



Sovereign Wealth Funds



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Introduction

Definitions vary, however, Sovereign Wealth Funds (SWFs), essentially state-owned investment vehicles, have long served as strategic instruments for governments to manage public funds, often derived from natural resource surpluses or foreign exchange reserves.

Historically, countries rich in commodities like oil, such as Saudi Arabia and Norway, or those with substantial foreign exchange reserves, like China, have established these institutions.

A core objective is to invest public funds with a long-term perspective, channeling them into diverse investments such as equities, bonds, commodities, and increasingly alternative assets, rather than conventional money markets.

At RPA, we believe the world is witnessing a new, distinct wave of SWF formation, driven by a confluence of evolving geopolitical, economic, and social dynamics. This period is marked by an increased role for governments, heightened geopolitical risks, and demographic shifts, all of which are reshaping how these funds are established, funded, and operated.

A New Wave: Charting the Growth

The first wave of SWFs emerged in the 1950s, notably with Kuwait in 1953, and other oil-exporting nations in the Middle East, primarily to manage oil revenues and ensure intergenerational wealth. The second came from East Asia. Since the 1980s, many in the region experienced consistent export-led growth and fiscal surpluses.

The 1997/98 Asian Financial Crisis drove economies to accumulate vast foreign reserves as a buffer against financial instability, thereby making the SWF model a compelling option for managing surpluses and foreign reserves. South Korea's formation of The Korea Investment Corporation (KIC) in 2005 reflects this experience.

Today, we believe we are in an additional, more expansive wave. As shown in **Chart 1, Cumulative Number of Sovereign Wealth Funds (1953 to 2025)**¹, there has been an acceleration in the number of SWFs established in recent years, with the total funds surpassing 200 by 2025.

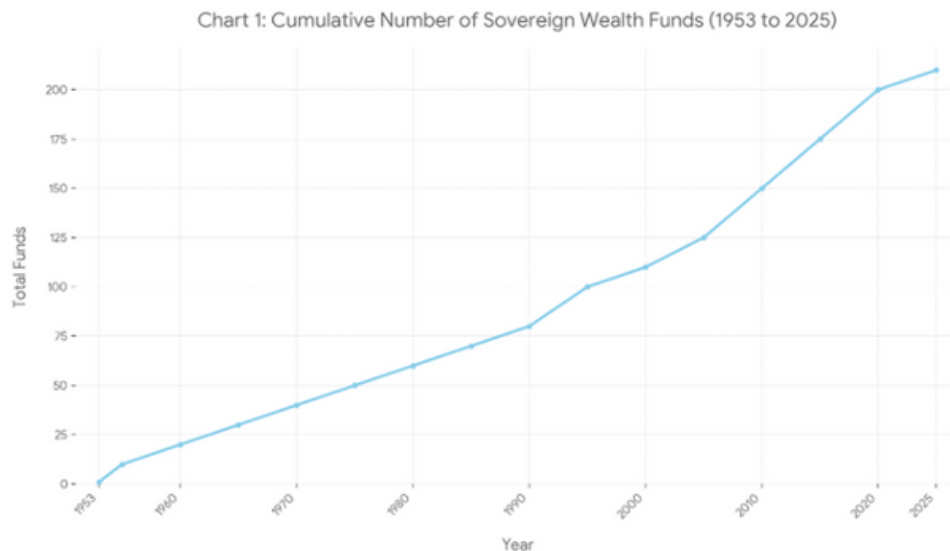
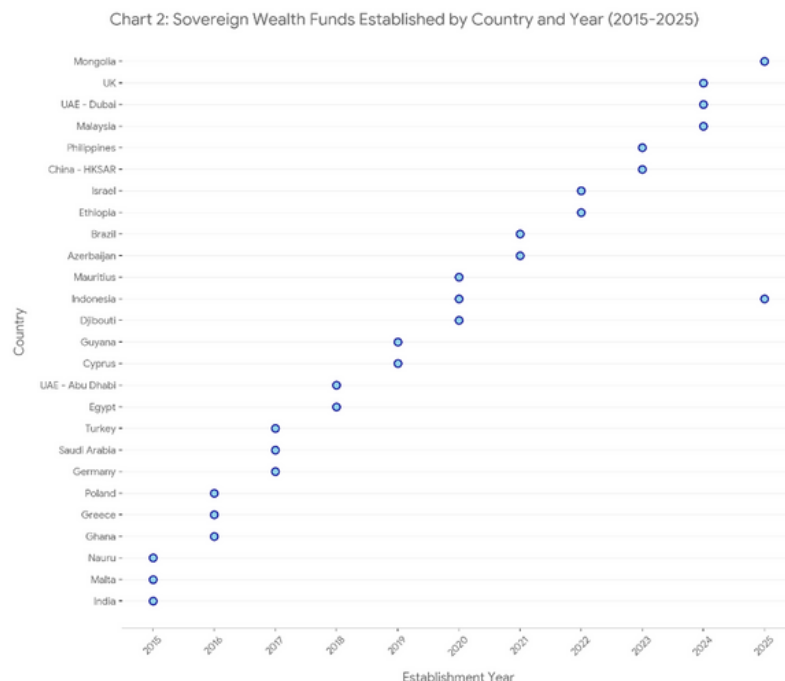


