



# WEALTH MANAGEMENT

SOVEREIGN AND PERMANENT  
FUNDS AROUND THE WORLD

2008 | TRUSTEES' PAPERS | VOLUME NO. 8



ALASKA PERMANENT FUND CORPORATION

## TABLE OF CONTENTS

<b>Letter from the Chairman: Steve Frank</b>	<b>4</b>
<b>Whither a Heritage Fund Public Dividend Policy?</b>	<b>6</b>
A Comparison of the Alberta Heritage Savings Trust Fund and the Alaska Permanent Fund References	
<b>Guide to Permanent and Sovereign Wealth Funds</b>	<b>16</b>





Steve Frank  
Chair, Board of Trustees

February 2008

Dear Alaskans,

I am often asked if there are other funds that are like the Alaska Permanent Fund.

A few states have permanent funds, but they don't compare to the size of the Alaska Permanent Fund, and they tend to have a more narrow purpose. A better comparison is with U.S. public pension funds because they are similar in size, but pension funds have set liabilities and must tailor their asset allocation toward paying those liabilities. There are a few college endowments that approach the Permanent Fund's size – Harvard and Yale are two that come to mind. However, these private endowments take on significantly greater risk in their asset allocations than the public Permanent Fund.

Sovereign funds, a group that often includes the Alaska Permanent Fund, have been getting a lot of attention over the last year. At the time that the Permanent Fund was created, other oil wealth-based savings funds were founded in places such as Kuwait, Saudi Arabia and Alberta. Since then, new funds, seeded with petroleum income or other sources of revenue, have come into being. While many of these funds are significantly greater in size than the Permanent Fund, they share the ability to take a long-term view in their investment allocations, often without the payouts required of pension funds.

There has been considerable discussion as these funds have grown in size, approaching a mass that can create economic weather around their movements. Concerns exist over the lack of transparency of some of these funds, and the possibility that they could be used to enact the foreign policy objectives of their parent countries.

The Permanent Fund Board of Trustees, recognizing the educational opportunities it is afforded as managers of the Fund, has been dedicated to providing information on topics of interest since its inception in 1980. One form that this public information flow has taken is the seven volumes of Trustees' Papers released over the years, including Volume 2: Wealth Management.

Wealth Management, first printed in 1988, provided a comparison between the Alberta Heritage Fund and the Alaska Permanent Fund, as well as an overview of the other oil wealth funds in existence at the time. With the recent interest in sovereign funds, as well as the ongoing question about other permanent funds, it seems like an opportune time to revisit this topic.

Both Alaska and Alberta's respective funds recently celebrated our 30th anniversaries. The first half of this paper is an update of the comparison between the funds to mark the occasion, written by Dr. Allan Warrack, Business Professor, University of Alberta, Canada. Dr. Warrack wrote this piece for the Canada West Foundation, and we appreciate that they have generously allowed us to include it in this Trustees' Paper. The second half is a guide to U.S. public permanent funds and sovereign wealth funds around the world. This section doesn't discuss the issues surrounding sovereign funds, nor does it include every fund. It is simply an overview of funds that help draw the picture of the savings fund universe.

Additional information about the Permanent Fund, including the Trustees' Papers Volumes 1 – 7, is available at [www.apfc.org](http://www.apfc.org).

Sincerely,

A handwritten signature in black ink, appearing to read 'Steve Frank', with a stylized flourish at the end.

Steve Frank  
Chair, Board of Trustees



# WHITHER A HERITAGE FUND PUBLIC DIVIDEND POLICY?

Allan A. Warrack, PhD, Business Professor Emeritus, University of Alberta, Canada



**Conundrum:** n. riddle, a hard question, anything that puzzles

**Alberta Conundrum:** Albertans strongly support keeping the Heritage Fund, yet Albertans offer little support for increased investment in the Heritage Fund. Why this baffling, puzzling paradox? How could this conundrum be resolved?

Should Alberta initiate a new public policy of dividend payments to Alberta citizens, as shareholders of the Heritage Fund? Would this result in greater attention and priority in the minds of Albertans, in their economic and political actions?

This paper will explore these questions. To do so, it is essential to understand the history and underlying principles of the Alberta Heritage Savings Trust Fund. It also is necessary to provide a similar outline and history of the Alaska Permanent Fund (APF), because it is a success story compared to the Alberta Heritage Fund (AHF). A core element of this success has been Alaska's formulation and handling of the public dividend policy. This dividend policy will be explained in detail, with results to date.

(Reprinted with the permission of the Canada West Foundation)

## ALBERTA HERITAGE FUND – UNDERSTANDING THE ESSENTIALS

### Basic Concepts

A prime condition leading to the idea of the Heritage Fund was the ready availability of unexpectedly large resources revenues from oil and natural gas royalties. The high resources revenue was the combination of the 1970s Alberta Government upward revisions of resources royalties, and the Organization of Petroleum Exporting Countries (OPEC) impact on oil prices. There were immediate concerns. One was whether such current revenues could induce a level of government expenditures that would be unsustainable over the long term. Another concern was the absorption of such monies into the relatively small economy of Alberta without harmful distortions, including inflation. Finally, despite a history of honest governments in Alberta, there was a fear of corruption.

The core concept, as with any resource revenue fund, is resources financial management through time. Non-renewable resources revenues can be converted into a renewable financial pool of capital, hence a conversion of non-renewable into renewable. All or a portion of the resources revenues can be so managed. Capital management principles are applicable. AHF was formed as an instrument to manage economic rents (a portion of the oil and natural gas royalty revenues) into the longer term future of the province. A broader financial corporation recently has been formed by the Alberta Government to manage several classes of funds including AHF; it is premature to comment on it here, but it seems promising.

Economies substantially dependent on natural resources, whether regional or national, are notoriously cyclical. Alberta is such a case. Cycles can be large in magnitude and occur in rapid surges (booms) and slides (busts). The

economic policy issues are not just prosperity but also stability. Economic strength is the blend of prosperity and stability. Weather and market risks come to mind, but occasionally there are major and unexpected external "policy risks." Examples: OPEC and 9/11 (global) and from another level of government (National Energy Program). A well-managed resources revenue fund such as AHF should buffer some of the instability inherent in a resource-based economy.

Resource conservation is the attempt to establish the socially most desirable levels of resources utilization over time. Having proper regard for future generations, to what extent of finite non-renewable resources can a particular generation feel entitled? And resources high-grading (using the cheapest and highest quality first) must be taken into account. Draw-downs of non-renewable resources stocks can be offset by setting aside monies for future investment uses. If used wisely, AHF can be such an investment instrument. The environmental context of natural resources development is exceedingly important. There need not be severe conflict between economic growth and environmental concerns. There is a responsibility to leave a healthy environment and resource base for future generations. The central issue should not be whether, but how adverse environmental impacts will be remedied. Timing matters. Environment restoration can be viewed as capital investment, and a capital pool such as a resource revenue fund may facilitate needed improvements.

### Drivers for Alberta Heritage Fund Policies

Several factors entered into the decision to establish AHF as an energy revenue resource fund. The original AHF policy drivers were:

- Fairness to future generations
- Strengthen and diversify the economy
- Quality of life improvements
- Rainy day fund

The single strongest driver of AHF policy was to be fair to future generations. For reasons of resources conservation, environment preservation, and economic opportunity, future Albertans must be made better off for AHF policies to have succeeded. There was recognition that future Alberta citizens are too young, or even not yet here, to express their views and vote. The current generation has the responsibility to be their proxy. If this is done effectively, future generations will have widened and enriched choices about their lives.

The second driver recognized a fundamental Alberta economic weakness. Cyclically prosperous, the province's economy had always been subject to damaging instability. The economy would be stronger if diversified, and probably also more prosperous. Besides diversification, a stronger economy would emerge with extensive and high-quality infrastructure. Economic infrastructure (bridges, utilities, water and sewer systems, etc.) can reduce obstacles for successful investments in business models. As well, educational and research infrastructure would enhance accessibility and quality of educational training and research, leading to both life enhancements and business opportunities. It is to be noted that the payoffs from this driver would not be directly financial; instead, AHF should facilitate persons and businesses to succeed.

The third driver was a "quality of life" striving for social dividends. Life and society always contain "nice to have" options for healthy and enhanced lifestyles. These can include both indoor and outdoor facilities. Examples include: urban and special features parks; art galleries; theatres; historic sites and facilities preservation; music halls; and enhanced world-class medical research and practices, reflecting aging (e.g., cancer) and continuing (e.g., heart) and tragic (e.g., children's) diseases. As a bonus, it may be that attracting and maintaining highly skilled and managerial personnel and society volunteers becomes easier when these benefits are available to individuals and their families.

Finally, a "rainy day" revenue source was expected to be valuable occasionally. In a cyclical economic environment, with cyclical tax revenue flows struggling at times to sustain public services, a financial buffer could be needed from time to time. Though many have characterized AHF only as a rainy day fund, that is not so. Instead, it is the fourth priority of a list of four.

There are many implementation difficulties in a policy of deferring benefits into the future. Many individuals have

trouble saving for their own or their family's future. It is even more difficult on a societal (government) basis. The future "gain" is distant, diffuse and uncertain; the current "pain" is immediate, specific and certain. People can have fanciful, even myopic and whimsical demands of what others should do for them and pay for on their behalf. In Alberta now, (Aug. 31, 2007) with the price of oil exceeding \$US70/barrel and natural gas over \$US5.50/mcf – there are Alberta citizens who think it is "raining." Surely it is not even sprinkling! Why should grandchildren not be accorded a share? Although the economic principle of deferred benefits may be logical and socially just, the politics can be regrettably contradictory. Any jurisdiction should be forewarned of this reality.

### Revenue Flows

Until 1976, Alberta resources economic rents monies (100%) were used simply for the year-by-year general revenues of government. However, for a period of years one-third of these revenues had been shared with municipal governments. On August 30, 1976, precisely five years after a new government was elected, an initial allocation of \$1.5 billion was made to kick off the Alberta Heritage Fund. A flow to AHF of 30% of non-renewable resource revenues began, with the other 70% continuing to support the general budget of the government.

