



NORTHWEST TERRITORIES
LEGISLATIVE ASSEMBLY
TERRITOIRES DU NORD-OUEST
ASSEMBLÉE LÉGISLATIVE

MEETING GO 37-20-25

STANDING COMMITTEE ON GOVERNMENT OPERATIONS

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MONDAY, JANUARY 20, 2025
EAGLE ROOM, LEGISLATIVE ASSEMBLY
5:50 PM

AGENDA

1. Call to Order
2. Prayer
3. Review and Adoption of Agenda
4. Declarations of Conflict of Interest
5. In Camera Matters
 - a) Briefing on Statutory Review of the *Northwest Territories Heritage Fund Act*
6. Public Matters
 - a) Public Briefing on Sovereign Wealth Funds with Professor Bill Megginson, Michael F. Price College of Business, University of Oklahoma
7. In Camera Matters
 - b) Debrief
8. New Business
9. Date and Time of Next Meeting: At the Call of the Chair
10. Adjournment



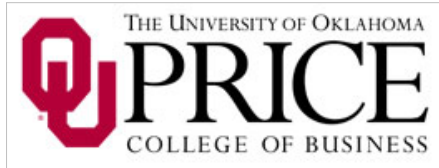
SOVEREIGN WEALTH FUNDS REPORT

For The Statutory Review of the
Northwest Territories Heritage Fund Act
January 20, 2025



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Sovereign Wealth Funds Overview



Bill Megginson

Professor & Price Chair In Finance

University of Oklahoma

Visiting Professor

University of International Business & Economics (Beijing)

Finance Area Editor, Journal of International Business Studies

Presentation Overview

- **Sovereign Wealth Funds Size And Structure In 2025**
 - 181 SWFs worldwide have \$13.029 Trillion AUM
- **Principal Funding Sources Of Sovereign Wealth Funds**
 - Resource sales (oil & commodities) and export surpluses
- **Investment Patterns Of Sovereign Wealth Funds**
 - Seek commercial investment returns, mostly in OECD
- **Trends In SWF Funding And Investments**
 - Increasing focus on private equity, real assets
- **Survey Of Academic Research On SWFS**
 - Under-perform private investors, but often best achievable
- **Summary And Conclusions**

Many Definitions of SWF: I Prefer The Sovereign Investment Laboratory's (SIL)

- **SIL Defines A Sovereign Wealth Fund As A State-Owned Investment Vehicle Meeting Five Criteria. Must Be:**
 1. An investment fund, not an operating company,
 2. Wholly owned by a sovereign government, but separated from central bank or finance ministry,
 3. That makes international and domestic investments in a variety of risky assets,
 4. Is charged with seeking a commercial return, and
 5. Is a wealth fund rather than a pension fund.
- **Must Be Modified for UAE Funds, Organized at Emirati Level**
- **Two-thirds Oil-Funded; Over Two-thirds Started Since 2000**

SWF Assets Under Management, 2000-2023

- \$11.7 trn AUM in 2023, Roughly Half Each in Commodity & Non-commodity Funds
- Smaller Than Other State-Owned Investors Central Banks & Public Pension Funds
- 10-fold Increase SWF AUM Since 2000 (\$1.2 trn) Vs 5-Fold for CB & 4-Fold for PPF
- Total AUM of 181 SWFs US\$13.059 trillion (1/15/25)

State Owned Investors (US\$ trillion)

CBs SWFs PPFs



Source: Global SWF LLC. (<https://globalswf.com>)

