investing sovereign funds has become an important capital for stabilizing financial markets and providing liquidity during crises.

3.1. Factors Affecting Sovereign Wealth Funds

The emergence and development of global sovereign wealth funds are the result of the combined impact of internal and external factors. As shown above, sovereign wealth funds have a positive impact on the economic development of the country. Compared with the central bank foreign exchange reserves, the amount of investment of sovereign funds is wider, including government securities, private securities, stocks, *etc*., private equity, real estate and derivative products, *etc*., which can have a positive impact on economic development countries as a result of:

First, sovereign wealth funds can stabilize the economy. Sovereign wealth funds, especially the fixed-base funds among them, can effectively avoid national economic risks caused by oil and mineral price fluctuations. A fund is like a pool of capital that can draw on a portion of the national foreign exchange balance to replenish when commodity prices rise or foreign exchange inflows increase; and when the price of a product falls or foreign exchange reserves decrease, part of the funds from the fund can be withdrawn to replenish the national currency.

For example, the Stabilization Fund of the Russian Federation (Volume of the National Welfare Fund. , n.d.) as a sovereign wealth fund is an integral part of the budgetary funds of the Russian Federation, its main function is to ensure the balance of the federal budget when the oil price drops below its base price and play an insurance role in the economy. At the same time, the stabilization fund is also entrusted with the functions of ensuring the sustainable development of the domestic economy, eliminating excess liquidity, reducing inflationary pressure and reducing the dependence of the domestic economy on raw material export revenues. This means that the fund should not only play the role of a currency reservoir, but also become one of the tools for structural adjustment.

Second, sovereign wealth funds can diversify risks. Resource-exporting countries tend to be highly dependent on natural resource exports, resulting in relatively concentrated risks (Stevens, Resource Impact—Curse or Blessing?, 2003). Taking into account resource exhaustibility, currency risks and other factors, international investment and investment in a portfolio of diversified assets can play a role in risk diversification. For example, the government of Kiribati imposes taxes on the export of guano resources that can be used as high quality nitrate fertilizers and uses these tax revenues to form the Revenue Equalization Reserve Fund (RERF) and invest extensively. After the guano was depleted, the fund continued to generate a steady income for Kiribati. The fund has now grown to US$613.6 billion, equivalent to 9 times Kiribati's GDP, and the annual investment return has reached 33% of the country's GDP (Revenue equalization reserve fund).

Thus, the creation of a sovereign wealth fund by the government can effectively avoid the risk of relying solely on mineral resources to increase national wealth. In addition, national sovereign wealth funds can widely invest in various industries, types of investments and different types of countries, can largely share the fruits of global economic growth, and effectively reduce dependence on a certain economy or certain investments.

Third, sovereign wealth funds can provide higher returns. Through investment in public wealth funds, the risk-adjusted return on national wealth can be maximized.

In terms of traditional reserve management, the central bank typically invests its foreign exchange reserves in high-level government bonds, low-risk money market instruments, etc., while sovereign wealth funds can make various investments for higher returns. The Petroleum Exporting Countries Sovereign Fund is the earliest and largest sovereign wealth fund in the world. Its original purpose was mainly to stabilize oil export prices and create reserves for future generations.

Since 2000, the world price of oil has continued to rise, which directly led to a substantial increase in oil export revenues in oil exporting countries such as the Middle East and Russia, and finally led to the rapid development of sovereign wealth funds. The creation of a Russian national sovereign fund (Reserve Fund of the Russian Federation) (The reserve fund of the Russian government increased by 1.4 trillion rubles) is entirely dependent on rising crude oil prices.

Entering the 21st century, with the continuous rise in world oil prices, Russia, as a major oil exporter, received a huge amount of petrodollars. It is estimated that between 2000 and 2007, Russia's oil export revenues alone exceeded one trillion US dollars. How to dispose of this huge wealth has become one of the main priorities of the Russian government. In December 2003, the Russian government promulgated the “Law on the Stabilization Fund of the Russian Federation”, which was included in the “Budget Code of the Russian Federation”, and on January 1, 2004, established the sovereign fund of the Russian Federation –the Stabilization Fund. Since the establishment of the Stabilization Fund, due to the fact that the actual price of oil is significantly higher than the expected base price, and Russia has repeatedly increased export tariffs on oil and mineral extraction tax rates, the growth of the general fund has already exceeded expectations. By the end of 2007, the stabilization fund reached $157 billion. On February 1, 2008, the Stabilization Fund of Russia was divided into two parts, the “Reserve Fund” and the “State Welfare Fund” (Jones B. , 2012). After the separation, the management of the use of the two funds was loosened, and they can not only buy foreign bonds, but also buy government bonds issued by foreign central banks and financial bureaus, bonds of international financial institutions, and deposits in foreign banks. It can be concluded that due to the rapid growth in the production of natural resources, many countries have also created national sovereign wealth funds with minerals as a source of funds.