The pattern of revenue flows into the Heritage Fund is shown below, including the time span in which financial yields were allocated back into the Fund. The 30% flow was halved in 1982, and then stopped in 1987. As of 1982, financial yields of AHF were fully diverted into the government budget; none was allocated back to the Fund (not even for inflation-proofing).

- **1976:** \$1.5 billion initial allocation to AHF
- **1976-1982:** 30% oil and natural gas revenues (royalties and land sales) + all financial yields allocated to AHF\*
- **1982-87:** Oil and natural gas royalty revenues share halved to 15%, with no yields allocations back to AHF (despite that this was a period of high inflation)
- **1997-2005:** No royalties revenues allocation to AHF nor inflation-proofing; began stock portfolio investing, though with unfortunate timing
- **2006-07:** Inflation-proofing began; two funding infusions to AHF; fund financial assets grow to \$16.6 billion

\* Inflation-proofing was not an issue during the 1976-82 time period, as full yield allocations back to AHF more than offset the adverse impact of inflation. Later, the purchasing power of the capital base was permitted to erode by the pace of inflation.

## ALBERTA HERITAGE FUND – COMPOSITION

The original law [Alberta Heritage Savings Trust Fund, Statute, 1976] provided for three divisions: Canada Investment Division (CID), Capital Projects Division (CPD), and Alberta Investment Division (AID). The first two divisions each were limited to 20% of AHF size, with no AID limit. Beyond these three specific divisions, there was a residual capacity to manage short-term financial and cash assets. AHF was not permitted to hold equities shares; this limitation has proven to be a fateful one, in terms of forgone future gains.

### Canada Investment Division (limited to 20% of total AHF)

Alberta's government wanted its Heritage Fund to have a Canadian dimension. Shortly after the November 15, 1976 election of a separatist government in Quebec, Canada's newest and poorest province, Newfoundland, needed to meet its borrowing requirements. The Quebec event was viewed by international financial markets as basis for higher risk in borrowing by any government in Canada. In January 1977, an AHF loan request from Newfoundland was agreed to. What interest rate? Alberta made a policy decision that AHF loans to other Canadian governments (and their entities) would be concessionary – according to the best credit rating of a government entity in Canada. That was Ontario Hydro. Neither Ontario Hydro nor the province of Ontario ever did borrow from AHF, but their high-quality credit rating was the basis for interest rates in CID loans. Soon other provinces, especially in Atlantic Canada, (the country's poorest region) made similar loan requests including similar concessionary interest rates.

The scope of CID loans covered six provinces and/or their agencies. Paradoxically, the largest loans eventually were made to Quebec Hydro. Thirty-three loans worth a total of \$1.9 billion were made by 1982. No loans have been made since that year. No CID loans now are outstanding.

### Capital Projects Division (limited to 20% of total AHF)

The fundamental premise was that CPD investments were to be for improved social and economic well-being in the longer-term future. Commercial financial return was not a priority. Improvements in economic infrastructure were expected to pay off in economic terms, but not in direct financial yield. Improvements in social infrastructure would pay off in lifestyle dividends, and help to attract and retain citizens, but without an expectation of financial

returns. Projects undertaken in this division would be for improvements Alberta could otherwise not afford in normal budgetary circumstances.

CPD allocations needed to be viewed as investments, but with the funds expended rather than being financial investments. Thus CPD funds needed explicit legislative approval. Moreover, CPD allocations become "deemed assets" rather than financial assets, in the audit accounting process. All deployments from CPD were to be capital in nature, but not all government capital programs were to be from CPD of AHF.

An acclaimed CPD entry within AHF is the Medical Research Endowment of \$300 million; in 1980 a separate Act was legislated and the endowment was transferred to it from CPD/AHF. Extensive facilities have been built, and research programs and researchers have been supported from the yield of the endowment. Meanwhile, the endowment value has increased to \$1 billion. Separately, the government transferred \$200 million new funding (of a three-year commitment totalling \$500 million) into the endowment. [AHFMR Annual Report, 2006.] When the 1980 transfer took place, the restriction against holding equities was relieved. This case demonstrates the power of endowment portfolio financial management.

Many economic infrastructure projects were undertaken with CPD funding. In agriculture, irrigation works and grazing reserves were upgraded and grain hopper cars were purchased. An investment was made at the Port of Prince Rupert in British Columbia. Sewer and water systems and some drainage projects were others. In transportation, airstrips and terminals were built. Land reclamation, flood control, a forest nursery and reforestation were renewable resource projects. Urban parks in Calgary and Edmonton were built, as was Kananaskis Country Park. Hydrocarbon technology research, especially for oil sands, was funded, and also coal research. Education projects included Heritage Fund Scholarships and special library development funds. A small venture capital (Vencap) company was formed.

CPD undertakings were funded based on new resources cash flows into AHF, commencing in 1976. The total eventual funding was \$3.5 billion. These are deemed assets that were allocated to projects, but are not counted as current financial assets of the Alberta Heritage Savings Trust Fund. The broad view of Alberta Heritage Fund size is the sum of its financial size plus \$3.5 billion in deemed assets. That is, \$16.6 billion plus \$3.5 billion = \$20.1 billion.

A frequent question is, “What is the AHF-CPD doing now?” The answer is that it cannot do anything unless there are new allocations made to the Heritage Fund. No new AHF funds means no new CPD funds. Recent infusions into AHF means new CPD projects can be possible. Twenty percent of any future AHF allocations could be available for new economic and social projects in Alberta.

### Alberta Investment Division (no limit)

AID undertakings were directed to financial return. This division was hobbled by not being permitted to invest in stock market equities, especially when capital gains were essential to counter high inflation in the 1980s. The primary use of AID was as a private placement banker for various provincial government-owned corporations, including Alberta Government Telephones. These loans totalled very large amounts, over half of AHF total size. As private placements, significant fees and commissions were saved as compared to private financing transactions. However, the process insulated AHF and recipient Crown corporations from market forces and disciplines. AHF difficulties are partly the result of this market detachment.

The Syncrude Oil Sands (bitumen) megaproject teetered on the verge of collapse in the 1970s. The project was rescued primarily by the Alberta government, and AID funding was used. This is one of a relatively few economic development efforts made under this division. Syncrude eventually was a success, helped by high OPEC oil prices. Later, certain additional economic development projects had investments from AID; a heavy oil upgrader, forestry projects, and a grain terminal, with reasonably good results. There were several other projects that became misadventures, with heavy financial losses.

### ALBERTA HERITAGE FUND – 1997 CHANGES

AHF changes were legislated in 1997. [Revised Alberta Statutes, 1997.] A major change was to reorient AHF financial holdings to portfolio management for long-term gains in portfolio value. This was an overdue change, but it was at an unfortunate time. Shortly after these changes, stock markets plummeted; thus Alberta had the bad luck of good policy but regrettable timing. Over recent years previous losses have been made up by portfolio gains. A related AHF change was to shift the investment profile outward from Alberta, rather than impairing financial results by being constrained by an inward investment stance. Changes to AHF legislation in 1997 were very positive, and AHF recent results confirm these improvements.

### Current Financial Status

Financial results since inception have been weak. AHF nominal value was virtually unchanged over two decades from 1987; meanwhile, AHF purchasing power had been eroded by inflation. The financial value in 1987 was \$12.1 billion. In 2005 the value was still only \$12.2 billion. In 2006, inflation-proofing finally began, in the amount of \$382 million. As well, the government transferred \$1.75 billion into the Fund – the Mar. 31, 2006 AHF value became \$14.8 billion (including \$466 million of unrealized capital gains). One year later the fund value had reached \$16.6 billion. The growth of \$1.8 billion includes \$283 million, due to inflation-proofing, and \$1 billion deposited as new money into AHF. Further, \$250 million was allocated into the fund earmarked to an advanced education endowment within the Fund. Deemed assets via CPD, carried at book value of AHF, continue to be listed at \$3.5 billion. A grand total for AHF would be \$20.1 billion.

Nearly \$30 billion of financial yield has been drained from Alberta Heritage Fund income and taken into general government revenues over the 31-year life of AHF. In the most recent year, the amount taken was \$1.1 billion. These monies are transferred to Alberta Government general revenues, representing taxes Albertans do not pay for public services. A debate is re-emerging questioning whether it is fair to future generations that the full financial yield of the Alberta Heritage Savings Trust Fund should be used wholly for current expenditure purposes.

### ALASKA PERMANENT FUND – UNDERSTANDING THE ESSENTIALS

#### Basic Concepts

Oil was discovered in the North Slope of the state of Alaska. As a consequence of its unique history, mineral resources are state-owned. As the trans-Alaskan oil pipeline was being built to tidewater at Valdez, there was debate about the merits of saving a portion of the future oil wealth instead of spending it.

Unlike Canadian provinces, American states have their own constitution. In conjunction with the 1976 Alaska general election, a constitutional amendment was put forth and approved by the voters [An Alaskan’s Guide to the Permanent Fund, 2006]. The Fund created an investment base from which to generate future income; the Fund would prudently take some of the non-renewable oil wealth and transform it into a renewable source of wealth for future generations of Alaskans. Implicit in this mandate is the portfolio mix approach of financial instruments.

Moreover, the Alaska Permanent Fund funds are indeed permanent, only removable by another constitutional amendment approved by referendum. The funds are directed by arms-length Trustees, and managed by APF professional staff.

APF is updated daily on its website. A notable feature of the fund is the Alaska dividend program. Legislation for the dividends was passed in 1980; however, payments of dividends were held up until 1982 due to a court case over the dividend calculation. Dividends have been paid out continuously to Alaskans through 2006.

#### Revenue Flows

Sources of APF Principal (Alaska Permanent Fund Corporation, 2007)

- Mineral Revenue = 35.3% (\$9.7 billion)
- Special Appropriations = 25.5% (\$7.0 billion)
- Inflation-Proofing = 39.3% (\$10.8 billion)

By adding the realized earnings and the unrealized earnings balances to the above, the total APF value was \$37.8 billion at year-end (June 30, 2007).