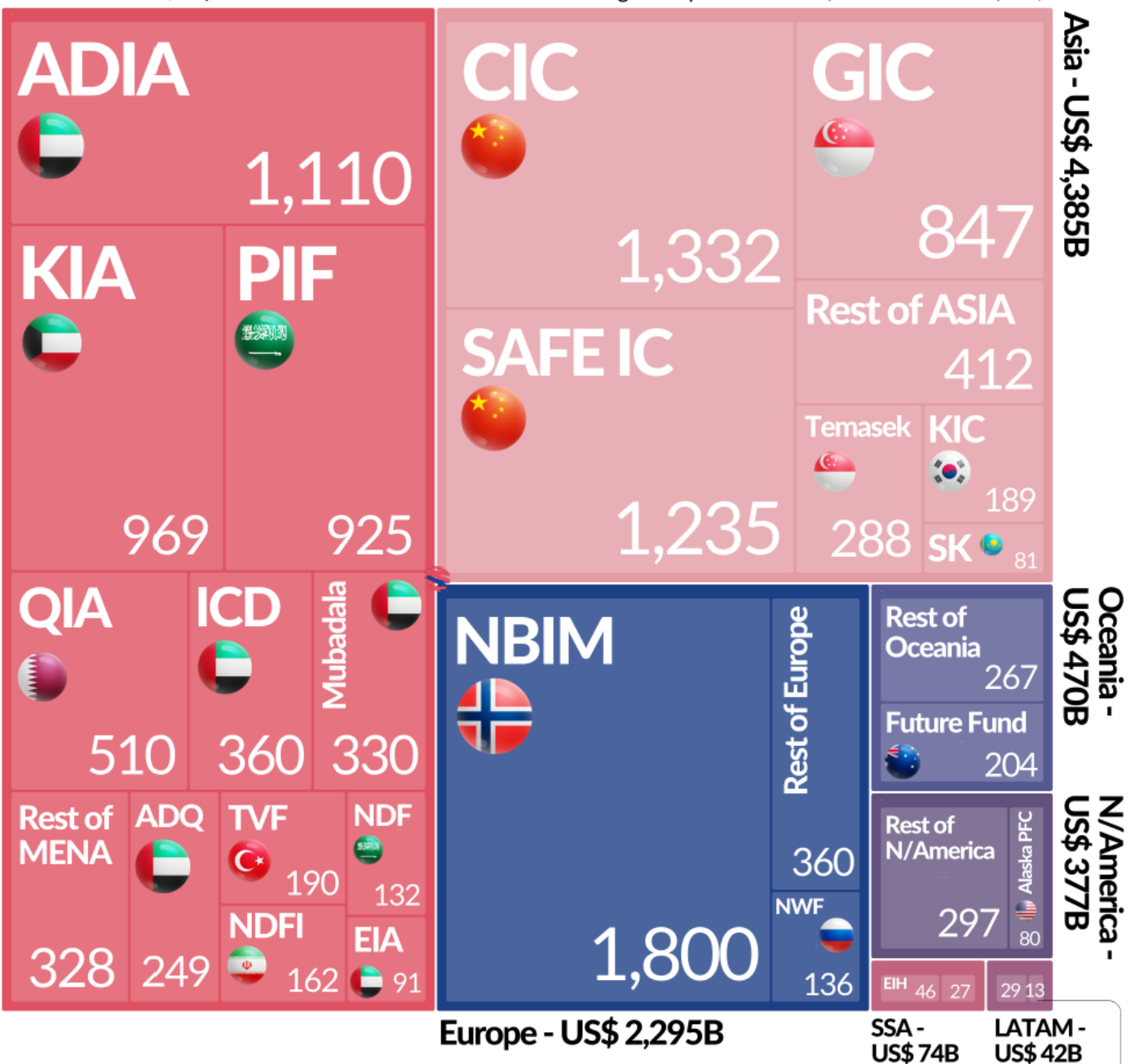
Characteristics Of 25 Largest SWFs (1/15/25)