Another factor affecting sovereign wealth is the stimulating role of the transfer of international factors of production and changes in the international division of labor. The continuous rise in commodity prices has contributed to the creation of sovereign wealth funds in the oil-producing countries of the Middle East and Russia. At the same time, the transfer of international factors of production and changes in the international division of labor are an important reason for non-oil exporting countries (especially Asian countries) to create sovereign wealth funds.

Since the 1990s, as economic globalization has deepened, developed countries, led by the United States, have continued to increase the pace of industrial restructuring and transfer, combining traditional production and industrial ties in high-tech industries. Research and development activities with the service industry have greatly expanded, especially in emerging markets with price advantages, market potential and strong manufacturing support capabilities. More and more developing countries have become included in the global system of division of labor and production chain, in which, in the context of economic globalization, multinational corporations of developed countries dominate, and Asia, including China, becomes a global production base and exporter of various industrial products. The base share of world trade continued to rise, export competitiveness improved significantly, and the trade surplus continued to increase.

As of July 2007, 2/3 of the world's foreign exchange reserves were concentrated in 6 countries and regions, including China, Japan, Russia, Taiwan, South Korea and India. In Asian countries and regions, foreign exchange reserves amounted to 315 trillion US dollars (SWFs and foreign investment policies - an update., 2008), (Truman E. , 2010). With large amounts of foreign exchange reserves, most Asian countries have also become the main force behind sovereign wealth funds. In addition, the persistent depreciation of the US dollar has also put a lot of pressure on the value-added and maintenance cost of managing foreign exchange reserves in countries with a positive trade balance, which has objectively accelerated the pace of countries using foreign exchange reserves to create sovereign wealth. Due to the 2008 crisis, most countries' foreign exchange reserve assets denominated in US dollars declined. With the strong position of the US dollar as the central currency difficult to reverse in the short term, countries could adjust their strategies to preserve value and protect their foreign exchange holdings. Under such circumstances, expanding equity investment through sovereign wealth funds has become an important means of maintaining and increasing the value of foreign exchange reserve assets.

Let us consider the role of financial globalization as a factor in the formation of sovereign funds. Given that there are many positive factors in the sovereign wealth fund itself and an abundance of global funds, financial globalization provides a wide range of channels for the global functioning of the sovereign wealth fund. First, financial globalization has led to a more open financial market, which encourages capital inflows. The development of financial globalization has promoted financial cooperation between countries and accelerated the pace of financial innovation. At the same time, the openness of the financial markets of various countries made possible the cross-border settlement of funds, which provided reliable technical means and an institutional basis for large-scale concentration and movement of financial capital.

Second, financial globalization has expanded the types of financial products and types of sovereign wealth fund investments. The development of financial globalization has triggered the emergence of various financial derivatives, increased the liquidity of financial assets, increased the number of types of circulation and enabled sovereign wealth funds to have multiple choices in their investments, acting as a means of hedging and adding value.

Finally, financial globalization ensures the orderly conduct of the fund's cross-border investments. Financial globalization has contributed to the development of international investment. Countries have accumulated extensive experience in international investment activities. International organizations have also formulated a set of rules for international investment activity to regulate international investment behavior, which to a certain extent ensures the international investment activity of sovereign wealth funds.

One can also highlight the international influence on the development of sovereign wealth funds. Thus, the emergence and constant expansion of sovereign wealth funds has a significant impact on the international capital market, the global financial system and the world economic model.