In 1977, by legislative action, APF received its first deposit of dedicated oil revenues (\$743,000). The Alaska constitution provides a base royalty rate of 25%. All of this revenue must and does continue to flow into the Alaska Permanent Fund. Additional funds from oil revenues totalling \$2.7 billion have been deposited by special legislative appropriations in 1981, 1982, 1983, 1984 and 1985; this comprised a large proportion of the early monies that had flowed into APF. A result is that the effective royalty rate in Alaska is significantly higher than 25%.

There also are special appropriations from reserves of APF earnings held by the State of Alaska. These are transfers from realized earnings (when stock equities are sold) and from settlement earnings, including the results of court cases. The financial results details are compiled above.

Wisely, inflation-proofing was done starting from early on (1982). It is a simple concept, adopted in Alaska but not in Alberta. The objective is to maintain purchasing power of the capital base; the method is to measure inflation in a given year, and re-invest an amount that would offset the erosion of purchasing power due to inflation. Over the life of the Alaska Permanent Fund, about \$11 billion has been added back into APF principal in order to ensure inflation-proofing. It is relatively easy to keep up, but very difficult to catch up.

**Bottom Line:** APF receives two “hard” reliable and continuous revenue streams – 25% royalty revenues and inflation-proofing revenues (that actually exceed mineral revenues over the life of the Fund!). APF also receives occasional “soft” revenue flows based on energy revenues, in the form of special appropriations. Regardless of revenue source, once the revenues are deposited with APF they are truly permanent in its capital base.

Today’s market value (end-August 2007) of the Alaska Permanent Fund is \$37.9 billion, for a population of approximately 700,000. Alberta’s population is about 3.5 million; its Heritage Fund financial value is \$16.6 billion. By any measure, the difference in the respective funds is vast. Moreover, APF is growing rapidly and systematically, from royalty revenues and inflation-proofing. AHF is growing neither significantly nor systematically.

### ALASKA PERMANENT FUND DIVIDEND POLICY

Alaska has a public dividends policy. Although the first dedicated oil revenues flowed to APF in 1977, the first dividend was not issued until 1982. The amount has varied over the years. After the five-year Fund build-up period, and the court case delay, that first dividend was for \$1,000. That was a large “kickoff” amount; in subsequent years the dividend was less than that, until 1996. The largest amount was \$1,964 in 2000; last year (2006) the dividend paid was \$1,106.76. About \$14.3 billion has been paid out to Alaskans to date.

The Alaska public dividend formula works as follows. APF financial yields are determined; realized income earned from APF investments is included. Along with inflation-proofing, preserving the purchasing power of the capital base, is the funding of the public dividend program. Monies are turned over to the State of Alaska earnings reserve account. Administrative costs of the dividend policy are deducted from the monies available. A reserve is retained to buffer unexpected circumstances, such as future lawsuits. On June 30 each year the Legislature appropriates these funds. The calculation of the dividend is: Net Income of the fund over the last five years multiplied by 21, divided by 2, and divided further by the number of eligible applicants = amount of the dividend. The formula is designed to both average (over the last five years) and smooth the results. It is to be noted carefully that the public dividend is paid not directly by the Alaska Permanent Fund, but rather by the State of Alaska.

It is essential to distinguish the Alaska Dividend policy from the Alberta “Ralphbucks.” In 2005, Premier Ralph Klein of Alberta decided to pay out \$400 per person. While lots of people are happy to get cash from wherever, there was much puzzlement among Albertans as the payments were not the result of any discernable policy. Nor did anyone seem to know “what is next?” These payments have not continued. The Alaska public dividends differ from “Ralphbucks” in two fundamental ways. First, in Alaska the monies paid out as dividends have been earned as distinct from simply skimmed from cash flow. Second, though amounts vary according to APF earnings, the Alaska monies are paid as a permanent stream of income. There is well-known economic analysis (Permanent Income Hypothesis) that shows people spend permanent income streams more carefully and responsibly than transitory dollops of cash.

Alaskans pay attention to their Permanent Fund. In a democracy, it is the job of the public to hold government’s “feet to the fire.” As always, there is need for a balance between independence and accountability. In Alaska, this appears to have worked and is working still.

## AHF/APF – COMPARISONS

There are many similarities between Alberta and Alaska. Among these similarities is that their respective funds began at the same time (mid-1970s), and with the same non-renewable resources revenues basis of funding sources. Each economy is vulnerable to boom-bust cycles. For a detailed comparison, see [Warrack and Keddie, 2002], and the comparisons matrix in the Appendix to this paper.

Several of the comparisons need to be highlighted. For the first five years of the Alaska Permanent Fund, only bonds were held. It then adopted an outward view of investments including a stock portfolio; alas, from the outset to 1997 the opposite was true for the Alberta Heritage Fund. As a result, APF investment results have been vastly superior to AHF. APF has been inflation-proofed from the “get-go,” but AHF has not. Another comparator is the fundamental means of fund governance; arms-length Trustees are appointed to lead the policies and management of the Alaska Fund. In contrast, the Alberta Fund has been in the hands of a government department and it has been hobbled over the years by AHF legislative restrictions.

For the topic focus of the current paper, the biggest contrast is a philosophical one. Can citizens spend their own money better than government? In Alberta, the choice has been that government can decide better (Nationalization); from 1976 to today, AHF funds decisions

are made by the Government of Alberta. In Alaska, through its public dividend policy, individual citizens and their families decide how to spend their money. Individual Alaskans make their own decisions of how to allocate the dividends they receive each year, save or invest or spend. Should Alberta establish a policy of AHF public dividend issues to Albertans?

## A PUBLIC DIVIDEND POLICY FOR ALBERTA?

The concept of a social dividend policy in the history of Alberta is not new. It was a hallmark stance of the Social Credit prairie political populism of the difficult 1930s. The Social Credit Party governed in Alberta for 25 years. Social credit dividends were to be paid at \$25 per month. Although the promised social dividend was paid but twice, it is a uniquely Alberta idea in Canada.

The “Ralphbucks” episode in 2005 was not universally scorned in Alberta. There is anecdotal evidence of a significant level of acceptance, despite the lack of policy underpinnings. Some right-leaning citizens viewed the government cash payments favourably because it meant there would be “less for the government to waste.” Some left-leaning citizens favoured the payments on grounds of social equity; equal payment amounts meant the needy would get the same amount as the rich, though the value to the needy would be much higher. This is based on the notion of the marginal utility of money – a similar logic basis as progressive income tax. Still others said, “Just gimme the dough!”

Although Albertans do not now pay their way for public services, what could be more “conservative” than paying one’s own way? Nevertheless, higher taxes to afford an Alberta public dividend is a non-starter. However, like the 1970s in Alberta, there is a public revenue alternative – higher and fairer energy royalties. These royalties are low by any measure, especially oil sands royalties. Oil sands is the growing segment of energy production in Alberta, whereas crude oil production is receding and natural gas production is flat. In fact, oil sands comprise over 60% of Alberta oil production but less than 10% of the province’s royalty revenue.

**Comparisons:** Alaska royalties are 25% “hard” plus “soft” special appropriations that are occasional but significant; exceeding 30%. Alberta royalties were raised to a range of 30-40% by then-new government legislation in the 1970s. Since then, royalties have been allowed to fall. Most oil sands production is at a one percent royalty level. The

Canada West Foundation recommends 50% royalties across the board. The author [Warrack, CWF, 2006] extends a policy rationale for a royalty level of one-third or 33.3%. Alaska royalties are at least this high. Alberta oil and natural gas royalties are low. Oil sands royalties are banana republic levels of low! The dominating rationale for royalty shares is fairness to the owner (the Alberta public). The overarching question in this analysis asks whether far higher royalties should reasonably be shared partially by the Alberta public in the form of public dividend payments. Why not?

The Alberta Heritage Fund can be managed as a policy instrument to convert non-renewable energy resources value into future renewable financial resources. A shift to this policy mantra is overdue. AHF needs to be built up dramatically, inflation-proofed, and managed as an endowment a la the well-known Harvard Rule (5% yield taken and distributed). This yield would be the basis for any public dividend distribution. Likely it would be necessary for the Heritage Fund to be built up for (say) five years, before sufficient funds could be available to begin the dividend at a meaningful level. Alaska built up its fund for a few years before the first public dividend distribution.

Like Alaska, Alberta has boom-bust cycles. Economic strength is not measured only by prosperity, but also by stability. Alberta is “on the bubble” today. In Alberta during each bust we solemnly say – next boom we’ll be smarter (often coarser terminology is used!), but are we? Are we not making the same old mistakes? Conversion of volatile non-renewable resources monies into stable renewable funds would help immensely. For citizens, even a small but reliable stream of public dividend money would be helpful. Especially it is so for younger and poorer families.

## Conclusions

1. Yes, it is a good idea. It’s an idea that could have worked in Alberta from the near-outset of the Heritage Fund. There is an historic basis for the dividend idea, an early tenet of Social Credit in the province. It is not a foreign idea. Albertans often have been at the leading edge.
2. There are governance rationales, whereas citizens instead of government can choose to make decisions about their “piece of the pie.” There are both right-leaning and left-leaning rationales favouring public dividends being available for decisions by citizens and their families. Thus a broad-based public consensus likely is feasible.

3. A public dividend policy works in Alaska. The public citizenry in Alberta owns the Crown resources. Instead of government politicians and bureaucracy deciding what’s best, why not individual citizens and families? Let’s build on what works.
4. The track record of the Alberta government management of the Heritage Fund since 1982 is weak. Governance and management by an arms-length trustee-style mechanism offers hope of real improvement.
5. There is a practical problem of timing. The current AHF level is \$16.6 billion. For 3.5 million people, AHF could not immediately offer a meaningful dividend (e.g., \$500 per person). For the public dividend payment stream to be worthwhile, there would need to be an Alberta Heritage Fund build-up period, similar to that of Alaska. A five-year Fund build-up period would be reasonable.
6. How to afford? The public is unlikely to accept tax increases to support AHF public dividends. Not an option. The answer is resources royalty increases. Major increases already are overdue for reasons of fairness, especially with oil sands. Alberta did it in the 1970s (to the 30-40% royalty range), and can do it again if there is the will. Higher royalties to the level of Alaska (over 30%), or as proposed by the Canada West Foundation (50%), would readily make Alberta public dividends an affordable policy option.

