Preqin Special Report: Sovereign Wealth Funds

Content Includes:

Overview of Sovereign Wealth Funds

We look at key information on sovereign wealth funds globally. Where are they based? How much capital do they manage and where is it sourced from?

Sovereign Wealth Funds Investing in Alternative Assets

We look at sovereign wealth funds and how they are investing in the following alternative asset classes:

Private Equity

Real Estate

Infrastructure

Hedge Funds

Critical Success Factors - PwC

In this contribution, PwC explores the critical success factors that underpin the right investment strategy for sovereign wealth funds.

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alternative assets. intelligent data.

Foreword

Sovereign wealth funds, the secretive and exclusive subset of the institutional investor community, continue to make headline news due to their large assets and growing influence over the global financial community. The total assets of sovereign wealth funds have been steadily increasing since Preqin launched its first Sovereign Wealth Fund Review back in 2008. For the first time, assets of these sovereign wealth entities have surpassed the $5tn mark, with total assets estimated at $5.38tn as of October 2013; sovereign wealth funds have gained more than $750bn in additional assets since 2012.

Like all other investors, the worldwide financial crisis, which began in 2008, has undoubtedly had its effects on sovereign wealth funds. Other geopolitical events, most notably the Arab Spring, have also impacted the sovereign wealth fund community; many of these investors are located in these communities and are funded by governments in these areas. Despite the uncertainty caused by both financial and political unrest, sovereign wealth funds have continued to thrive and grow. However, some regions have experienced stronger growth than others; for instance, over the past year, the assets under management of Middle Eastern sovereign wealth funds have increased by 6%, compared to the 19% growth in assets of Asia-based sovereign wealth funds.

2014 Preqin Sovereign Wealth Fund Review

This report features data and analysis drawn from the 2014 Preqin Sovereign Wealth Fund Review. Preqin's first Sovereign Wealth Fund Review was released in 2008 in response to the need for more information on these secretive entities and their investments in the private equity and private real estate sectors. Following the success of this inaugural review, Preqin received hundreds of enquiries from professionals working in all areas of finance and research who were seeking a source of data and intelligence on the more general strategies of sovereign wealth funds. With our dedicated research team based across the globe, Preqin was able to do just that, and in our sixth and most comprehensive edition ever, we look across the entire investment portfolios of sovereign wealth funds, showing investment plans and preferences in the following areas:

- Public Equities
- Fixed Income Securities
- Private Equity
- Real Estate
- Infrastructure
- Hedge Funds

Since our first publication, sovereign wealth funds have grown by 68% in terms of assets under management. With total assets at $5.38tn, they have reached a size comparable to that of the entire alternative assets industry, which Preqin currently estimates at approximately $5.5tn. Today we track 27 more sovereign wealth funds than in our first Sovereign Wealth Fund Review.

With more sovereign wealth funds, more assets, more investments and more information than ever before, the 2014 Sovereign Wealth Fund Review, produced in association with PwC, is undoubtedly the most comprehensive review of the industry ever released.

Sovereign Wealth Funds Overview

What is a Sovereign Wealth Fund?

Sovereign wealth funds are investment funds owned by governments of sovereign states and funded by foreign exchange and reserve assets. They are generally funded by revenues accrued from the export of non-renewable natural resources, usually oil and other hydrocarbons taxed or owned by the government, or by transfers of reserves held by countries running current account and budgetary surpluses.

There are many different definitions of a sovereign wealth fund and, as a result, certain institutions that may be described in some quarters as a sovereign wealth fund have been excluded from this analysis. For example, this review of sovereign wealth funds does not treat the foreign assets of the Saudi Arabian Monetary Agency (SAMA) as a sovereign wealth fund. SAMA acts as Saudi Arabia's central bank, and its holdings are mostly in traditional reserve assets, so we have not included it in our analysis. We have also excluded funds that are in the very early stages of formation as these funds are often yet to have established a final investment policy. This includes the sovereign wealth funds of Israel and Panama, which have been approved but are not yet fully operational. Also excluded are funds that have been superseded by newer institutions, such as France's Strategic Investment Fund, which has been merged with two other entities to create BPIFrance.

The IMF has previously used the following definition of sovereign wealth funds in its publications: "Sovereign wealth funds are government-owned investment funds set up for a variety of macroeconomic purposes. They are commonly funded by the transfer of foreign exchange assets that are invested in long term, overseas."

The Different Purposes of Sovereign Wealth Funds

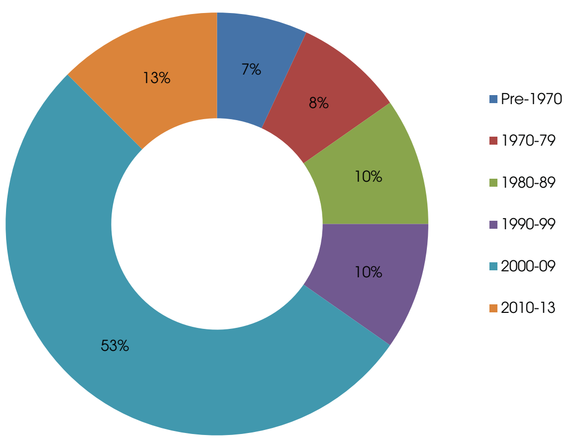
Sovereign wealth funds can be introduced for a number of different reasons and each has different objectives. A number of sovereign wealth funds are funded through commodity exports and are set up to provide their countries with a stable level of income in the face of fluctuating commodity prices. Other funds funded by natural resources exports are established with the aim of maximizing returns on the income from exports and diversifying the economy away from reliance on one source. As a result of these varying goals, sovereign wealth funds also have widely differing investment policies and asset allocations. For example, Timor-Leste Petroleum Fund, which manages Timor-Leste's petroleum resources for the benefit of current and future generations, invests solely in equities and fixed income, whereas Qatar Investment Authority invests in a variety of asset classes and regions in order to obtain as much diversification as possible.