SWF Name	Sponsor Country	Date Founded	AUM (USD Bn)	Funding Source	Alternative Invest (%)
NBIM	Norway	1997	1,800	Oil	2%
CIC	China	2007	1,332	Exports	25%
SAFE IC	China	1997	1,235	Exports	22%
ADIA	UAE - Abu Dhabi	1967	1,110	Oil	32%
KIA	Kuwait	1953	969	Oil	23%
PIF	Saudi Arabia	1971	925	Oil	37%
GIC	Singapore	1981	847	Exports	33%
QIA	Qatar	2005	510	Oil	41%
ICD	UAE - Dubai	2006	360	Oil	65%
Mubadala	UAE - Abu Dhabi	1984	330	Oil	67%
Temasek	Singapore	1974	288	Exports	53%
ADQ	UAE - Abu Dhabi	2018	249	Oil	45%
Future Fund	Australia	2006	204	Fiscal	40%
TVF	Turkey	2017	190	Fiscal	80%
KIC	South Korea	2005	189	Exports	17%
NDFI	Iran	2011	162	Oil	79%
NWF RU	Russia	2008	136	Oil	20%
NDF	Saudi Arabia	2017	132	Oil	100%
EIA	UAE	2007	91	Oil	21%
Samruk Kazyna	Kazakhstan	2008	81	Oil	62%

Source: Global SWF

MENA - US\$ 5,356B

Figures represent AUM of SWFs in Billions of US\$



Geographic Distribution Of SWFs

- Norway's GPFG the largest SWF, but most large funds concentrated in MENA; Almost all oil-funded
- Asia, mostly China, second largest; Almost all funded by export surpluses or fiscal transfers
- Rest of the world (ex NBIM) accounts for \$1,716 Bn (9.0% of total)

Several Attempts To Classify SWFs: Two Preferred But None Yet Perfect

- **Global SWF (*ARFE 21*): Three SWF Categories Plus PPFs**
 - SWF, Stabilization Funds (Smallest Group)
 - SWF, Savings Funds (Most AUM, Fastest Growing)
 - SWF, Development/Strategic Funds (More Domestic Focus)
 - PPF, Public Pension Funds (other SOI, Twice AUM Of SWFs)
- **Carney (*WP 21*): Four Categories Based On Funding, Purpose**
 - Forex Reserve Funds (7% of AUM)
 - Stabilization Funds (34% of AUM)
 - Pension Reserve Funds (9% of AUM)
 - Savings Funds (50% of AUM; Largest SWF Discounts)
- **I Believe Democratic/Authoritarian Host Country Critical**

Where And Into What Do SWFs Invest?