1) Impact on the international capital market. First, the sovereign wealth fund is becoming a new entity in the international capital market and is beginning to play an important role. The scale of capital of sovereign wealth funds is more than half of global GDP, and the amount of capital they control occupies an important place in the international capital market. In terms of funding sources, given factors such as the continued growth of global wealth, large international reserves and growing international reserves of developing countries, the scale of sovereign funds has the potential and strength to expand rapidly. In terms of operations, since sovereign wealth funds are also the investment groups that pursue the greatest interests and will be more inclined to seek investment opportunities in a wider range of the world, such as investment funds, pension funds, hedge funds and private equity funds, as well as their capital transactions are more flexible, the degree of activity is sure to increase (Koc F. , 2014).

Second, sovereign wealth funds change the direction of international capital flows. The prosperity of sovereign funds will inevitably increase the demand for capital market products, and their investment activity will continue to increase the demand for equities and even hedge funds, derivatives, *etc*. (Moreno, 2006)

Third, sovereign wealth funds will increase demand for asset management and investment services. The prosperity of sovereign wealth funds has an impact not only on the securities market, but also has a certain impact on investment services industries such as asset management and mergers and acquisitions. This is manifested in the fact that sovereign wealth funds may seek foreign fund managers to manage their assets, outsource asset management services, as well as financial advice, asset valuation, legal and accounting advice, issuance, establishment and other services.

Finally, sovereign wealth funds are changing the global distribution of financial assets. This is mainly reflected in the substitution effect of funds. Since a sovereign fund draws from existing pools of funds or official reserves when it is created, its investment in various financial products differs from other investment methods, resulting in increased investment.

Traditional public funds, especially official reserves, are usually invested in highly liquid assets such as money markets or government bonds. Once sovereign funds are created, these products will be replaced by products with high expected returns, such as equities or private bonds. This substitution effect is even more pronounced when one considers the movement of additional international reserves from large investments in national bonds to sovereign wealth funds.

2) The interdependence of sovereign funds and the global financial system is an important factor in determining the functioning of sovereign funds. The active development of public wealth funds is of great importance for the development and changes in the global financial system and will have a significant impact on the stability of the global financial market and the international monetary system. First, sovereign wealth funds play the role of a “double-edged sword” in the global financial system. As mentioned above, sovereign investment funds, as an important new investment entity in the international financial market, can significantly increase the liquidity of international capital, so that in the event of a crisis they will have enough funds to withstand risks and play a stabilizing role in the financial market.

However, the activities of the fund and the search for profit will also have a certain impact on the financial market, mainly in the following aspects:

1) Since the sovereign wealth fund is a state-controlled investment entity, it is not limited by the rules of the global financial system. Its activities go beyond the existing laws and regulations; this exacerbates the uncertainty and systemic risks of the global financial market in the process of financial globalization.

2) Sovereign wealth funds are becoming an important source of funds for hedge funds and can invest alongside hedge funds, thereby undermining global hedge fund regulation.

3) The investment behavior of a sovereign wealth fund has the potential to cause a "herd effect" and potential transfer of risk to investors. Abundant capital, flexible operating models and an inherent need to achieve maximum returns on a global level will inevitably lead to consistent behavior resulting in excessive capital flows and price fluctuations that are then propagated to related assets. In extreme cases, this behavior can lead to the collapse of the financial industry in some countries and regions, and even have a huge impact on the global financial market.

For example, the Asian financial crisis that occurred in 1997 was initiated by the Soros fund and then a lot of hedging. The attraction of funds and investment funds contributed to the spread of the crisis.

Secondly, the reduction in investment in US national bonds has a serious impact on the international monetary system. At the end of 2007, total US government debt issued outside the country reached $912 trillion, of which total tradable government debt reached $415 trillion. The total amount of U.S. Treasury bonds held in countries and regions outside the U.S. reached $2,353.8 billion, most of which was in the form of traded Treasury bonds, reaching $2,350.8 billion, accounting for 52% of the total traded US treasury bonds. Today, many countries are moving initial foreign exchange reserves into the investment model of sovereign wealth funds, this inevitably has a greater impact on the US Treasury bond market, which contributes to a decrease in the price of US Treasury bonds and perhaps even a greater impact on the exchange rate market, international trade patterns and international monetary system. If this part of the investment is transferred from the United States, it will also have a huge impact on the economy and financial system of the United States and even the world.