Sovereign wealth funds can also be established in order to assist in the development of an economy or specific industry sector. For example, Latin American Reserve Fund aims to improve investment conditions within its member states (Bolivia, Columbia, Costa Rica, Ecuador, Peru, Uruguay and Venezuela) and contribute to the consolidation of the member countries' financial policies.

Increasing Prominence of Sovereign Wealth Funds

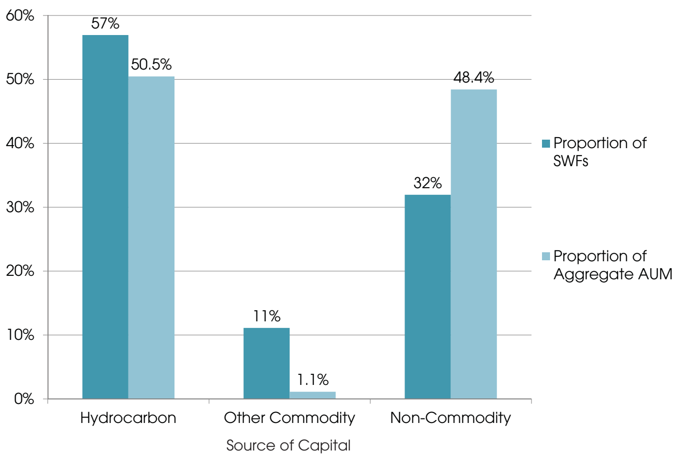
Fig. 1 shows that there has been a substantial increase in the number of sovereign wealth funds in operation since 2000. Fifty-three percent of sovereign wealth funds were launched between 2000 and 2009, a substantially higher proportion than in all previous decades, and there have already been a number of new sovereign wealth fund launches since 2010. Angola established its sovereign wealth fund, Fundo Soberano Angolano, in 2012 and is looking to invest in alternatives in addition to equity and fixed income instruments. There are expected to be further sovereign wealth fund launches over the next few years, with Bolivia, India and Panama examples of countries in the process of discussing or establishing new funds.

Fig. 1: Breakdown of Sovereign Wealth Funds by Year of Establishment



Source: 2014 Preqin Sovereign Wealth Fund Review

Fig. 2: Breakdown of Sovereign Wealth Funds by Source of Capital



Source: 2014 Preqin Sovereign Wealth Fund Review

Sources of Capital for Sovereign Wealth Funds

Hydrocarbon-based funds continue to make up the largest proportion of sovereign wealth funds in terms of both capital and numbers, as shown in Fig. 2. However, non-commodity funds have closed the gap since 2012, with these funds now representing 32% of all funds and 48.4% of all sovereign wealth fund capital. Non-commodity-based funds have represented a greater proportion of capital of sovereign wealth funds in recent years (43% in 2010, 45% in 2011 and 46% in 2012) and this trend looks likely to continue. Funds focusing on other commodities represent 11% of all sovereign wealth funds but these funds are a small part of the industry in terms of assets under management, representing just 1.1% of capital.

Assets under Management of Sovereign Wealth Funds

Aggregate assets under management of sovereign wealth funds have continued to grow, with total assets standing at $5.38tn in 2013. The past year has seen some new sovereign wealth funds enter the market, such as Western Australia Future Fund, while a number of existing sovereign wealth funds have seen an increase in assets; Preqin data indicates that 63% of sovereign wealth funds have seen an increase in assets under management since April 2012. The world's largest sovereign wealth fund, Government Pension Fund – Global in Norway, has continued to grow, adding more than $185bn in assets over 2012-2013 to reach total assets of $782bn. Sovereign wealth funds in Asia, in particular, have also seen a rise in assets as countries in the region look to build up foreign exchange reserves.

At the other end of the scale, 12% of sovereign wealth funds manage less than $1bn in assets, with a number of the newer sovereign wealth funds still in the process of increasing their assets. Fifty-six percent of sovereign wealth funds manage somewhere between $1bn and $50bn in assets.

Number and Value of Sovereign Wealth Funds by Region

Asia and MENA are the most prominent regions in terms of numbers of sovereign wealth funds, with these two regions combined home to just under half of all sovereign wealth funds. These two regions are also the largest in terms of total assets under management of sovereign wealth funds, with Asia having the largest share; 47% of total sovereign wealth fund capital is managed by those based in the region. This is an increase from the 42% of capital the region represented in 2012 and comes as a result of Asian countries, notably China, building up foreign exchange reserves. The MENA region has a reduced share of total sovereign wealth fund assets, at 28%, as a result of this increase in aggregate capital managed by Asia-based sovereign wealth funds.