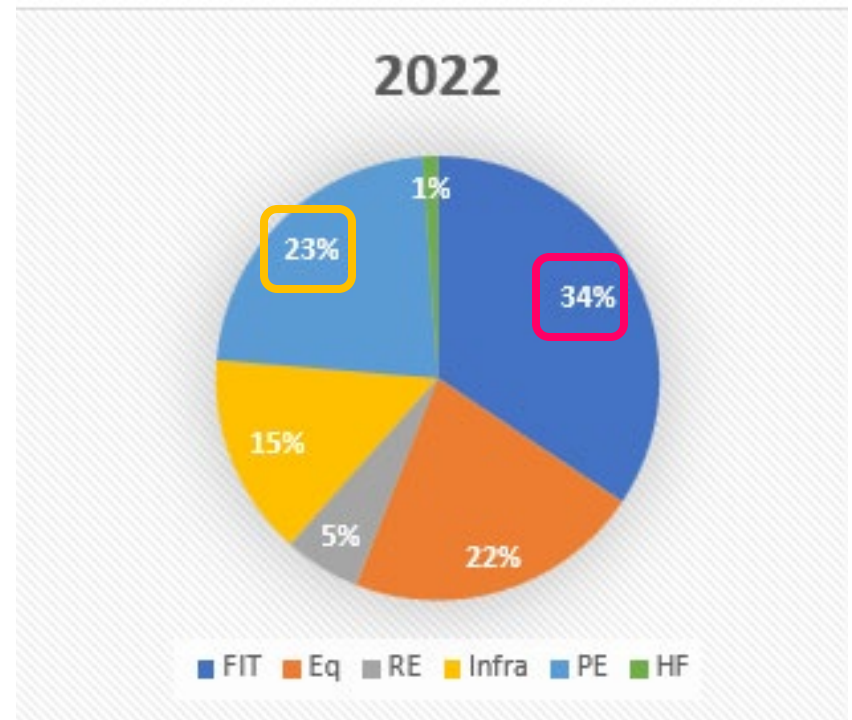
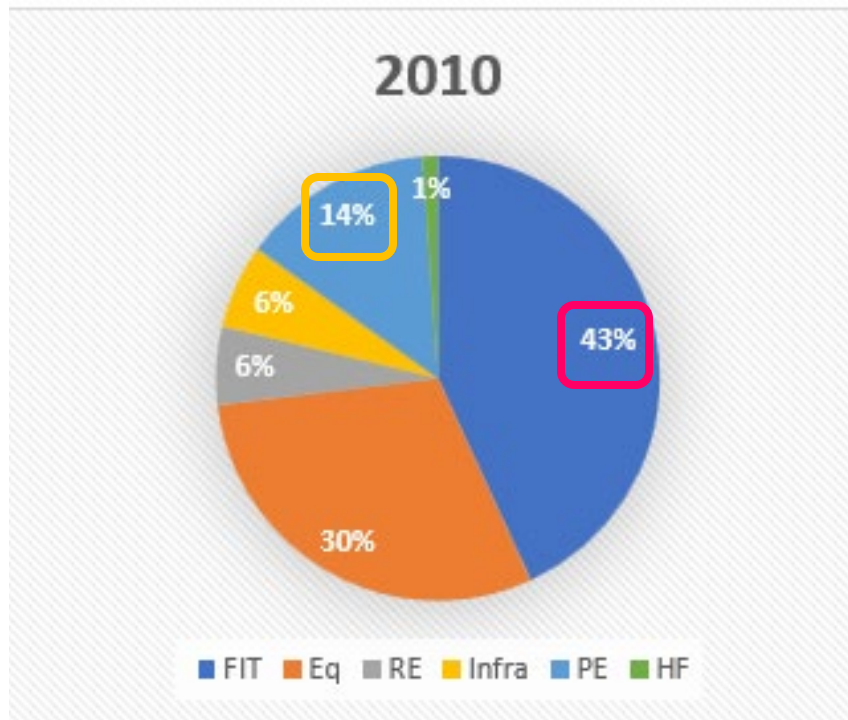
Majority Of Investments Into OECD Equities,
Alternative Assets, And Local Capital Markets



Source: https://www.123rf.com/photo_16572080_abstract-word-cloud-for-sovereign-wealth-fund-with-related-tags-and-terms.html/

SWF Asset Allocation, 2010 Vs 2022: Sharp Increases For PE & RE, Decreases For Public Debt & Equity

- Asset Allocation to PE Rose From 14% of AUM in 2010 to 23% in 2022
- Public Equity Allocation dropped 30% to 23%; Fixed Income 43% to 34%



Fixed income and treasuries Public equities Real estate Infrastructure Private equity Hedge funds

Source: Global SWF LLC. (<https://globalswf.com>)

Largest SWFs' AUM & Alternative Asset Allocation

- Most Of 14 Largest SWFs Allocate 25% or More To Alternative Assets (AAA)
- Average AAA For Large (\$100 bn+) And 100 Largest SWFs is 44%

Sovereign Wealth Fund	Country	Establish Date	Source	AUM (\$ Bn)	Alternative Asset (%)
NBIM	Norway	1997	Commodities	1,417	3%
CIC	China	2007	Reserves	1,351	25%
SAFE IC	China	1997	Reserves	1,034	22%
ADIA	UAE - Abu Dhabi	1967	Commodities	993	29%
KIA	Kuwait	1953	Commodities	801	23%
GIC	Singapore	1981	Reserves	769	25%
PIF	Saudi Arabia	1971	Commodities	700	37%
QIA	Qatar	2005	Commodities	450	41%
ICD	UAE – Dubai	2006	Commodities	320	65%
Temasek	Singapore	1974	Reserves	288	53%
Mubadala	UAE - Abu Dhabi	1984	Commodities	276	67%
KIC	South Korea	2005	Reserves	181	17%
Future Fund	Australia	2006	Reserves	170	40%
ADQ	UAE - Abu Dhabi	2018	Commodities	157	45%