3) Impact on the world economic structure. Sovereign wealth funds created in recent years are mainly distributed in developing countries. The creation of sovereign wealth funds by these countries marks the rise of emerging economies and changes the relationship between various countries in the global economy. The ratio of economic power is of great importance for the formation of a model of the multipolarity of the world economy. Since the 1990s, with the end of the Cold War and the development of economic globalization and marketization, the concepts of "Eastern" and "Western" countries in the world economy have been gradually fading away, being replaced by developed and developing countries. Since the beginning of the 21st century, there have been unprecedented changes in the size, quality and structure of the world economy, as well as a striking change in the power structure of the world economy. Today, multipolarity already seems quite possible, which is demonstrated by the events unfolding on the territory of Ukraine.

The vigorous development of sovereign funds helps developing economies to actively participate in economic globalization, changes the balance of power between developed and developing economies in the global economy, and can contribute to a change in the global economic model from unipolar to multipolar. It can be assumed that by the middle of the 21st century, no economy will occupy a hegemonic position, and the world economy will become completely multipolar. The rise of emerging economies and their growing sovereign wealth funds is causing concern in Western countries such as the EU countries and the United States, as well as more and more negative concerns about sovereign wealth funds in the respective countries.

On the one hand, developed countries should keep sovereign funds to invest in European and American financial markets, on the other hand, the United States, the European Union and other countries, trying to keep sovereign funds, fear that the growth of sovereign funds will affect their national interests. As a result, developed countries and such regions as Europe and the United States have demanded the establishment of regulations for sovereign wealth funds while accepting sovereign wealth fund investments. Countries that have already established sovereign wealth funds do not find it necessary to establish special regulations. After persistent calls from European and American countries, the International Monetary Fund and the OECD have been trying for a long time to formulate a set of global codes of self-discipline for sovereign funds.

Thus, we can single out the following factors influencing the functioning of sovereign funds:

In terms of scale, sovereign wealth funds are growing rapidly. Structurally, emerging economies' sovereign wealth funds have expanded rapidly. According to the Sovereign Wealth Fund Forum, 20 of its 31 members are in emerging markets. The increase in sovereign wealth funds in emerging economies has played a role in stabilizing the economy and finances, as well as attracting foreign investment and facilitating economic development strategies.

In the international community, the influence of sovereign wealth funds is gradually increasing. First, sovereign wealth funds, as an important new investment entity in the international financial market, can significantly increase the liquidity of international capital so that in the event of a crisis they have enough funds to withstand risks and play a stabilizing role in the financial market. Secondly, the active development of sovereign funds will help developing countries to actively participate in economic globalization, change the balance of power between developed and developing economies in the world economy, and promote the multipolar development of the world economic model.

In addition to the above, it can be said that factors that could potentially weaken the development of funds include: a downturn in international trade, a change in the exchange rate policy pursued by China, persistently low commodity prices in world markets, low economic growth or recession in certain key economies of the world.

3.2. Classification Of Established Sovereign Funds In Foreign Countries

In recent years, one of the most notable developments in the international financial market is the rapid development of the government as an important investment force to participate in international investment, namely sovereign wealth funds. The generally accepted definition of a sovereign fund is that of the International Monetary Fund in the Balance of Payments and International Investment Position Manual, 6th Edition (BPM6): a special investment created or owned by a government that holds foreign assets for long-term purposes. Some current research has shown that understanding and views of sovereign wealth funds are biased, with more people only seeing the country risks that sovereign wealth funds bring to the host country for investment.

Most national governments express concern about this and even reject the development of sovereign wealth funds. In this regard, it seems appropriate to consider the types of sovereign funds and their characteristics. Most often, sovereign wealth funds are divided according to the purpose of creating ((IWG)., 2008):

1. Stabilization Fund (Stability Fund): The main goal is to insulate the budget and economy from commodity price volatility.

2. Thrift Fund: For the benefit of future generations, the goal is to transform non-renewable assets into a more diversified portfolio.

3. Reserve investment company: its assets are often considered reserve assets for the purpose of increasing the rate of return on the reserve.

4. Development Fund: supporting the national development strategy, optimizing the distribution of resources on a global scale, and developing world-class enterprises. Such funds can also be called strategic funds.

5. Pension contingency funds: These funds are used to provide funds (using funding sources other than individual pension contributions) to pay unspecified contingent pension liabilities on the government's balance sheet. Coping with future crises such as wars and population aging poses a number of challenges.

Sovereign funds are also divided by source of funding (Ibbotson & Kaplan, 2000):

1. Natural resource revenue: Countries that create such funds are from the Middle East and Latin America, and the funds come from foreign trade surpluses in natural resources such as oil, natural gas, copper and diamonds.