The proportion of capital managed by Europe-based sovereign wealth funds has shown an increase, from 16% in 2012 to 20% in 2013, largely due to the continued growth of Norway's Government Pension Fund – Global. North America, Latin America and the Caribbean, Africa, and Australasia each represent 3% or less of total sovereign wealth fund capital, despite each of these regions being home to at least 6% of all sovereign wealth funds.

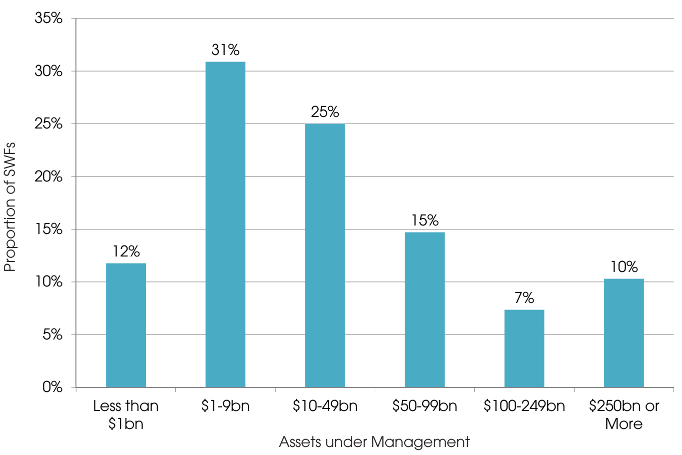
Outlook for Sovereign Wealth Funds

Despite the challenging financial landscape, sovereign wealth funds have continued to see a rise in aggregate assets under management and this trend is predicted to continue over the next few years. We are still seeing new launches of sovereign wealth funds, with many countries approving plans for new launches over 2012-13. There remains the possibly that some sovereign wealth funds may be required to cover fiscal shortfalls of governments, but overall the outlook for this investor group appears positive.

Sovereign wealth funds increased their allocation to alternatives between 2009 and 2011; however, the 2012 edition of the Sovereign Wealth Fund Review noted that this trend had slowed. This appears to have continued, with the proportions of sovereign wealth funds investing in private equity and hedge funds showing a decrease. However, this decrease is a reflection of the formation of new sovereign wealth funds, many of which do not yet invest in alternatives, rather than existing sovereign wealth funds ceasing to invest in alternatives.

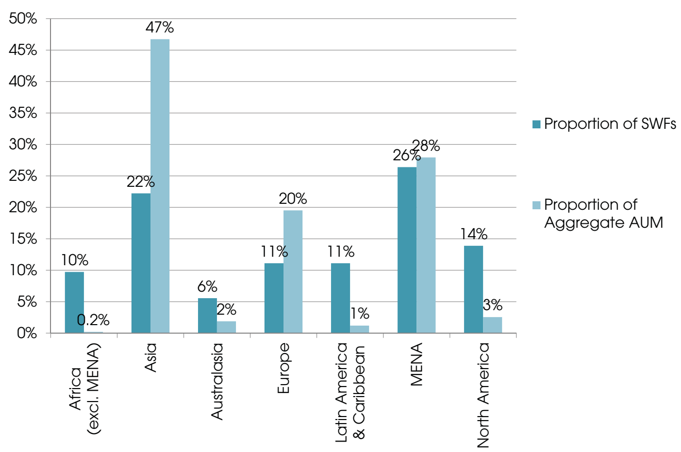
Despite these concerns, the level of capital flowing into alternatives from sovereign wealth funds remains extremely significant. These funds possess a substantial capital base and the continuing rise of their assets under management is leading to significant allocations to alternative asset classes. As a result, it is clear that this investor group will remain a key component of the alternative investment industry and once the newly established sovereign wealth funds become more developed we could see a number of new allocators to the space.

Fig. 3: Breakdown of Sovereign Wealth Funds by Assets under Management



Source: 2014 Preqin Sovereign Wealth Fund Review

Fig. 4: Breakdown of Sovereign Wealth Funds by Region



Source: 2014 Preqin Sovereign Wealth Fund Review

Sovereign Wealth Funds Investing in Private Equity

Sovereign wealth funds are well suited to investing in the private equity asset class due to their long-term investment approach and large pools of available capital. These institutions are able to handle the illiquid nature of private equity and the possibility of drawdowns, making the asset class a far more accessible investment compared to other types of institutional investors that do not have the same financial capabilities.

Fifty-one percent of sovereign wealth funds are known to invest in private equity (Fig. 5). A minority of these prefer to invest in the asset class directly, with one such example being Bahrain Mumtalakat Holding Company. Investing directly in private equity provides a number of advantages, including a lower overall cost structure and greater control over investments. However, the majority of sovereign wealth funds investing in private equity do so through funds, although many employ a dual strategy of investing both directly and through funds, gaining benefits from both.

Co-investment alongside fund managers is becoming an increasingly common strategy among sovereign wealth funds, with Alaska Permanent Fund Corporation having recently implemented its own co-investment program. With total assets under management of $46.5bn, this sovereign wealth fund possesses the necessary resources to enter such an investment strategy.

Forty percent of sovereign wealth funds are known to not invest in the private equity asset class, many due to its inherent risk and illiquidity. Liquidity requirements are also a concern, with many sovereign wealth funds anticipating a run on capital in times of economic stress. Fixed income securities and more liquid alternative assets, such as hedge funds, may therefore be a more suitable channel of investment for sovereign wealth funds with these concerns.