Source: Global SWF LLC. (<https://globalswf.com>)

SWFs Among Largest PE Investors 2023

- SWFs Four of Five Largest (Value of Holdings) PE Investors in 2023
- Almost All 100 Largest Investors are Either SWFs (9) or PPFs (75)
- Only 16 of Top 100 are Private (Insurance Cos or University Endowments)

2023 Rank	Institution Name	Headquarters	Allocation (%)	Allocation (\$m)
1	CPP Investments	Toronto	34	134,788
2	GIC Private Limited	Singapore	17	126,480
3	Temasek Holdings	Singapore	42	125,359
4	Mubadala Investment Company	Abu Dhabi	31	86,496
5	Abu Dhabi Investment Authority	Abu Dhabi	10	75,050
6	Caisse de dépôt et placement du Québec	Quebec	20	59,602
7	APG Asset Management	Amsterdam	9	52,052
8	California Public Employees' Retirement System	Sacramento	11	50,300
9	Hong Kong Monetary Authority	Hong Kong	9	46,620
10	California State Teachers' Retirement System	Sacramento	15	46,300

Source: <https://www.privateequityinternational.com/global-investor-100/>

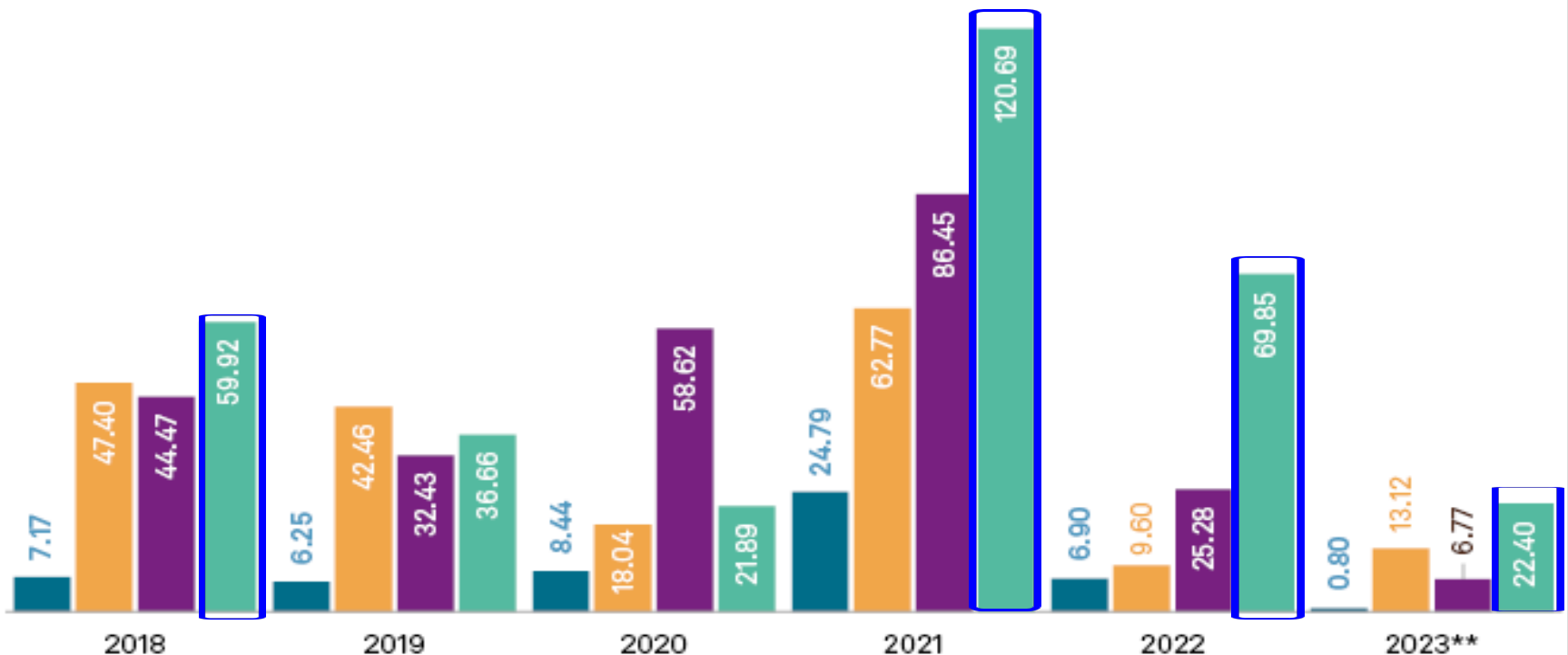
SWFs Invested \$331 Bn In VC/PE-Backed Investments 2018-1Q2023