2. Income not related to natural resources: reserve funds in foreign currency. The countries and regions that have created such funds are mainly represented by China, Singapore, Malaysia, South Korea and other Asian countries, as well as Taiwan and Hong Kong.

A classification of sovereign funds according to investment strategy and transparency is also proposed (Doskeland, 2007):

1. Portfolio investment refers to financial investment in which the share of investment capital is usually below 5%~10%, and the purpose of holding shares is not to control the target company, but to receive dividends and share premium. Strategic investment means that the share of investment capital is usually more than 5% to 10%, and the purpose of holding shares is to relatively or completely control the investments of the target enterprise.

2. Transparency: refers to whether a fund regularly discloses the fund's portfolio of assets, investment gains and losses, and audited financial statements to the government or the public. Global sovereign wealth funds can be divided into four categories based on two dimensions: investment strategy and transparency. Host countries especially dislike sovereign wealth funds with low transparency and strategic investment strategies.

Table 1. Classification of global sovereign wealth funds by two indicators: investment strategy and transparency.

Investment Strategy	Low Transparency	High Transparency
Strategic investments	UAE, Qatar, China	Malaysia, Singapore (Temasek)
Portfolio investment	United Arab Emirates (Abu Dhabi), Oman, Kuwait, Chile	Norway, USA (Alaska), Canada

At present, typical investment funds that coexist with sovereign wealth funds mainly include sovereign pension funds and hedge funds. There are similarities between the two, and by comparing the characteristics of the three from different dimensions, we can better understand the differences between sovereign wealth funds.

1) Sovereign pension funds and hedge funds: 1. State pension funds, SPFS. According to the OECD report (Scherer, 2009), the vast majority of sovereign pension funds, *i.e.* public pension funds set up by the government or social security departments to support the pay-as-you-go system, are primarily financed from the balances of insured persons' contributions. Due to population aging and restrictions imposed by other reform policies, sovereign pension funds with contributions are gaining more attention from countries and are increasingly becoming an important and common investment method.

2. Hedge funds: After decades of evolution, hedge funds have lost their original meaning of risk hedging and have become synonymous with a new investment model. That is, based on the latest investment theories and extremely sophisticated financial market skills, it means to make full use of

the leverage of various financial derivatives, take high risks and follow high-yield investment models. The hallmark of hedge funds is the secrecy and flexibility of private placement and operation.

2) Comparison of typical investment funds in different countries (Venegas-Martínez, 2008);

1. Levels of assets and liabilities in foreign currency. In terms of foreign currency assets and liabilities, foreign currency assets of sovereign pension funds are still relatively low and the global average may be less than 20%, while US federal social security trust funds account for 13% of foreign currency assets. Sovereign wealth funds account for almost 100%, which is one of the important differences between sovereign pension funds and sovereign wealth funds (Brown, Papaioannou, & Petrova, 2010).

2. In terms of debt levels, a sovereign pension fund has explicit or implicit debt. Explicit debt refers to the accumulated balance due to an increase in current contributions, while a sovereign wealth fund is an investment fund with little or no hidden or explicit debt (and some are similar to the "contribution type" of sovereign pension funds, there will be certain debts) (Bianchi, Hatchondo, & Martinez, , 2016).

The current position of sovereign pension funds is higher than that of sovereign wealth funds. This shift is getting a lot of attention from the economy and international markets. Hedge funds have an explicit level of external debt and their investment volume covers both domestic and foreign assets; another concept that is easily confused with official foreign exchange reserves (Official Reserve): 100% of assets are held in foreign currency, most of them are held in the form of foreign government bonds or demand deposits, and there are no explicit liabilities.

3. Risk tolerance and investment period are determined based on acceptability of risk. In terms of investment capacity and duration, the investment life of sovereign wealth funds and sovereign pension funds is relatively long. Compared to sovereign wealth funds, sovereign pension funds have higher risk tolerance. Sovereign funds may sacrifice a certain amount of liquidity to take on more investment risk in order to achieve the goal of maximizing investment returns.

Official foreign exchange reserve assets require primarily liquidity and safety, as well as profitability. With a conservative and prudent approach, short-term investments maintain liquidity and have low risk tolerance.

Hedge funds have short-term investment levels, are highly speculative, and carry high risks. They have a high tolerance for risk.