Chart 2, Sovereign Wealth Funds Established by Country and Year (2015-2025)², further illustrates this trend, showing a diverse range of economies from Hong Kong and Ethiopia to the UK establishing SWFs in the past decade (based on the chart's date range, 'five years' might be too narrow).

This indicates a broader recognition of the strategic advantages these funds offer in navigating an increasingly uncertain global economy.

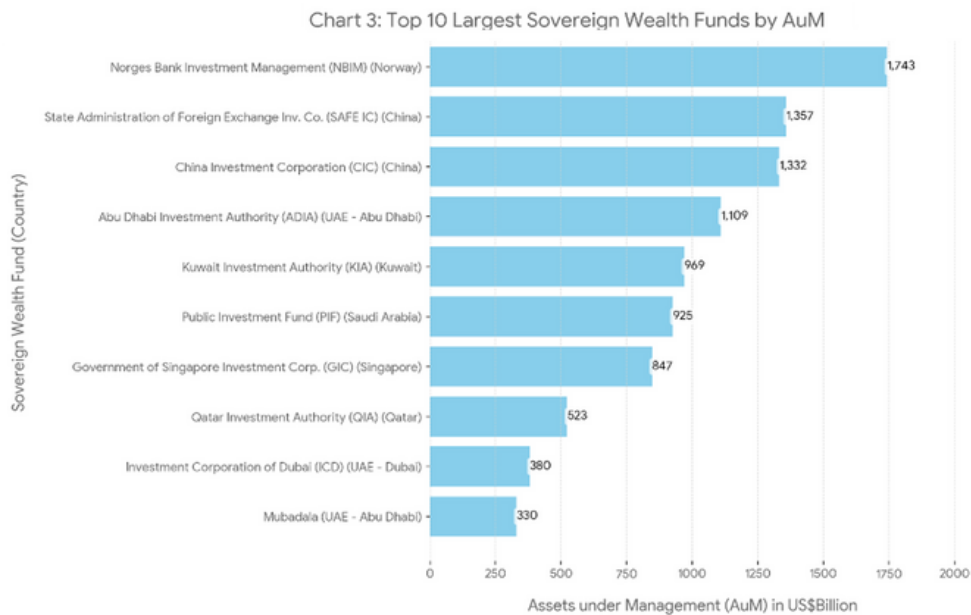


1. Source: Global Sovereign Wealth Fund (SWF), 2025

2. Source: Global SWF, 2025

While the number of SWFs is growing globally, the landscape of the largest funds remains concentrated. As highlighted in **Chart 3, Top 10 Largest Sovereign Wealth Funds by AuM³**, the majority of the largest SWFs by Assets under Management (AuM) are concentrated in the Middle East and Asia, with Norway's Norges Bank Investment Management (NBIM) being a notable exception from the developed world. This points to the increasing role and influence of emerging markets in the sovereign wealth space.