## COMPARISON CHART: ALBERTA HERITAGE SAVINGS TRUST FUND AND THE ALASKA PERMANENT FUND

	AHSTF	APF
<b>Time Era</b>	Mid-1970s	Mid-1970s
<b>Resources Base</b>	Hydrocarbons	Hydrocarbons
<b>Philosophy</b>	Nationalization	Privatization
<b>Establishment</b>	Legislation	Referendum
<b>Governance</b>	Bureaucracy	Trustees
<b>Economic Development</b>	Yes	No
<b>Social Dividends</b>	Yes	No
<b>Financial Management</b>	Income	Endowment
<b>Stocks Holdings</b>	No/Changing (1997)	Yes
<b>Inflation-Proofing</b>	No/Changing (1997)	Yes
<b>Investment Profile</b>	Inward/Changing (1997)	Outward
<b>Fund Size</b>	Smaller	Larger
<b>Fund Growth</b>	No	Yes

## REFERENCES

Alberta Chambers of Commerce & Certified General Accountants Association of Alberta Vision 20-20: Saving for the Future Alberta Advantage. Edmonton AB (March 2006)

Alaska Permanent Fund Corporation Annual Reports (various years)  
[www.apfc.org](http://www.apfc.org)

Alaska Permanent Fund Corporation Alaskan's Guide to the Permanent Fund (2006)

Alberta Government Alberta Heritage Savings Trust Fund, Annual Reports (various years)  
[www.finance.gov.ab.ca/business/ahstf](http://www.finance.gov.ab.ca/business/ahstf)

Alberta Heritage Foundation for Medical Research Authority (Annual Report, 2006)  
[www.ahfmr.ab.ca](http://www.ahfmr.ab.ca)

Taylor, D Wayne, Allan A Warrack & Mark C Baetz Business and Government in Canada: Partners for the Future. Prentice-Hall Canada, Scarborough ON (1999)

Warrack, Allan A "Sustainability after the Hydrocarbon Jackpot". Ch. 5 - In: Gibbins, Roger and Robert Roach (eds.): Seizing Today and Tomorrow: An Investment Strategy for Alberta's Future. Canada West Foundation, Calgary AB (2006)  
[www.cwf.ca](http://www.cwf.ca)

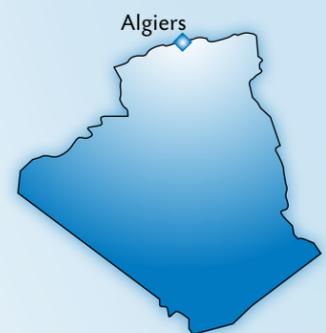
Warrack, Allan A Alberta Heritage Fund: Blessing Becoming Curse? Western Centre for Economic Research Bulletin #85, University of Alberta, Edmonton AB (November 2005)  
[www.bus.ualberta.ca/WCER](http://www.bus.ualberta.ca/WCER)

Warrack, Allan A & Russell R Keddie Natural Resource Trust Funds: A Comparison of Alberta and Alaska Resource Funds. Western Centre for Economic Research Bulletin #72, University of Alberta, Edmonton AB (September 2002)  
[www.bus.ualberta.ca/WCER](http://www.bus.ualberta.ca/WCER)



## GUIDE TO PERMANENT AND SOVEREIGN WEALTH FUNDS

The following pages contain a guide to many of the wealth funds found around the world. Some of these funds were seeded with revenues from commodity production, while others were created to pursue greater returns on excess foreign exchange reserves. Most of these funds belong to sovereign governments, but a few are permanent funds that belong to state-level governments, perhaps best described as “sub-sovereign.” Many of the funds on this list were created to preserve and prudently invest current wealth to benefit future needs, while others are used to advance domestic economic or social agendas. And while some funds listed here are still in the planning stages, others may no longer exist at all. As sovereign funds have become a topic of discussion, often it is their similarities that have been highlighted. Drawing together descriptions of these funds side-by-side helps make their differences clear as well.



### ALGERIA

**Fund:** Revenue Regulation Fund  
**Current value in U.S. dollars:** \$47.3 billion as of June 2007  
**Established:** 2000  
**Source of funding:** The Algerian budget assumes oil revenues based on a price of \$19 per barrel. When oil prices exceed this amount, the resulting surplus revenues accrue to the Revenue Regulation Fund.

The Revenue Regulation Fund was created as a stabilization fund, to buffer the federal budget from petroleum revenue volatility. Payouts may be used to make prepayments on foreign debt and fill budget deficits.

**Investments:** Unknown

**Payouts:** \$29.2 billion from 2000 through June of 2007, \$939 million from January to June 2007, all to the government of Algeria.

**Sources:** “The Report of the Presentation of the Bill of Finances for 2008,” Algerian Ministry of Finance, September, 2007; *Algeria - Public Expenditure Review: Assuring High Quality Public Investment*, World Bank, Aug. 15, 2007.



### AUSTRALIA

**Funds:** Future Fund and Higher Education Endowment Fund (HEEF)  
**Current value in U.S. dollars:** Future Fund \$54.5 billion, HEEF \$2.7 billion, as of December 2007  
**Established:** Future Fund 2006, HEEF 2007  
**Source of funding:** Australian government’s budget surpluses and certain proceeds from the privatization of Telstra Corporation (national telecommunications company).

The Future Fund was created to pay unfunded public employee superannuation (pension) liabilities in future years. The Future Fund is overseen by a Board of Guardians and managed by the Future Fund Management Agency. The Board also oversees the investments of the Higher Education Endowment Fund, created in 2007.

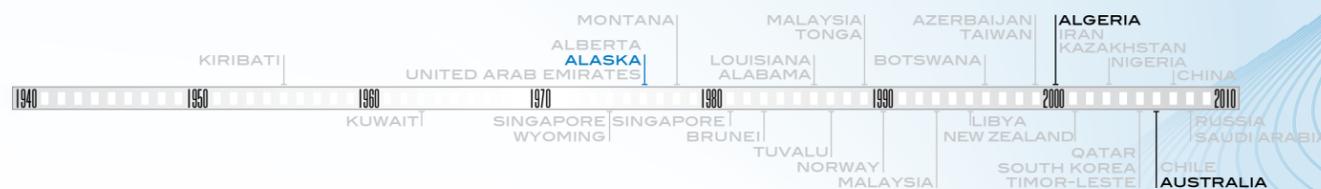
**Investments:** The Board of Guardians is in the early stages of developing a diversified investment portfolio for the Future Fund, a process that is expected to take several years. Current investments include Australian and non-Australian equities, cash (74% of the fund) and Telstra Corporation equities (19%).

The long-term Investment Mandate for the HEEF is also under development. Currently the HEEF must be invested to maximize returns with negligible chance of capital loss and confines investments to Commonwealth, State and Territory securities and deposits and bills of exchange with authorized deposit taking institutions as suitable investments.

**Average Payout:** Payouts from the Future Fund will begin in 2020, or earlier if the assets of the Fund match the superannuation liabilities. Payouts will discharge, in whole or in part, the unfunded superannuation liability each year.

Payout rules for the HEEF are currently being developed; initial discussions have focused on a payout of around \$300 million each year to the Australian government.

**Sources:** [www.futurefund.gov.au](http://www.futurefund.gov.au); *Australian Government Future Fund 2006-2007 Annual Report*, Canberra; Sid Marris and Glenda Korporaal, “Future Fund gets time-out on Telstra stock,” *The Australian*, Jan. 23, 2007.





## AZERBAIJAN

**Fund:** State Oil Fund of the Republic of Azerbaijan  
**Current value in U.S. dollars:** \$2.2 billion as of October 2007

**Established:** 1999

**Source of funding:** The State Oil Fund has two primary revenue sources – revenues from oil contracts and revenues from the management of the Oil Fund’s assets. The major sources of income for SOFAZ revenues are generated from the country’s share of sales of crude oil and gas; bonus payments; acreage fee revenues; revenues generated from the sale of assets that are transferred to Azerbaijan’s ownership under contracts signed with foreign companies; and other revenues from joint activities with foreign companies.

Heydar Aliyev Baku-Tbilisi-Ceyhan Main Export Pipeline, completed in 2006, is an international project designed for the transportation of crude oil, produced from the oilfield in the Azerbaijan sector of the Caspian Sea, to the international markets. The State Oil Fund of the Republic of Azerbaijan, sometimes called SOFAZ, is a legal entity and an extra-budgetary institution. SOFAZ was established to accumulate and preserve oil revenues for future generations and to protect the economy from the negative consequences of huge inflows through efficient management and use of oil revenues for the development of the country.

**Investments:** SOFAZ investments are primarily in investment-grade securities, including government, agency, corporate, mortgage-backed and financial institution securities.

**Average payouts:** SOFAZ paid out \$1.1 billion in 2006, and is budgeted to pay out approximately \$1.3 billion in 2007 to the government of Azerbaijan.

**Sources:** [www.oilfund.az](http://www.oilfund.az); SOFAZ staff.



## BOTSWANA

**Fund:** Pula Fund

**Current value in U.S. dollars:** \$6.5 billion as of September 2007

**Established:** 1993

**Source of funding:** Excess foreign exchange reserve funds as well as government funds.

The Pula Fund is a sub-fund within Botswana’s foreign exchange reserves, and is invested in a long-term asset allocation designed to achieve greater returns than a traditional low-risk reserve allocation. Two things that make the Pula Fund unique from most other sovereign wealth funds is the source of funding and the management. Most commodity-fueled economies are based on petroleum production, while Botswana’s revenues come from diamond mining. And most commodity funds are managed separately from foreign exchange reserves, which is not true for Botswana.