Buyout vehicles remain the most attractive fund type for sovereign wealth funds, with 78% of the investor type stating a preference for the strategy (Fig. 6). Buyout funds typically have a higher target size relative to other fund types, which makes sovereign wealth funds a particularly attractive type of investor to buyout fund managers. For example, Singapore's GIC and China Investment Corporation both recently made commitments to buyout vehicle Apax VIII, which closed on €5.8bn.

Over two-thirds (72%) of sovereign wealth funds investing in private equity have a preference for venture capital vehicles. New Mexico State Investment Council recently made a commitment to Sierra Ventures X, having previously committed to four prior venture capital vehicles raised by the fund manager, Sierra Ventures. Alaska Permanent Fund Corporation is also an active investor in venture capital funds, and allocates between 10% and 30% of its private equity portfolio to the fund type.

Growth vehicles have replaced distressed debt vehicles as the third most preferred fund type for sovereign wealth funds investing in private equity. Over half (66%) of sovereign wealth funds stated a preference for growth funds, with a high proportion also stating a preference for expansion/late stage vehicles (56%).

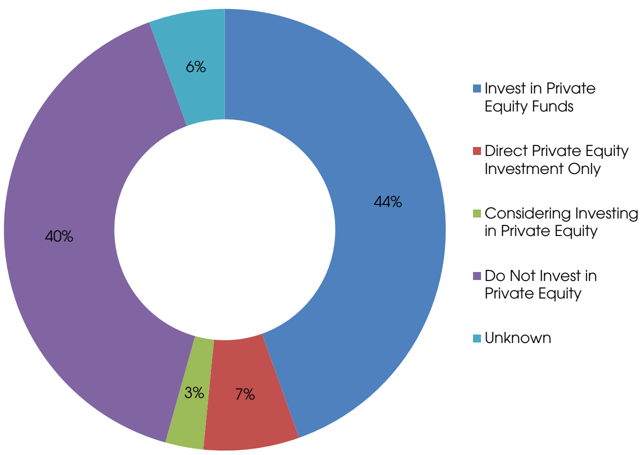
Looking for more information on sovereign wealth funds investing in private equity?

Preqin tracks in-depth information on 35 sovereign wealth funds actively investing in private equity on our Investor Intelligence online service. Access detailed data on these investors' allocations, their future plans for investing in the asset class, key contact information, and much more.

For more information, please visit:

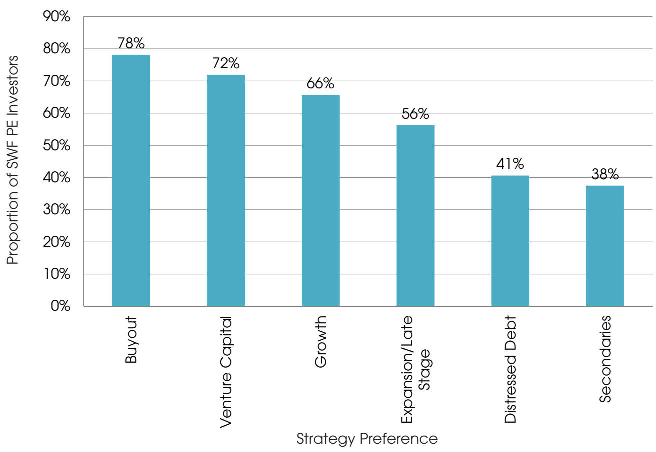
www.preqin.com/ii

Fig. 5: Proportion of Sovereign Wealth Funds Investing in Private Equity



Source: 2014 Preqin Sovereign Wealth Fund Review

Fig. 6: Strategy Preferences of Sovereign Wealth Funds Investing in Private Equity



Source: 2014 Preqin Sovereign Wealth Fund Review

Download the data pack at:
www.preqin.com/SWF13

Sovereign Wealth Funds Investing in Real Estate

The real estate industry has had a tough road to recovery since the financial crisis. Investors in private real estate funds are more selective in choosing fund managers, and are committing less capital to vehicles. Despite this, sovereign wealth funds remain prolific investors in the sector, allocating a total of more than $180bn to the asset class, providing much needed capital to help stimulate development domestically and internationally. In the coming year, sovereign wealth funds will continue to expand their real estate portfolios. With an increase in sovereign wealth fund risk appetite, much needed capital could flow into the real estate market in the coming year through real estate fundraising.

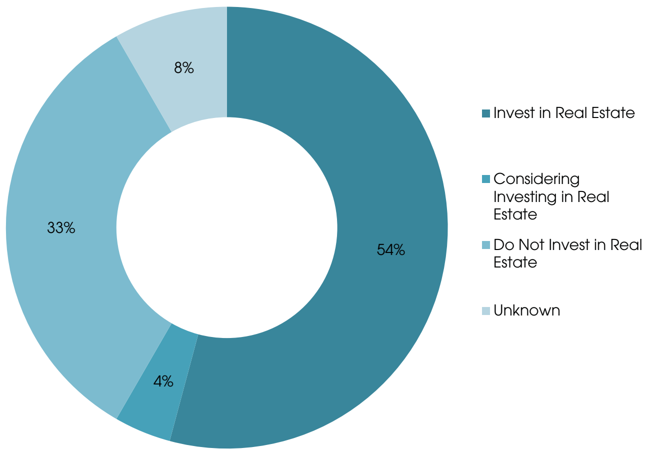
A significant proportion of sovereign wealth funds invest in real estate; 54% of all these sovereign entities currently invest in the asset class (Fig. 7). This includes Qatar Investment Authority, Abu Dhabi Investment Authority and China Investment Corporation, which all have over $25bn allocated to real estate.