This list notably includes the Kuwait Investment Authority (KIA), which is broadly recognised as the world's oldest sovereign wealth fund, tracing its roots to the Kuwait Investment Board established in 1953.



Moving Beyond Traditional Mandates: A Strategic Shift

Traditionally, SWFs have aimed to achieve inter-generational equity, stabilise markets by providing investment capital during crises, and help diversify national economies away from reliance on specific resources.

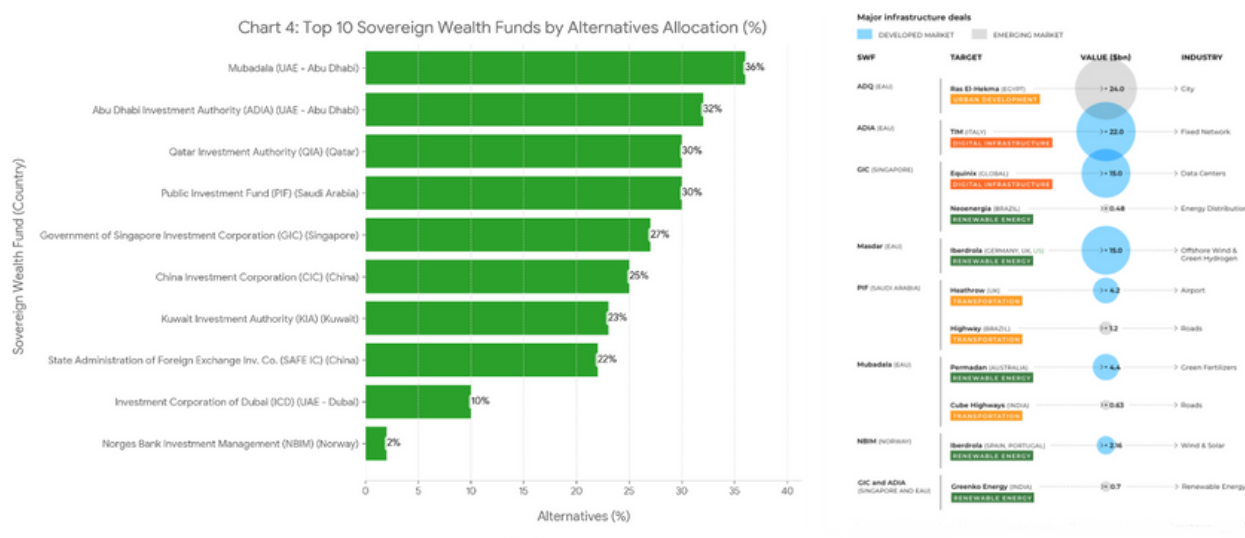
However, the current environment is likely to see SWFs play new, more strategic roles. In an era of heightened geopolitical tensions and geopolitical re-ordering, governments are increasingly likely to view SWFs as tools for state intervention in sectors and/or policies deemed critical.

3. Source: Global Sovereign Wealth Fund (SWF), 2025

For example, the role of The Public Investment Fund (PIF) in Saudi Arabia's Vision 2030 in strategic development aligns with this trend, and it's a model the proposed U.S. SWF may adopt.

As does Indonesia's Danantara, which aims to manage state-owned enterprises and generate capital for domestic investments. Danantara, established in early 2025, is designed to operate as both an investment vehicle and a holding company for state-owned enterprises, similar to Singapore's SWF Temasek.