**Investments:** Stocks and bonds

**Payouts:** The Pula Fund distributed to the government \$88 million in 2006 and \$67 million in 2005. Payouts are based on the income attributable to the government’s subfund within the Pula Fund that belong to the government, and provide a significant portion of the government’s annual spending. The balance of the earnings accrues to the foreign exchange reserves.

**Sources:** Linah Mohohlo, “Traditional reserves and the management of community revenues: the case of Botswana,” *Sovereign Wealth Management*, 2007; Bank of Botswana, *2006 Annual Report*, Bank of Botswana, Balance Sheet, September 2007; Jennifer Johnson-Calari, CFA and Arjan B. Berkelaar, PhD, “Commodity Funds for the Future,” *RBS Reserves Management Trends 2006*, November 2005; “Fund reserves are national asset,” Republic of Botswana press release, June 10, 2002; *Botswana Banking Act*, 1996; [www.gov.bw](http://www.gov.bw).



## BRUNEI DARUSSALAM

**Fund:** Brunei Investment Agency

**Current value in U.S. dollars:** Estimated at \$35 billion

**Established:** 1983

**Source of funding:** Oil revenues

The Brunei Investment Agency (BIA) is one of several funds about which little is known, and revealing information about its investments is forbidden by law. More is known about the lavish spending by Sultan Hassanal Bolkiah, ruler of Brunei since 1967, and his brother, Prince Jefri Bolkiah. A very public falling-out between His Majesty and Prince Jefri, the former finance minister and head of the BIA, let details slip into the public arena, including the accusation that Prince Jefri had embezzled and mishandled around \$15 billion of Brunei’s funds.

**Investments:** Little is certain about the full investment portfolio, but it has been reported to have included hotels, corporations and currency.

**Payouts:** Unknown

**Sources:** Wayne Arnold, “How to Say No To a Sultan; Brunei and Its Leader Try Economic Discipline,” *The New York Times*, Mar. 6, 2001; Edwin M. Truman, “A Scoreboard for Sovereign Wealth Funds,” Peterson Institute for International Economics, Oct. 19, 2007.



## CANADA - ALBERTA

**Fund:** Alberta Heritage Savings Trust Fund

**Current value in U.S. dollars:** \$16.1 billion as of September 2007

**Established:** 1976

**Source of funding:** Energy royalties

The Alberta Heritage Savings Trust Fund (AHSTF) was established in 1976 in order to save a portion of the province’s oil revenues for future generations, to strengthen and diversify the provincial economy, and to improve the quality of life for Albertans. The initial allocation in 1976 was a total of \$1.5 billion from the province’s general revenues account. Subsequently 30% of Alberta’s resource revenues (mainly oil) were deposited into the fund until 1982, when the amount was reduced to 15%. In 1987 the fund was capped, with no new revenues flowing in other than occasional legislative allocations. Beginning in 1997, the AHSTF underwent a major restructuring, in which several investment divisions were closed down or merged with others, and the fund emerged as a long-term savings and investment fund, rather than a fund focused on economic development as it originally was.

**Investments:** Before 1997, the AHSTF consisted of five divisions, the Alberta Investment Division, the Canada Investments Division, the Capital Projects Division, the Energy Investment Division, and the Commercial Investment Division. The first of these divisions invested primarily in fixed-income assets within Alberta, mainly bonds and debentures issued by the Alberta government and through direct investments in provincial crown corporations such as the Alberta Mortgage and Housing Corporation and Alberta Government Telephones. The second division made loans to other provinces in Canada, at the high interest rates prevailing during the period. The Capital Projects Division invested in capital projects such as agrifood research, rail hopper cars, rural telephone service, medical research, and





## CANADA - ALBERTA (CONTINUED)

recreation areas. These “deemed assets” produced no revenue stream and often involved additional maintenance costs. The remaining two divisions were very small but focused on portfolio investments.

For political reasons, the fund was restructured beginning in 1997 with the creation of an endowment portfolio and the gradual elimination of the original investment divisions. The fund now invests about 50% of its assets in equities, about 30% in fixed-income assets, about 11% in real estate, and the remainder in absolute return strategies and other investment classes. Nearly all of the funds assets are located outside Alberta.

**Payout:** Fund earnings are transferred to the general fund. Since 1997, a provision for inflation-proofing has insured that the fund’s real value is maintained.

**Sources:** Alberta Heritage Savings Trust Fund, *Annual Report 2006*, Edmonton; Alberta Heritage Savings Trust Fund, *Quarterly Update*, [www.finance.gov.ab.ca/business/ahstf/2007\\_2ndq/report.pdf](http://www.finance.gov.ab.ca/business/ahstf/2007_2ndq/report.pdf).



## CHILE

**Funds:** Economic and Social Stabilization Fund and Pension Reserve Fund

**Current value in U.S. dollars:** \$9.4 billion and \$1.4 billion, respectively, as of July 2007

**Established:** 2006

**Source of funding:** For the Pension Reserve Fund, funding is from available budget surpluses, between 0.2 and 0.5% of GDP each year. The Stabilization Fund is paid after allocations to the Pension Reserve Fund, and only if surpluses exceed 1.0% of GDP.

Since 2003, a boom in copper prices has brought a multi-billion dollar windfall of revenues to Chile. The government decided to save this inflow of cash and created two “fiscal responsibility funds,” to provide revenue streams in the future, and help protect Chile’s economy from overheating. The Economic and Social Stabilization Fund was created with an initial allocation of \$6 billion, and will be used to fill future budget deficits. The Pension Reserve Fund started with \$600 million, and will be used to help meet future pension obligations.

**Investments:** Currency, as well as non-domestic government, agency and financial institution bonds and notes

**Payouts:** Payouts from the Pension Reserve Fund will not begin until 2016, and may not exceed one-third of the government’s pension obligation. Payouts from the Stabilization Fund may only be used to fill budget deficits and may not exceed 0.5% of the previous year’s GDP.

**Sources:** Kristian Flyvholm, “Assessing Chile’s Reserve Management,” IMF Monetary and Capital Markets Department, Nov. 26, 2007; *Economic and Social Stabilization Fund Quarterly Report July – September, 2007*; Fiscal Responsibility Act, Law 20,128, passed September 2006; Paul Harris, “Chile sets up funds to stabilize spending,” *Financial Times*, Aug. 14, 2006.



## CHINA

**Fund:** China Investment Corporation

**Current value in U.S. dollars:** \$200 billion

**Established:** 2007

**Source of funding:** Financed with bond issues in 2007 totaling \$200 billion

While organization was underway for several months beforehand, the China Investment Corporation was formally established in September, 2007, to seek investments with greater returns than the U.S. Treasuries and other low-risk assets in which most of China’s \$1.5 trillion exchange reserves are invested. A series of bond issues from August to December 2007, totaling \$200 billion, financed the CIC. Only one-third of the fund’s total start-up value is slated for outside investments, with the other two-thirds going to ownership of three state corporations, the Agricultural Bank of China, the China Development Bank and the Central Huijin Investment Company.

**Investments:** Liquid investments such as stocks, including index funds and state corporations

**Payouts:** Income from the investment portfolio will initially be used to service the \$200 billion bond debt that created the CIC.

**Sources:** Keith Bradsher, “\$200 billion to invest, but in China,” *New York Times*, Nov. 29, 2007; Aaron Back, “China’s Sovereign Wealth Fund Takes Cautious Approach,” *Wall Street Journal*, Nov. 29, 2007; Rachel Ziemba, “How Is China Funding the Chinese Investment Corporation (CIC)?” Dec. 5, 2007.



## IRAN

**Fund:** Oil Stabilization Fund

**Current value in U.S. dollars:** Reported at \$7 billion, as of December 2007

**Established:** 2000

**Source of funding:** Surplus oil revenues, \$10 billion deposited between March and August of 2007

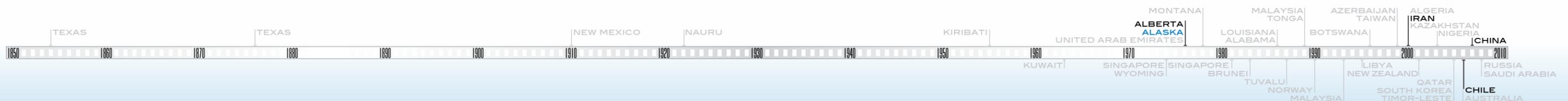
The Oil Stabilization Fund was created to save and invest surplus oil revenues to preserve Iran’s wealth for times of budgetary need, and to help cushion the economy from price fluctuations in the crude oil markets. OIS data is hard to come by, and despite being required by law, the Majlis (parliament) has never received a formal balance sheet for the fund. The Central Bank of Iran has released a limited amount of information on the fund’s withdrawals and deposits, but has not posted information on its investments. Information on the fund also comes from the conflicting public statements made by government and Central Bank of Iran officials.

It appears that the OIS may not have been used as it was originally intended. Over the years, the Majlis has not always deposited the amount of oil revenues into the fund that the law requires, and has bypassed the fund’s board to make withdrawals.

**Investments:** Unknown

**Payouts:** Withdrawals may be made to fill budget gaps and fund loans to Iran’s private sector. Twelve billion dollars was reportedly withdrawn between August and early December of 2007 for budgetary purposes.

**Sources:** Jahangir Amuzegar, “Iran’s Oil Stabilization Fund: A Misnomer,” *Middle East Economic Survey*, Volume XLVII, Nov. 21, 2005; Akbar Komijani, Vice Governor, Central Bank of the Islamic Republic of Iran, “Macroeconomic Policies and Performance in Iran,” *Asian Economic Papers*, Volume 5, 2006; “OSF deposits at \$7billion,” *Iran Republic News Agency*, Dec. 13, 2007.