- Much More Than Next Group, Corporates (\$254 Bn) & 40.6% of \$816 Bn Total

PE/VC-backed investments with select LP groups, 2018-2023

By aggregate transaction value (\$B)

■ Family office ■ Pension fund sponsor* ■ Corporate investor ■ Sovereign wealth fund



Source: Dylan Thomas and Annie Sabater, "Sovereign wealth funds lead private equity co-investment activity," S&P Global Market Intelligence (2 May 2023)

What Is The Impact Of SWF Investments On Target Firms?

Recent Evidence Still Suggests SWFs Mostly Passive Investors, Create Little Value As Investors



Source: Investopedia

Technical Analysis: 6-year Returns of State-Owned Investors

Wisconsin RS is USA's only fully-funded plan and its manager SWIB's Core Fund has performed very strongly in the past 6 years

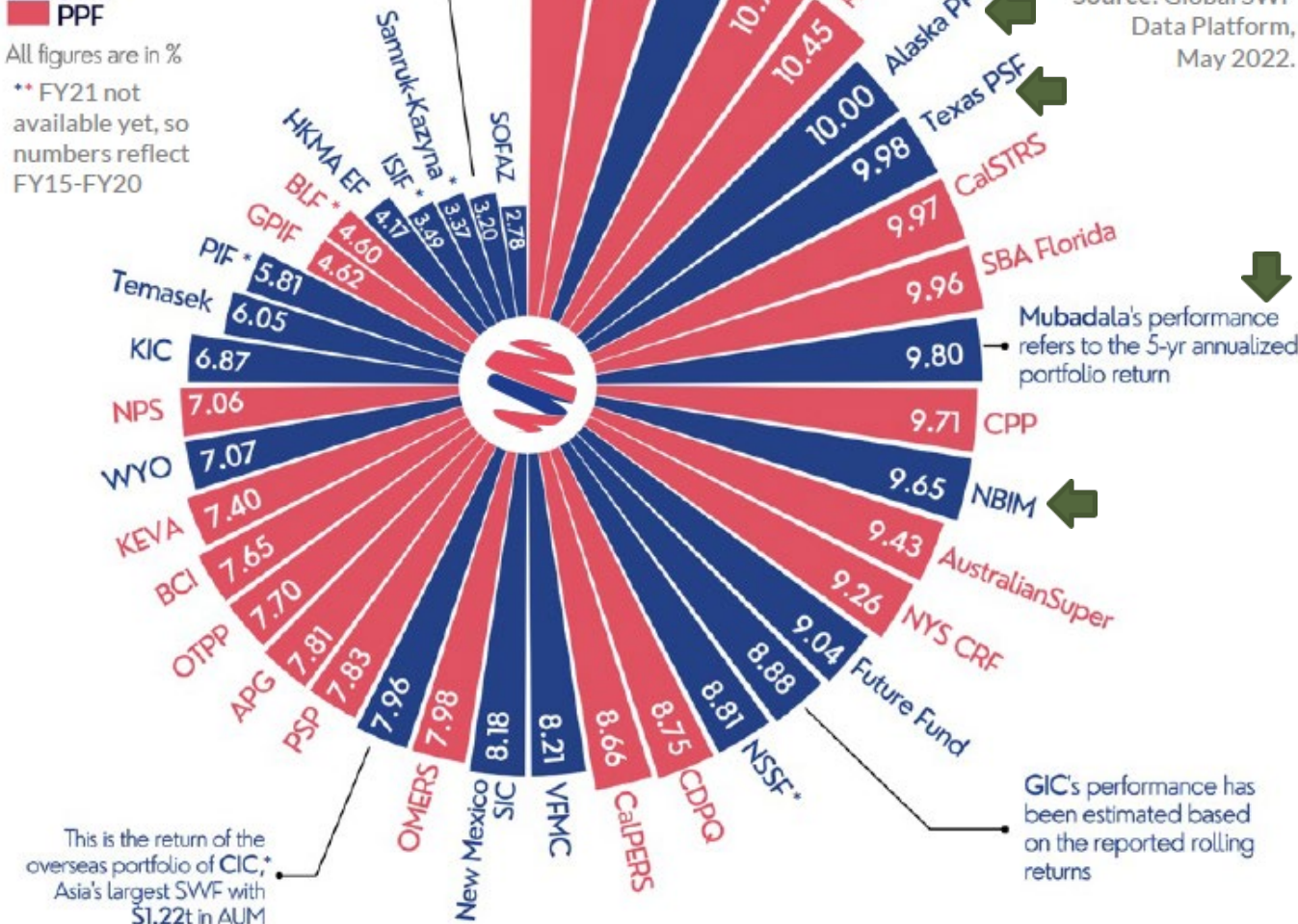
ADIA's performance has been estimated based on the reported rolling returns