This strategic shift is reflected in the evolving asset allocation of SWFs. As illustrated in **Chart 4, Top 10 Sovereign Wealth Funds by Alternatives Allocation (%)**⁴, several major SWFs are increasing their allocation to "Alternatives" – a category that often includes private assets, such as infrastructure, private equity, and private credit.



For instance, Mubadala (UAE - Abu Dhabi) and Abu Dhabi Investment Authority (ADIA) both have high allocations to alternatives (36% and 32% respectively), suggesting a move towards investments that support national strategic objectives and real-economy projects.

This is further highlighted in the accompanying chart detailing major infrastructure deals by SWFs in 2024, including investments in digital infrastructure, renewable energy, and transportation.

4. Source: Global Sovereign Wealth Fund (SWF), 2025, Sovereign Wealth Research - IE Centre for the Governance of Change, 2024

Shifting Funding Models: a Changing World

Defined by their funding, SWFs are either commodity-based, relying on natural resources like oil (Arab Gulf states, Norway) or minerals (Chile, Botswana), or non-commodity based. Non-commodity funds, typically found in Asian economies such as Singapore, China, and South Korea, are funded by trade surpluses, capital inflows, or public savings.

The funding structure of SWFs is also likely to adapt to global economic realities, such as increasing national debt levels and domestic demographic shifts. While historically funded by budget surpluses, natural resource revenues, or foreign exchange reserves, new funding models may emerge. The consideration by the US of establishing a SWF, despite having a significant budget deficit and potentially using revenue from tariffs, is one indicator of emerging new funding models. The feasibility of such a model is a topic for another day.

SWFs can broadly be categorised into five types, each with distinct purposes, though their mandates often overlap with each other:

- **Reserve Investment Funds:** Focus on generating returns from investments (e.g., China Investment Corporation and the Korea Investment Fund (KIC)).
- **Stabilisation Funds:** Seek to cushion economies from commodity price fluctuations (e.g., Ghana's Stabilisation Fund and Chile's Economic and Social Stabilisation Fund).
- **Future Generation Funds:** Aim for intergenerational equity by investing for the long-term (e.g., Abu Dhabi Investment Authority (ADIA), Alaska's Permanent Fund and KIA's Future Generations Fund).
- **Strategic Development Funds:** Often invest with the twin objectives of producing financial returns and developing the local economy, and attracting foreign investment (e.g., Abu Dhabi's Mubadala Investment Company).
- **Contingent Pension Reserve Funds:** Are designed to enable governments to meet the liabilities of their social welfare and public pensions systems (e.g., Norway's Government Pension Fund of Norway, GPFG, Australia's Future Fund and New Zealand's Superannuation Fund).

The diversity of these funds, coupled with the increasing emphasis on strategic objectives, means the governance structures and investment strategies of SWFs will continue to evolve. They will likely increase their focus on emerging markets due to higher growth potential and continue to shift towards private market assets, aligning with their capacity for sizeable, illiquid, long-term investments.

Implications for Approaches to Risk Management

The current wave of SWF interest and formation is not merely about establishing new financial institutions, it reflects a deeper trend of governments playing an increasingly assertive role in the global economy. This has significant implications for companies, policymakers, and investors. The varying levels of transparency among SWFs can also pose a significant risk, hindering accountability, obscuring investment portfolios, and complicating effective risk management, thereby making their reputation and credibility key risks to manage.

To help stakeholders navigate heightened uncertainty and anticipate unconventional policy actions, risk management functions will increasingly need to be proactive, making greater use of scenario analysis—a strategic technique for exploring multiple plausible future states and their interactive impacts. For long-term asset owners like SWFs, making tactical adjustments to short-term shocks will be of growing importance.

Conclusion

As the global landscape continues to shift, SWFs will remain dynamic and evolving institutions. Their ability to identify and fill gaps in local economies while simultaneously generating long-term financial returns makes them increasingly consequential players on the world stage.

Understanding the underlying drivers behind their proliferation, and the innovative ways they are being deployed, can help prepare for shifts in global finance and geopolitics.

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