## KAZAKHSTAN

**Fund:** Kazakhstan National Fund

**Current value in U.S. dollars:** \$23.1 billion as of January 1, 2008

**Established:** 2000

**Source of funding:** Any surplus revenues received from raw material production, as well as additional deposits that are not prohibited by law

The stated purpose of the National Fund is twofold – to cushion the effect of oil price volatility on the national budget in present times, while saving to benefit future generations. Proceeds from the fund are not used for development purposes within Kazakhstan. The National Fund's structure and investment strategy are modeled after the Norwegian Government Pension Fund.

**Investments:** 25% of the fund is invested for budget stabilization, primarily in U.S. Treasury bills. The other 75% of the fund is invested for savings in investment grade government, corporate and mortgage backed bonds, and global developed market stocks.

**Payouts:** No payouts were made other than for expenses in 2006. To date for 2007, \$15 billion in transfers to the government of Kazakhstan have been publicly reported.

**Sources:** [www.nationalfund.kz](http://www.nationalfund.kz); Embassy of Kazakhstan web site ([www.homestead.com/prosites-kazakhembus/National\\_Fund.html](http://www.homestead.com/prosites-kazakhembus/National_Fund.html)); Edwin M. Truman, "A Scoreboard for Sovereign Wealth Funds," Peterson Institute for International Economics, Oct. 19, 2007; Grigory Marchenko, Kazakh National Bank, presentation to the Open Society Institute, May 12, 2003.



## KIRIBATI

**Fund:** Revenue Equalization Reserve Fund

**Current value in U.S. dollars:** \$571 million, as of 2002

**Established:** 1956

**Source of funding:** Phosphate royalties from the now-closed mine on Banaba island

The Revenue Equalization Reserve Fund (RERF) was established in 1956, when the Central Pacific island nation of Kiribati was part of the Britain's Gilbert and Ellice Islands Colony. Of the 34 islands that comprise present-day Kiribati, only one, Banaba (Ocean Island), contained phosphate. This resource was extracted until 1979, when the mines closed. Kiribati also became independent in 1979, and took control of the fund, which is now managed by the Investment Unit of the National Economic Planning Office, which is part of the Ministry of Finance. Assets are managed externally by two private investment firms in London. With the cessation of phosphate mining in 1979, most of the fund's corpus growth comes from earnings reinvestment.

**Investments:** RERF assets are invested in global stocks and global bonds. About 31% of equity investments are in Australian-dollar-denominated shares, with about 26% in U.S. dollar-denominated shares and the remainder in other currencies.

**Payouts:** RERF earnings are redeposited into the fund corpus. The Kiribati government is authorized to make drawdowns against RERF earnings at times when other government revenues are low. Between 1989 and 1997 the government made annual drawdowns amounting to about 13% of total earnings. Since 1998 the government has made few drawdowns, as revenue from other sources has been sufficient to fund government expenditures. Redeposit into the fund includes an inflation-proofing provision.

**Sources:** Michael Pretes, *Renewing the Wealth of Nations*, unpublished PhD dissertation, Department of Human Geography, The Australian National University, Canberra, 2005; Republic of Kiribati, *Budget*, various years; Asian Development Bank, *Financial Sector Development in Pacific Island Economies*, Manila, 2001.



## KUWAIT

**Fund:** Future Generation Fund

**Current value in U.S. dollars:** Estimated at \$70 billion

**Established:** 1963

**Source of funding:** 10% of Kuwait's oil revenues

It is difficult to create a picture of the Future Generation Fund or the activities of Kuwait's investment departments. According to testimony provided by then-Deputy Chairman of the Kuwait Investment Office, Fouad Jaffar, in 1990, employees face two years in jail if they divulge specific information about the Future Generation Fund. Much of the information in this description is based on Mr. Jaffar's testimony and may be out of date. It should also be noted that Mr. Jaffar's testimony conflicts with other accounts of the formation of the Future Generation Fund.

In 1958, the Government of Kuwait began investing surplus oil royalties in United Kingdom treasury and corporate bonds. At the time, not much thought was put into these investments, and their success was unexpected. Kuwait formalized the Fund in 1963 and formed a board of trustees to oversee it. Two agencies were created to manage the Fund, the Kuwait Investment Office in London, which manages assets directly, and the Kuwait Investment Authority in Kuwait, which manages assets through external managers.

The purpose of the Fund is to invest a portion of Kuwait's oil royalties to ensure the country's well-being in the future as its oil reserves run out, or possibly become obsolete. In 1990 its reserves were estimated to last between 200 and 250 years.





## KUWAIT (CONTINUED)

**Investments:** Primarily U.S. stocks and Treasury notes, but with recent shifts toward Asia, the Middle East and North Africa. Investments have also included real estate and private equity, and assets are moving toward more alternative investments.

**Average payouts:** Under a law passed in the mid-1970s, no payments may be made to the Kuwaiti government before 2010.

**Sources:** Fouad Jaffar, Deputy Chairman and General Manager of the Kuwait Investment Office, Testimony to the Alaska Permanent Fund Corporation Board of Trustees, May 14, 1990; Stephen Jen & Charles St-Arnaud, "Tracking the Tectonic Shift in Foreign Reserves and SWFs," *Morgan Stanley FX Pulse*, Mar. 15, 2007; Ibrahim Dabdoub, CEO, National Bank of Kuwait, interview on CNBC, Oct. 18, 2007.



## LIBYA

**Fund:** Oil Stabilization Fund

**Current value in U.S. dollars:** Estimated at \$40 billion as of October 2007

**Established:** 1995

**Source of revenue:** Oil revenues

The Oil Stabilization Fund was created with the intent of saving oil revenues to help stabilize their effect on Libya's budget. While the fund provided modest withdrawals for stabilization in the early years, more recently it has been used for increased government spending, even in times of higher oil prices.

In December 2007 Libya announced a plan to invest \$100 billion abroad, in stocks, bonds, real estate and other investments, and an additional \$155 billion on local projects and infrastructure. It is unclear at this time if these funds will be part of the OSF, or are invested separately.

**Investments:** Unknown

**Payouts:** Withdrawals from the fund have varied from modest (2% of Libya's GDP in 1998 – 1999) to significant (14% of GDP in 2003). As a result, the balance of the OSF has stayed fairly constant since 2000.

**Sources:** Maher Chmaytelli, "Libya Plans to Invest \$255 Billion of Oil Revenue," *Bloomberg.com*, Dec. 11, 2007; Phillip Colmar and Brendan Quigley, "Sovereign Wealth Management: A New Buyer in Town," *BCA Research U.S. Bond Strategy*, Oct. 10, 2007; *Socialist People's Libyan Arab Jamahiriya Country Economic Report*, World Bank, July 2006.



## MALAYSIA

**Fund:** Khazanah Nasional Berhad

**Current value in U.S. dollars:** \$18.6 billion as of May 2007

**Established:** 1993

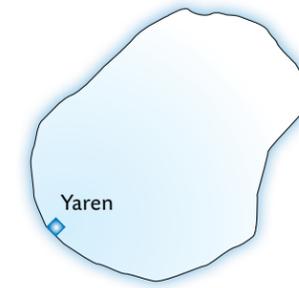
**Source of revenues:** Budget surpluses

Khazanah Nasional Berhad was created to manage the government's assets, and to promote economic growth and nation building within Malaysia. In 2004, the Khazanah Nasional was given a more active mandate, to improve the performance of the government-linked (state controlled) corporations (GLCs) in its portfolio, to increase shareholder value. The boards and management structures in these companies were reorganized, and performance measures for the GLCs were put in place. Khazanah's new mandate includes making targeted prudent investments where they will benefit Malaysia's long-term prospects: in new technologies and sectors, in specific geographic regions, and in development programs such as in the Iskandar Development Region.

**Investments:** Khazanah has investments in about 50 companies, primarily in Malaysia. Some companies are wholly owned, while Khazanah has taken on significant stakes in others.

**Payouts:** Unknown

**Sources:** [www.khazanah.com.my](http://www.khazanah.com.my); Mark Bendeich, "In Malaysia, foreign investment rebounds but local capital is leaving," *International Herald Tribune*, Oct. 22, 2007; Edwin M. Truman, "A Scoreboard for Sovereign Wealth Funds," Peterson Institute for International Economics, Oct. 19, 2007; Soraya Permatasari and Angus Whitley, "Khazanah Nasional raises \$850 million in sale of Islamic bonds," *International Herald Tribune*, June 28, 2007.



## NAURU

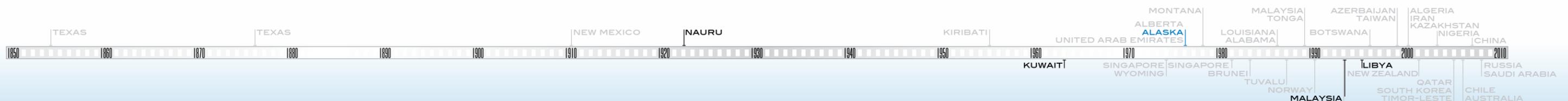
**Fund:** Nauru Phosphate Royalties Trust

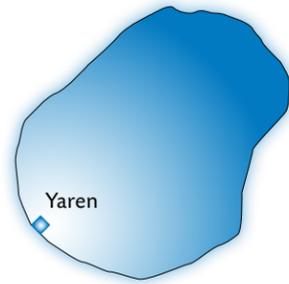
**Current value in U.S. dollars:** \$1.9 billion (nominal value), \$39 million (estimated real value), as of 1998 (no newer data available)

**Established:** 1922

**Source of funding:** Phosphate royalties

The Nauru Phosphate Royalties Trust (NPRT) was established in 1922 when the Central Pacific island of Nauru was a League of Nations mandate territory under joint British, Australian, and New Zealand administration. In practice the fund was largely administered by Australia, and Nauru continues to use the Australian dollar as its currency. When Nauru received its independence in 1968, the fund came under the control of the new Nauruan government, which has managed it since. The NPRT is now administered directly by the Ministry of Finance. There is also a trust board, but the operations of the Nauruan government are highly secretive, and therefore exact details are unobtainable. Structurally, the fund has four components, each of them actually a separate trust fund. The first is the Nauruan Long Term Investment Fund; the second is the Nauruan Land Owners Royalty Trust Fund (RONWAN); the third is the Nauruan Housing Fund; and the fourth is the Nauru Rehabilitation Fund. Investments of these funds are commingled and administered as one entity.