Sovereign wealth funds invest in real estate both directly and indirectly (Fig. 8). The large resources available to sovereign wealth funds allow them to primarily invest in the asset class directly, with 87% of funds choosing to do so. Thirty-five percent of sovereign wealth funds investing in real estate do so by direct ownership only.

Sovereign wealth funds also invest in the asset class via private real estate funds, with 61% of funds investing in real estate through these unlisted vehicles. For private real estate fund strategy preferences, opportunistic and value added vehicles are the most favoured by sovereign wealth funds, with 74% and 65% respectively investing in these strategies, as shown in Fig. 9. China's State Administration of Foreign Exchange has invested in these strategies by committing to Blackstone Real Estate Partners VII, a US-focused opportunistic real estate fund which aims to take on high quality assets in complicated situations and turn them into attractive core real estate for resale.

Fifty-seven percent of sovereign wealth funds that invest in private real estate currently show a preference for core real estate. Sovereign wealth funds have shown an increased appetite for distressed and debt vehicles which could suggest that their risk appetite is growing, with the proportion of funds targeting each of these strategies standing at 57%.

Fig. 7: Proportion of Sovereign Wealth Funds Investing in Real Estate



Source: 2014 Preqin Sovereign Wealth Fund Review

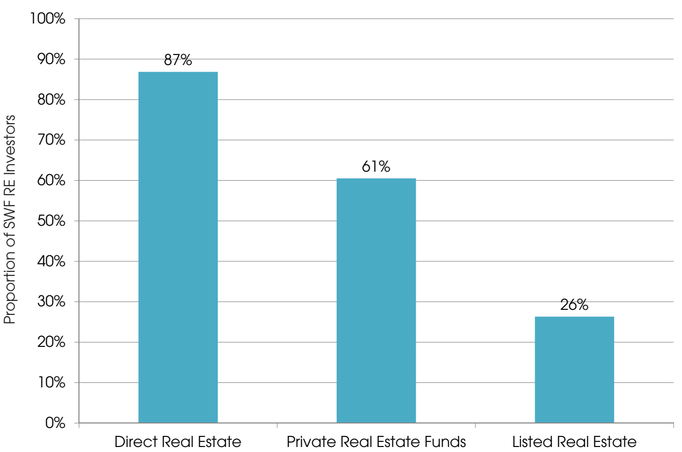
To a lesser extent sovereign wealth funds are invested in listed real estate, with 26% of funds expressing a preference for this type of real estate investment.

Sovereign Wealth Funds Investing in Real Estate

Source detailed information on 42 sovereign wealth funds investing in real estate on Preqin's Real Estate Online. For more information, or to arrange a demonstration, please visit:

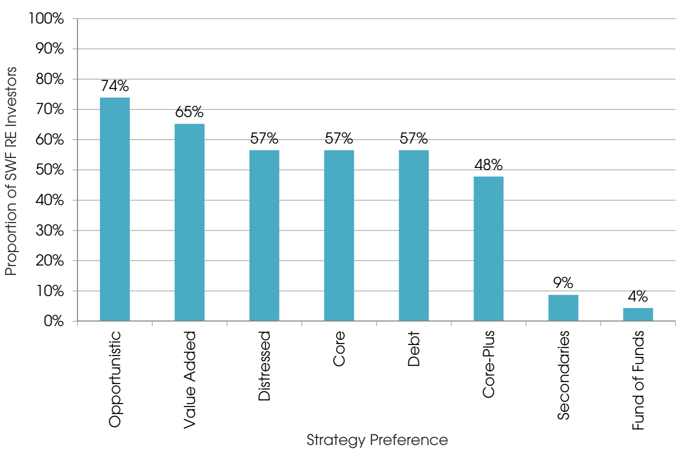
www.preqin.com/reo

Fig. 8: Proportion of Sovereign Wealth Funds Investing Directly, in Private Funds and in Listed Real Estate



Source: 2014 Preqin Sovereign Wealth Fund Review

Fig. 9: Strategy Preferences of Sovereign Wealth Funds Investing in Real Estate



Source: 2014 Preqin Sovereign Wealth Fund Review

Sovereign Wealth Funds Investing in Infrastructure

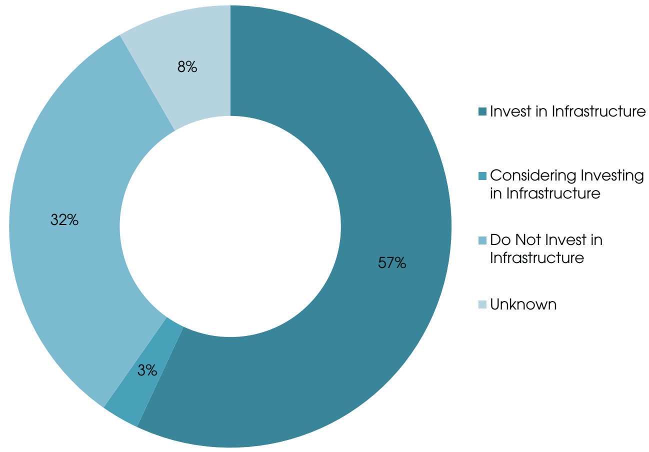
Sovereign wealth funds are attracted to investment in the infrastructure asset class in order to benefit from the long-term and relatively stable returns that infrastructure assets can provide. Infrastructure investment is also an important factor in stimulating the domestic economy while developing their internal infrastructure, making the asset a good match to the objectives of sovereign wealth funds.