SWF
PPF

All figures are in %
** FY21 not available yet, so numbers reflect FY15-FY20

AP Fonden refers to the weighted average of the returns of Sweden's six national pension funds

Methodology: CAGRs of single-year investment returns for the period FY16 to FY21, unless indicated otherwise.
Source: Global SWF Data Platform, May 2022.



Six-Year Investment Returns Earned By Large State-Owned Investors (SWFs and PPFs)

- NZ Super, Alaska PFC, Texas PSF, Mubadala, NBIM Best Returns for SWFs—But PPFs On Average Had Better Returns

Source: Global SWF May 2022 Newsletter

Academic Research Examining SWFs As PE Investors

**Rather Sparse But Generally Favorable To
SWFs, Though Less Value Creative Than
Private Investors**



Source: <https://www.amgnational.com/solutions/investment-management/alternative-investments>

Our Empirical Study Of SWF Investments: Bortolotti, Fotak, Megginson (*RFS* 2015)

- **Examine Wealth Impact of SWF Investment in Listed Firm Stock, 1980-2012 [SWF Sample]**
 - Examine type of firms selected, short and long-term impact
- **Compare to Wealth Impact of Investments by Other Financial Investor from Same Countries [Benchmark]**
 - First study to make this control group comparison
- **Both SWF and Benchmark Sample Drawn from SDC and Press Reports—then Verified**
 - Very large SWF sample at the time
- **Find Positive Announcement Period AR for Both Benchmark And SWF, But SWF Much Lower: 2.45% vs 5.02%**
 - Long-term Return for SWF Targets Significantly Negative

Event Study Results: The SWF Discount

All Sovereign Wealth Fund Investments

Interval	N	Mean CAR	Median CAR	Patell Z		Generalized Sign Z	
(-1,+1)	796	0.89%	0.25%	<0.0001	***	0.0029	***
(-5,+5)	799	1.09%	0.76%	0.0001	***	0.0001	***
(-10,+10)	799	1.18%	0.72%	0.0011	***	0.0001	***