## NAURU (CONTINUED)

**Investments:** The fund invests primarily in loans to other Nauruan government agencies, including the Republic of Nauru Finance Corporation (RONFIN), the Bank of Nauru, the Nauru Superannuation Board, and the Republic of Nauru itself. About 86% of the fund's assets are invested in these receivables. About 11% of the fund's portfolio is invested in real property, located mainly in Australia, the United States, and Fiji. The fund's most prominent property, Nauru House in Melbourne, Australia, was recently sold. The remaining 3% of fund assets are in cash, stocks, and other investments. Given that most of the NPRT's assets carried as accounts receivable are unlikely to ever be recovered, and that most of the fund's real property is encumbered by liens, the current real value of the fund is estimated to be no more than \$39 million.

**Payout:** Given the Nauruan government's secrecy in financial matters, the exact nature of the NPRT's payout cannot be determined. One component of the fund, the Nauruan Land Owners Royalty Trust Fund (RONWAN), is supposed to make payouts to individual landowners; these payments, however, have been suspended due to a lack of cash in Nauru. The remainder of fund earnings are either redeposited into the fund or—more likely—transferred directly to Nauru's general fund.

**Sources:** Michael Pretes, *Renewing the Wealth of Nations*, unpublished PhD dissertation, Department of Human Geography, The Australian National University, Canberra, 2005; *The Visionary* (Nauruan newspaper), various issues.



## NEW ZEALAND

**Fund:** New Zealand Superannuation Fund  
**Current value in U.S. dollars:** \$10.9 billion as of October 31, 2007  
**Established:** 2001  
**Source of funding:** Designated contributions from the federal budget

A Crown Financial Entity, the New Zealand Superannuation Fund (Fund) was created to partially provide for the future cost of funding New Zealand Superannuation payments, and is managed by an independently appointed board, the Guardians of New Zealand Superannuation (Guardians).

**Investments:** N.Z and non-N.Z bonds, stocks, private equity, timber, fixed interest, infrastructure and commodities.

**Payouts:** No payouts are allowed from the Fund prior to 2020, and current estimates are that payouts will not be required to meet the New Zealand government's superannuation obligations until 2028.

**Sources:** [www.nzsuperfund.co.nz](http://www.nzsuperfund.co.nz); Superannuation Fund staff.



## NIGERIA

**Fund:** Excess Crude Account  
**Current value in U.S. dollars:** \$5.8 billion as of December 2007  
**Established:** 2003  
**Source of funds:** Surplus oil revenues

The stated purpose of the Excess Crude Account is to act as a stabilization fund, filling budget deficits that result from oil price volatility, and to potentially make domestic infrastructure investments.

In October 2007, Nigeria's National Economic Council agreed that N1 trillion would be saved from the Excess Crude Account and the balance of \$4 billion would be distributed to the federal and local governments. The Council also agreed that in the future, 80% of the funds that accrue to the Excess Revenue Account will be distributed. Whether this distribution will take place is unclear. The Federal Government and the Central Bank of Nigeria have expressed concerns regarding the inflationary effect of pumping \$4 billion into Nigeria's economy.

**Investments:** Unknown

**Payouts:** \$3.9 billion was paid out to the Nigerian government in the first half of 2007.

**Sources:** Madu Onuorah, "Presidency, govts bicker over excess crude fund," *The Guardian* (Nigeria), Dec. 18, 2007; His Excellency, President Umaru Musa Yar'Adua, GCFR, 2008 Budget Speech at the Joint Session of the National Assembly, Nov. 8, 2007; Phillip Colmar and Brendan Quigley, "Sovereign Wealth Management: A New Buyer in Town," *BCA Research U.S. Bond Strategy*, Oct. 10, 2007; Nigeria Federal Ministry of Finance / Budget Office of the Federation, *2008-2010 Medium Term Fiscal Strategy Paper: Executive Brief to the Federal Executive Counsel*, Aug. 15, 2007.



## NORWAY

**Fund:** Government Pension Fund  
**Current value in U.S. dollars:** \$354.5 billion as of December 2006  
**Established:** 1990  
**Source of funding:** Oil revenues

In 1990, the government of Norway established a savings fund called the Petroleum Fund, which was activated in 1995. In 2006, the fund was restructured and renamed the Government Pension Fund, comprising two separate funds: the Government Pension Fund-Global, and the Government Pension Fund-Norway. The latter is the original pension fund while the former is the successor to the Petroleum Fund, and thus the focus of this entry.

The Government Pension Fund-Global receives allocations from the Norwegian general fund when the Norwegian budget is in surplus, as it has been in recent years with high oil prices. The revenues are generated mainly from corporate taxes on petroleum companies and also from exploration licenses and the state's share of the revenues deriving from its partial ownership of StatoilHydro. Fund administration is the responsibility of Norges Bank Investment Management, which is an agency of Norges Bank, the Norwegian central bank.





## NORWAY (CONTINUED)

**Investments:** The 2007 value of the Government Pension Fund-Global is \$326 billion, with the Government Pension Fund-Norway accounting for the remaining \$19.5 billion. The Government Pension Fund-Global aims to invest 60% of its portfolio in bonds, with the remaining 40% in stocks. These are regionally distributed so that about half of all investments are in Europe, with the remainder in other world regions. Since 2004 fund investment policy has included ethical guidelines, and the fund has divested from, for example, companies involved in nuclear weapons, certain other kinds of weapons manufacture, and those that have been deemed guilty of environmental or human rights abuses.

**Payout:** Transfers to and from the Government Pension Fund-Global are part of an integrated budgetary process. Oil revenues are shifted between the Government Pension Fund-Global and the general fund depending on whether the national budget is in deficit or surplus. The earnings derived from the fund are redeposited back into the fund.

**Sources:** Norwegian Ministry of Finance, *On the Management of the Government Pension Fund in 2006*, Report No. 24 to the Storting, Oslo; Norwegian Ministry of Finance home page, <http://www.regjeringen.no/en/dep/fin.html?id=216>.



## QATAR

**Fund:** Qatar Investment Authority  
**Current value in U.S. dollars:** Estimated at \$50 billion  
**Established:** 2005  
**Source of funding:** Oil and gas revenues

The Qatar Investment Authority was created to cushion the impact of fluctuating oil prices and for the benefit of future generations, when oil production eventually declines. QIA is one of a number of sovereign funds that does not reveal details, but recent investment decisions have been large enough to make headlines around the world. The fund is managed by an internal staff of 160, and a stable of external portfolio management firms.

**Investments:** Investments are known to include stocks, real estate, infrastructure, private equity and hedge funds. QIA takes significant positions in companies when they feel they can add value to the process. Recently, the QIA acquired a 25% share in J Sainsbury, a UK supermarket chain, but abandoned plans to buy the company outright. The QIA has said it is investing in stock exchanges to gain knowledge that can be transferred to Qatar's new financial markets, and holds or recently held significant stakes in the London and Nordic Stock Exchanges.

**Payouts:** Unknown

**Sources:** Edwin M. Truman, "A Scoreboard for Sovereign Wealth Funds," *Peterson Institute for International Economics*, Oct. 19, 2007; Qatar First Deputy Prime Minister Sheikh Hamad Bin Jassim Bin Jabr al-Thani, interview on CNBC on Oct. 1, 2007; David Robertson, "Dubai deal with Qatar could end LSE doubt," *The Times*, Oct. 22, 2007; Siobhan Kennedy and Steve Hawkes, "Value of J Sainsbury falls by £2bn as deal dies at 11th hour," *The Times*, Nov. 6, 2007.



## RUSSIA

**Fund:** Reserve Fund National Prosperity Fund (Future Generations Fund)  
**Current value in U.S. dollars:** Combined value of \$150 billion as of December 2007  
**Established:** 2008 (Stabilization Fund created in 2004)  
**Source of funding:** Surplus oil and gas revenues

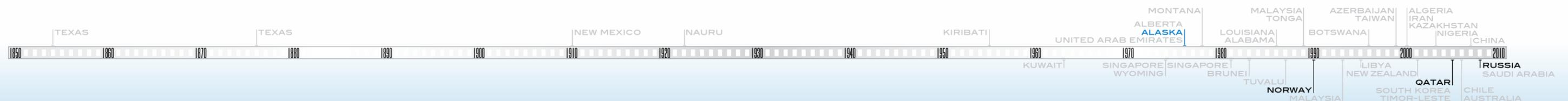
In 2004, the Stabilization Fund was created to hold surplus oil revenues, to save them for the future and help prevent them from causing inflationary pressure on Russia's economy. Withdrawals from the fund could be used to fill budget gaps and pay foreign debt. On February 1, 2008, the Stabilization Fund was separated into two funds. The Reserve Fund's portion was expected to be \$124 billion, and it will be maintained at 10% of Russia's GDP. Like the Stabilization Fund, the Reserve Fund's purpose is to prepay foreign debt and fill in budgetary gaps. The National Prosperity Fund (Future Generations Fund) began with an estimated \$25 billion, and will receive any surplus petroleum revenues available after the Reserve Fund's balance is met. Its primary purpose is to cover future pension shortfalls.

Currently there is discussion in Russia regarding the use of the Future Fund's (Stabilization Fund's) wealth. Some are pressing for domestic spending, building infrastructure and providing funding to state-owned and Russian companies. But economists caution that spending from the fund within the country could lead to greater inflation.

**Investments:** The Stabilization Fund, by law, may only be invested in foreign government bonds, and the new Reserve Fund will follow a similar asset allocation. The National Prosperity Fund will be allowed to invest in riskier assets, such as corporate bonds and possibly stocks.