4. Nowadays, people are very concerned about the risk that sovereign wealth funds bring to the host country of investment, and they are concerned that investments are often politically motivated, so when analyzing sovereign wealth risk, it is necessary to consider financial risk and sovereign holding risk together (Arezki, Mazarei, & Ananthakrishnan, 2015).

Sovereign wealth funds are mostly owned by countries that have less influence on world affairs, so they tend to have low sovereign ownership risk with higher financial risk, which is the current situation for many sovereign wealth funds, but as China and Russia have begun to create sovereign wealth funds, the risk of sovereign ownership may become an increasing problem for traditional Western countries. With regard to the risk appetite of sovereign funds, it must be recognized that there is much scope for guiding a change in risk attitude.

Sovereign ownership risk and financial risk are considered low, but it should be noted that the investment strategy of sovereign pension funds is changing and they are willing to take on more financial risk.

Thus, sovereign wealth funds have the characteristics of sovereign, large foreign exchange holdings, no explicit liabilities, high risk tolerance, and long-term investments (long investment horizon). The general understanding of sovereign wealth funds is currently focused on concerns about their political intentions, transparency and other issues. Many countries have a negative attitude, especially Western countries are concerned that they bear sovereign risks. There is an opinion that a guiding regulatory framework should be created specifically for sovereign wealth funds. In particular, some experts in the United States have proposed the introduction of special screening procedures and rules for sovereign wealth fund investments.

Sovereign pension funds are widespread in Western countries; they enjoy high recognition, but sovereign wealth funds are almost exclusively owned by emerging economies and the Gulf countries. Compared to sovereign pension funds and hedge funds, sovereign wealth funds experience less liquidity pressure when placing assets globally and focus on the long term, which helps reduce short-term volatility and liquidity risks in financial markets.

CONCLUSIONS

The study of the theoretical and conceptual foundations of the functioning of sovereign funds allowed us to formulate several conclusions and recommendations:

The rapid scaling up of global sovereign wealth funds and the growing investment activity has attracted much attention from the international community. In recent years, the number of sovereign funds has grown rapidly, the size of assets and the theoretical and conceptual foundations of sovereign funds have expanded rapidly, and the market influence has been constantly strengthened, professional and market-oriented operating methods and diversified management strategies have been applied.

The emergence and development of sovereign wealth funds are the result of a combined impact of internal and external factors. The emergence and development of sovereign wealth funds are the result of a combined impact of internal and external factors. From the point of view of internal factors, the sovereign fund plays a very important role in the economic development of the country. From an external perspective, the continuous rise in commodity prices since the beginning of the 21st century has contributed to the expansion of sovereign wealth funds of oil-exporting countries. Global industrial transfers have further developed sovereign wealth funds, the surge in foreign exchange reserves of countries exporting East Asian manufactured goods has provided an ample source of funds to build their sovereign wealth funds, and financial globalization has provided an appropriate channel for global investment by sovereign wealth funds.

The emergence of sovereign wealth funds and their continuous expansion will have a significant impact not only on the international capital market, but also on the global financial system and the world economic model.

Sovereign wealth funds are classified in terms of purpose, sources of capital, and investment strategies. Compared with them, it is concluded that the sovereign wealth fund has the characteristics of sovereignty, large foreign exchange assets, high risk tolerance and long-term investment, and liquidity pressure in the placement of assets on a global scale is small, which helps to reduce short-term financial market volatility and risk liquidity.

LIST OF ABBREVIATIONS

EU	=	European Union
Fund (RERF)	=	Revenue Equalization Reserve Fund - A sovereign wealth fund established by Nauru to manage its income from phosphate mining.
G8	=	Group of Eight - An intergovernmental forum that consisted of Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, and the United States (note that Russia was suspended in 2014, making it the G7).
GDP	=	Gross Domestic Product
IMF	=	International Monetary Fund
OECD	=	Organisation for Economic Co-operation and Development
SAFE Investment	=	State Administration of Foreign Exchange Investment Company - A Chinese government investment fund responsible for managing part of China's foreign exchange reserves.
SWF	=	Sovereign Wealth Funds
UBS	=	Union Bank of Switzerland

CONFLICT OF INTEREST

The authors declare that they have no conflicts of interest concerning this article.

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Received: July 15, 2024 Revised: July 20, 2024 Accepted: July 25, 2024