The proportion of sovereign wealth funds investing in infrastructure has remained relatively constant over the course of 2012-13; 57% of all sovereign wealth funds currently tracked by Preqin are known to actively invest in the infrastructure asset class (Fig. 10). Eighty-four percent of sovereign wealth funds invest in infrastructure assets directly, demonstrating the high level of experience of, and the resources available to, the majority of sovereign wealth funds (Fig. 11). Within this 84%, 34% will only invest directly, whereas the remaining 50% gain exposure through a mix of direct investments and commitments to infrastructure funds. Just 16% of sovereign wealth funds invest in infrastructure solely via commitments to funds, all of which target unlisted infrastructure vehicles.

The vast majority of sovereign wealth funds investing in infrastructure pursue greenfield stage assets, with 97% looking to fund projects that will build new infrastructure in their regions and beyond. As shown in Fig. 12, 79% of sovereign wealth funds will invest in brownfield stage infrastructure projects, while 74% will invest in more mature and developed secondary stage assets. For diversification purposes, sovereign wealth funds will commonly invest across all three stages of the development spectrum in order to avoid concentration issues.

All of the sovereign wealth funds currently investing in infrastructure will invest in economic infrastructure sectors; often these sovereign wealth funds have a core objective of building on the infrastructure within their own regions and these assets can help achieve this. Eighty-five percent of sovereign wealth funds actively investing in infrastructure target the energy sector, while 73% invest in transportation assets, 65% in utilities, and 53% in the telecommunications industry. Just under half (44%) of sovereign wealth funds investing in the infrastructure asset class will consider opportunities in social sectors, such as schools and hospitals.

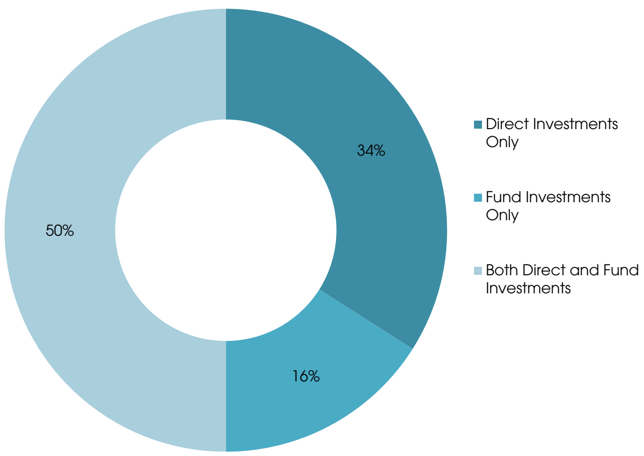
Fig. 10: Proportion of Sovereign Wealth Funds Investing in Infrastructure



Source: 2014 Preqin Sovereign Wealth Fund Review

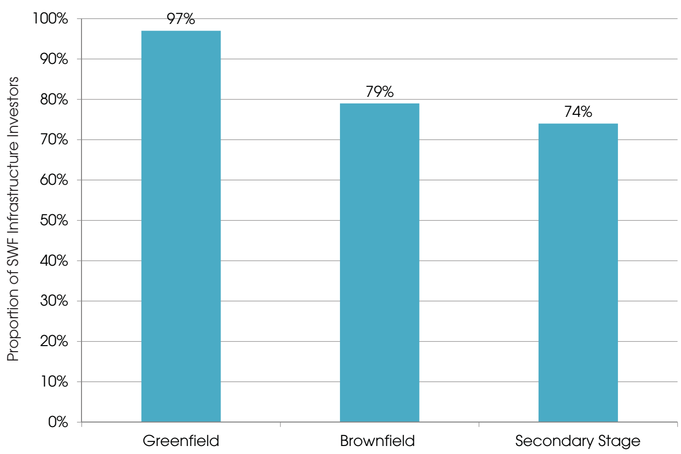
Although many sovereign wealth funds invest internationally, many are primarily domestic investors. In June 2013, Ireland's National Pensions Reserve Fund switched its infrastructure investment strategy away from commitments to international unlisted funds to a focus on debt and equity provision for domestic projects. The primary objective behind this switch was to stimulate domestic economic development in Ireland. On the other hand, in 2013 Kuwait Investment Office (KIO) announced plans to invest up to $5bn in UK infrastructure assets, indicating a desire for global portfolio diversification.