Sovereign Wealth Fund Investments Excluding Norway

(-1,+1)	400	2.45%	0.60%	<.0001	***	<.0001	***
(-5,+5)	403	2.44%	0.70%	<.0001	***	0.0018	***
(-10,+10)	403	3.27%	1.81%	<.0001	***	<.0001	***

Benchmark Sample Investments

(-1,+1)	4830	5.02%	1.29%	<.0001	***	<.0001	***
(-5,+5)	4843	7.96%	3.20%	<.0001	***	<.0001	***
(-10,+10)	4852	9.47%	4.69%	<.0001	***	<.0001	***

Announcement period returns (CARs) are positive for all investments, but far higher for benchmarks than for SWFs! There is an **SWF Discount**, regardless of measure.

Other Recent (Since 2015) Research On Impact Of SWF Investments On Target Firms

- **Chen, El Ghouli, Guedhami, Liu (*CG IR 22*): SWF Investment Does Not Improve CG Quality or Tobin's Q of Targets**
 - CG Impact Negative For Small Stake Acquisitions ($\leq 5\%$)
- **Carney (*WP 21*): SWF Target Announcement Period 0.08% AR Far Less Than 9.75% For Benchmark Investors**
 - Savings Funds From Authoritarian Countries Especially Bad
- **Godsell (*WP 21*): SWF Targets Tend To Increase Earnings Management in Financial Reports**
- **Karolyi & Liao (*JCF 17*): Announcement Period AR of SWF Cross-Border Acquisitions Less Than Private, Other Bidder**
 - 0.8% SWFs; 5.0% for Private; 2.8% Other Govt-Controlled

Academic Research: SWF Investment In PE

- **Meggison, Lopez, Malik (*ARFE* 21): Document SWFs Have Emerged as Major PE Investors**
- **Chen, El Ghouli, Guedhami, Liu (*CG IR* 22): SWF Investment Does Not Improve CG Quality or Tobin's Q of Targets**
 - CG Impact Negative For Small Stake Acquisitions ($\leq 5\%$)
- **Cumming & Monteiro (*JIBS* 23): Examine SWF Limited Partners' Performance In VC, PE, AA Over 1995-2020**
 - SWFs significantly slower to fully liquidate & earn lower returns, particularly for VC investments
- **Malik (*WP* 23): Analyze Direct Investments Made By SWFs In Private VC-Backed Companies**
 - SWFs likelier to invest in later stage & with reputable VC

Summary & Conclusions

Global Importance, Scale OF SWFs Has Grown Massively But Still Mostly Passive Investors



Source: <https://gulfbusiness.com/worlds-10-biggest-sovereign-wealth-funds>

Lessons Of Sovereign Wealth Fund Theoretical And Empirical Research

- **Though Large, SWFS Not Especially Odd Or Frightening**
 - Dwarfed by PPFs, Banks, Mutual Funds, Insurance Cos.
 - SWFs Operationally, Financially Similar to Other IIs, and Generally Becoming More Professional
- **SWFs Aren't Homogenous—But Also Not Idiosyncratic**
 - Norway's GPFG Stands Alone Among Largest Funds
 - More Strive for Transparency; Others Still Secretive
- **SWFs Clearly Are State-Owned Funds And Often Make Politicized Capital Allocations**
 - Little Evidence of Foreign Political Interference; So No Reason to Impose New Restrictions or Regulations

Lessons Of Sovereign Wealth Fund Theoretical, Empirical Research (Cont)

- **While SWFs Are Here To Stay, They Are “Second Best” Organizational Form As Fiduciaries**
 - State ownership inevitably constrains their ability to invest abroad, actively monitor target managements
 - Private funds out-perform SWFs across the board
- **But, Is There Any Real Alternative To SWFs in Societies Where State Plays A Dominant Economic Role?**
 - Were set up because existing investment tools, SOEs were inadequate, corrupt, or already “captured”
 - GPFG is being viewed as model for new SWFs

Thank You

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<http://www.ou.edu/content/price/finance/faculty/billmegginson.html>