Fig. 11: Preferred Method of Exposure to Infrastructure of Sovereign Wealth Funds Investing in the Asset Class



Source: 2014 Preqin Sovereign Wealth Fund Review

Fig. 12: Proportion of Sovereign Wealth Funds Investing in Infrastructure that Invest in Greenfield, Brownfield and Secondary Stage Infrastructure



Source: 2014 Preqin Sovereign Wealth Fund Review

Download the data pack at:
www.preqin.com/SWF13

Sovereign Wealth Funds Investing in Hedge Funds

Sovereign wealth funds have been growing increasingly comfortable with investing in hedge funds in recent years, with these sovereign entities becoming important targets for hedge fund managers seeking sources of long-term capital. Despite this positive outlook from many of these institutions, hedge funds are utilized by a relatively small proportion of sovereign wealth funds; 31% of these investors currently have an allocation to the asset class (Fig. 13).

Sovereign wealth funds have large and sophisticated management structures, which enable them to assess a range of opportunities. In terms of specific strategies, long/short equity and macro strategies are the most attractive to these investors, with 52% of sovereign wealth funds indicating a specific preference for each of these strategies. The proportion of sovereign wealth funds with a preference for event driven strategies has shown an increase over the last year, increasing to 35% from 27% in 2012.

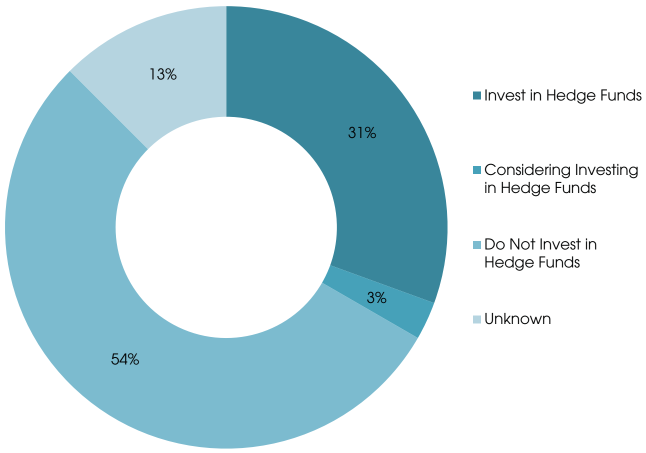
Since the start of 2012 there has been a shift for sovereign wealth funds to move away from funds of hedge funds, with the proportion utilizing these vehicles falling from 35% in 2012 to 24% and the proportion of portfolios consisting solely of single-manager funds increasing from 15% to 19% over the same time period.

An increase in those with mixed portfolios and those that invest with single managers only may suggest that some sovereign wealth funds have transitioned their portfolio to direct investments or are in the process of doing so as they become more confident in the space. The Alberta Heritage Savings Trust Fund is one sovereign wealth fund that previously invested in both funds of hedge funds and direct investments, but now opts for investment in single-manager funds through commingled and managed account structures.

Forty percent of the sovereign wealth funds investing solely through funds of hedge funds do so through separately managed accounts, which typically require robust internal investment resources. Alaska Permanent Fund Corporation initially invested through commingled funds of funds, but has opted for greater control over its investments and now invests exclusively through managed accounts.

On the whole, sovereign wealth funds appear to be creating more sophisticated and complex portfolios of hedge funds. More illiquid and higher risk strategies are being increasingly considered across their portfolios, while a transition to a more hands-on approach to their hedge fund portfolio appears to be underway, as many begin to invest directly and show a preference for separately managed accounts.

Fig. 13: Proportion of Sovereign Wealth Funds Investing in Hedge Funds

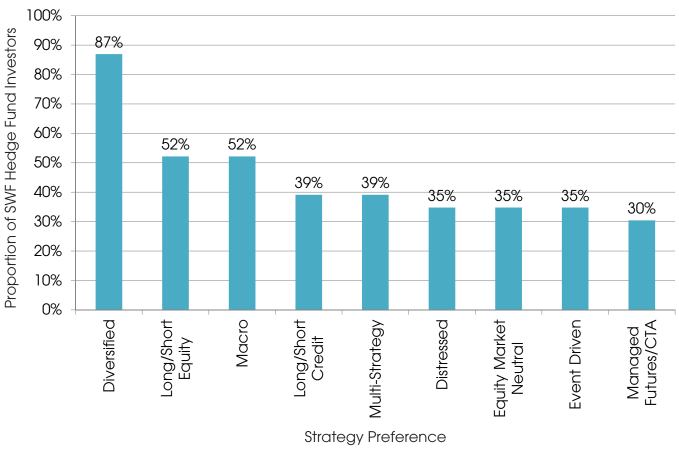


Source: 2014 Preqin Sovereign Wealth Fund Review

Preqin tracks 25 sovereign wealth funds investing or considering investing in hedge funds on Hedge Fund Investor Profiles. For more information on how Preqin's data can help you, please visit:

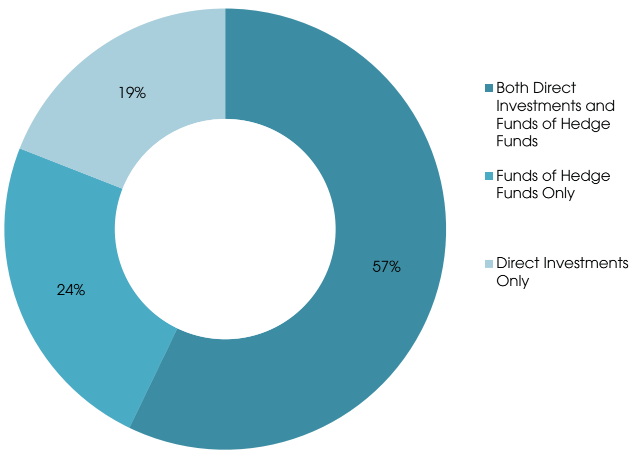
www.preqin.com/hfip

Fig. 14: Strategy Preferences of Sovereign Wealth Funds Investing in Hedge Funds



Source: 2014 Preqin Sovereign Wealth Fund Review

Fig. 15: Breakdown of Structural Preferences of Sovereign Wealth Funds Investing in Hedge Funds



Source: 2014 Preqin Sovereign Wealth Fund Review

Critical Success Factors - PwC

In this section, Nick Rea from PwC explores the critical success factors that underpin the right investment strategy for sovereign wealth funds, with a focus on the best overall investment appraisal framework for these investors.

Critical success factors that underpin the right investment strategy

In a lower return world, the focus is on capital preservation, investment performance, performance measurement (financial as well as socio-economic measures) and the investment decision-making process.

Almost all sovereign wealth funds are driving towards better internal transparency and governance, accountability, and performance measurement. The overall investment appraisal framework plays an important role in ensuring that the sovereign wealth fund's strategic objectives are achieved and that the acquisition process is supported by rigorous, robust financial analysis. This will help sovereign wealth funds to satisfy their fundamental aims, including capital preservation, value creation and furthering the national agenda, if relevant.

The investment appraisal framework is a fundamental part of a sovereign wealth fund's operations and this can, and should, be continually reviewed to identify areas for improvement. The cause for deals proving successful or unsuccessful can, in a large part, be tracked back to the original investment and the quality of the decision-making and level of challenge arising from the investment appraisal framework.

While these themes focus on investments in unlisted equity and alternative assets such as real estate and infrastructure, the broad principles and themes are relevant to global investors across asset classes.

So what is a 'best in class' investment appraisal framework?

Each sovereign wealth fund is different – with its own characteristics, objectives and culture – there is no 'one-size fits all' investment appraisal framework for appraising investment opportunities and managing post-investment value creation. However, by looking at good practices across the spectrum of investor class from Private Equity ('PE') through to International Financial Institutions ('IFIs'), there are a number of success factors that underpin a robust investment appraisal framework, from defining the investment strategy through to monitoring the performance of assets.

This is especially relevant as sovereign wealth funds look to do more direct investments or to invest alongside other funds given the appeal of co-investment in terms of returns and risk management.

The other key aspect is the ability to get access to opportunities that are not available to others, which has been a feature of the PE success over the recent past.

By applying these good practices across the investment cycle, sovereign wealth funds, and any global investor, can refine and improve existing processes as well as tackle challenges in new areas such as non-financial performance measures.

The fundamental questions being asked:

- What is the strategy? How is the strategy reflected in the investment process?
- What is the risk appetite? How is risk measured in each investment and across the portfolio?
- Is there sufficient rigour and independent challenge in the investment process?
- How is value generated and realized? How is this measured and monitored?
- How often is the value realization strategy for each investment assessed?
- How is the strategy reflected in management's incentive programs?

Investment Appraisal Framework – critical success factors

1. Strategy	2. Decision-making process	3. Post-investment management	4. Measurement
Setting the risk return appetite and benchmark returns	Understanding value and realization strategies	Ensuring successful post-investment management of assets and aligning incentives to strategy	Defining, measuring and understanding returns
The strategy should dictate the risk appetite and targeted returns, both of which should be defined and reflected throughout the investment process.	*A clear understanding is required of value drivers, key sensitivities, value creation and realization strategies for each investment. These should be tracked as part of regular post-investment reviews.*	*Active tracking and delivery on value creation and risks identified in the investment process. In addition, incentivization plans should be aligned to achieving the long-term objectives of the sovereign wealth fund.*	*It is critical to clearly define and track financial and socio-economic returns (if applicable) using measures appropriate to each asset but with broad consistency across investments, to allow for robust internal and external communications of returns.*
Internal Governance, Transparency and Accountability			

Ultimately, a robust investment appraisal framework will help to achieve the benefits of enhanced returns through:

- increased rigour, independent challenge and continuous improvement in the investment process (including the identification of gaps between a sovereign wealth fund's current process and market practice);
- effective and efficient procedures for managing and measuring investments post-deal;
- stronger risk management at both the fund and portfolio level; and greater transparency to key stakeholders.

It is critical for sovereign wealth funds to review and improve their framework on a continual basis to ensure that investments are being made with the appropriate rigour, challenge and skill, thereby maximizing the potential for capital preservation and ultimately value creation. The key is to ensure that only the best investments are selected, that the impact of new investments for the sovereign wealth fund is fully understood and to have robust processes that are aligned to the strategic objectives of the fund.

Good governance and transparency in the investment appraisal framework are key to achieving success.

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preqin

alternative assets. intelligent data.

The ultimate guide to sovereign wealth funds.

The **2014 Preqin Sovereign Wealth Fund Review**, produced in association with PwC, features our most comprehensive review yet of sovereign wealth funds and their investment activity, including detailed profiles of over 70 sovereign wealth funds worldwide.

The Review features information on sovereign wealth fund investment in:

- Equities
- Fixed Income
- Private Equity
- Hedge Funds
- Real Estate
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