**Payouts:** In 2005 and 2006, withdrawals from the stabilization fund were used to pay off more than \$27 billion in Paris Club debt. In late 2007, \$9.2 billion was paid out to two state-owned corporations.

**Sources:** [www.minfin.ru](http://www.minfin.ru); "Russia to Pay Off Paris Club Debt," *Kommersant*, Feb. 9, 2006; Jules Evans, "Russia's Three-Year Plan Aims to Safeguard Petrodollars From Future Spendthrifts," *The Times*, April 7, 2007; Catrina Stewart, "Oil Fund Manager Warns on Spending," *The Moscow Times*, Dec. 19, 2007; "Petrodollars will be Spent Differently," *Kommersant*, Dec. 20, 2007.





## SAUDI ARABIA

**Fund:** New fund to be established in 2008

**Current value in U.S. dollars:** Estimated at greater than \$900 billion

**Established:** 2008

**Source of funding:** It is unknown whether the new fund will be a dedicated sovereign fund or will manage a portion of Saudi Arabia's foreign reserves

The assets of the Saudi Arabian Monetary Agency, which invests in bonds and stocks, combined with the private investments of the Saudi royal family, had an estimated \$300 billion in assets in late 2007. While not technically a sovereign fund, Saudi Arabia is often included with funds such as Norway's and Abu Dhabi's in discussions on this topic. In late December 2007, news media reported an unattributed story of a new Saudi sovereign fund, to be created in 2008. The Saudi Arabia Public Investment Fund, which was limited to domestic investments, was thought to be the potential vehicle for the new sovereign fund.

**Investments:** Unknown

**Payouts:** Unknown

**Sources:** Henny Sender, David Wighton and Sundeep Tucker, "Saudis plan huge sovereign wealth fund," *Financial Times*, Dec. 21, 2007; Phillip Colmar and Brendan Quigley, "Sovereign Wealth Management: A New Buyer in Town," *BCA Research, U.S. Bond Strategy*, Oct. 10, 2007; Brad Setser and Rachel Ziemba, "What do we know about the Size and Composition of Oil Investment Funds?" *RGE Monitor*, April 2007.



## SINGAPORE

**Fund:** Government Investment Corporation

**Current value in U.S. dollars:** Estimated to be between \$100 – \$330 billion

**Established:** 1981

**Source of funding:** Foreign exchange reserves

The GIC was created to invest Singapore's foreign exchange reserves for a greater return than the traditional low-risk asset allocation usually used for reserves can provide. The corporation manages these funds independently from the government and Monetary Authority, under the oversight of a board of directors. External managers invest about 25% of the assets, which has helped foster the local financial services industry.

**Payouts:** N/A

**Investments:** Stocks, bonds, real estate, currency and commodities, and alternative assets, including private equity and hedge funds

**Sources:** Sebastian Tong, "Singapore's GIC: a tough act to follow," *Reuters*, Aug. 1, 2007; [www.gic.com](http://www.gic.com); Edwin M. Truman, "A Scoreboard for Sovereign Wealth Funds," *Peterson Institute for International Economics*, Oct. 19, 2007.



## SOUTH KOREA

**Fund:** Korea Investment Corporation

**Current value in U.S. dollars:** \$20 billion

**Established:** 2005

**Source of revenue:** Foreign exchange reserves

The Korea Investment Corporation was created to manage and seek greater returns on \$20 billion of the country's foreign exchange reserves. Similar to other sovereign funds, the KIC has secondary missions of helping foster development of Korea's asset management industry and creating a financial hub for northeast Asia. After the fund's launch in 2005, it went through a period of organization and research before the first investments were made in November 2006. The KIC is pursuing approval for private equity investments, and may take more funds on under management in the future.

**Investments:** Stocks, bonds, foreign currencies, derivatives and real estate

**Payouts:** N/A

**Sources:** Lee Hyo-sik, "Finance Minister Talks Down Won's Strength," *The Korea Times*, Oct. 22, 2007; Anna Fifield, "S Korea steps up its efforts to become a hub," *Financial Times*, April 11, 2006; Korea Ministry of Finance and Economy press release, July 2005; [www.kic.go.kr](http://www.kic.go.kr).





## TAIWAN (REPUBLIC OF CHINA)

**Fund:** National Stabilization Fund (National Security Fund)

**Current value in U.S. dollars:** \$16 billion as of October 2007

**Established:** 1999

**Source of funding:** Multiple sources, including pension and insurance funds, postal savings funds, and the proceeds from selling shares in state-owned enterprises. The government must also allocate funds from the national budget to compensate for net losses to the fund.

The National Stabilization Fund differs from most other sovereign wealth funds in that it was created not to generate returns, but to purchase shares when prices in Taiwan's stock exchange start to tumble, especially due to non-economic factors. In particular, agitation by mainland China has caused volatility in Taiwan's stock market in the past. The role of the stabilization fund is especially important to Taiwan, as it is ineligible to receive aid from organizations such as the International Monetary Fund and the World Bank. Three other state funds (which when included with the NSF reach \$77 billion in value) have also been used to shore up Taiwan's stock markets.

**Payouts:** A portion of investment income is allocated to the national treasury, and the remainder is retained.

**Investments:** Investments reportedly include stocks and futures, and it is unclear where excess funds are invested when not serving to stabilize the domestic market.

**Sources:** "Lawmakers want FSC to monitor funds," *Taipei Times*, Nov. 6, 2007; Phillip Colmar and Brendan Quigley, "Sovereign Wealth Management: A New Buyer in Town," *BCA Research U.S. Bond Strategy*, Oct. 10, 2007; Chiu Yueh-wen, "Stabilization fund to protect financial markets," *Taiwan Journal*, Jan. 28, 2000.



## TIMOR-LESTE

**Fund:** Timor-Leste Petroleum Fund

**Current value in U.S. dollars:** \$1.4 billion as of June 2007

**Established:** 2005

**Source of funding:** Oil and gas revenues

Timor-Leste (formerly known as East Timor), located in Southeast Asia between Indonesia and Australia, is one of the world's newest countries, having become independent only in 2002. The country possesses substantial offshore petroleum deposits in the Timor Sea. Under the Joint Petroleum Development Area agreement with Australia, these resources are to be shared between the two countries with Timor-Leste receiving 90% of the revenues and Australia the remaining 10%. Under Timor-Leste law, all petroleum resources are owned by the government. The country established its Timor-Leste Petroleum Fund in 2005 and the fund receives the entirety of government oil and gas revenues. The fund is managed by the five-member Investment Advisory Board under the Ministry of Planning and Finance and is largely modeled on Norway's petroleum fund. Fund managers have been especially concerned with openness and transparency in order to avoid the problems faced by several other petroleum-based funds.

**Investments:** All fund investments are in low-risk financial assets, mainly overseas government bonds.

**Payouts:** Fund earnings are held in the Earmarked Receipts Account, which is co-managed with the main corpus of the fund. Under certain conditions of national budget deficit, money can be transferred from the Earmarked Receipts Account to the government's general fund. The Timor-Leste Petroleum Fund also contains a provision for inflation-proofing, to protect the real value of the fund.

**Sources:** Extractive Industries Transparency Initiative country update, [Eitransparency.myaiweb15.com/countryupdates/timorlestecountryupdate.htm](http://Eitransparency.myaiweb15.com/countryupdates/timorlestecountryupdate.htm); *Timor-Leste Petroleum Fund Draft Act*, Dili, 2005, <http://www.laohamutuk.org/Oil/PetFund/Act/PF-draftAct-eng.pdf>; World Bank, *Timor-Leste Country Brief*, [worldbank.org](http://worldbank.org).

## TONGA

**Fund:** Tonga Trust Fund

**Current value in U.S. dollars:** \$37.6 million, as of 2000 (estimated)

**Established:** 1989

**Source of funding:** Passport sales

The Tonga Trust Fund (TTF) was formed in 1989 with the professed intention of stimulating economic development. Revenues were derived from the sale of Tongan passports to non-nationals between 1984 and 1988, a practice that was later abolished. The TTF is controlled by the King of Tonga and is managed by three trustees, consisting of the Prime Minister, the Minister of Finance, and the Minister of Justice. These trustees establish fund policies in consultation with the King's Privy Council. In practice, the fund is under direct royal control and does not appear in Tonga's national budgets. In this sense an extra-governmental fund, the TTF's finances are not made public. Tonga uses its own national currency, the Pa'anga, though the value shown above is expressed in U.S. dollars. As of 2007, it is unclear whether or not the TTF still exists, given extensive investment losses.

**Investments:** TTF assets consisted at one time almost entirely of a non-interest-bearing account at Bank of America in San Francisco. In 1994, a bank employee contacted the Tongan government and offered his investment services. He resigned from Bank of America, moved to Tonga, and

became the TTF's advisor. At his urging, nearly all fund assets were, around the year 2000, invested in speculative viatical settlement investments in the United States. The corporation in question, Millennium Asset Management Services, became insolvent, and the TTF's assets vanished. Despite several attempts at recovery, the funds have not reappeared (and neither has the former Bank of America employee), leading many to speculate that the TTF was the victim of an enormous scam. As of 2007 it is unclear if the TTF actually exists and, if so, what its assets consist of.

**Payout:** Though data is uncertain, apparently all of the Tonga Trust Fund's earnings were redeposited into the fund corpus.

**Sources:** Michael Pretes, *Renewing the Wealth of Nations*, unpublished PhD dissertation, Department of Human Geography, The Australian National University, Canberra, 2005; *Taimi o Tonga* (Tongan newspaper), various issues.





## TUVALU

**Fund:** Tuvalu Trust Fund

**Current value in U.S. dollars:** \$76.7 million, as of 2002

**Established:** 1987

**Source of funding:** Donor aid, internet licensing fees

The Tuvalu Trust Fund (TTF) was established in 1987 with aid contributions from the United Kingdom, Australia, and New Zealand. Tuvalu, together with Kiribati, was originally part of Britain's Gilbert and Ellis Islands Colony (GEIC). At the time of Tuvaluan independence in 1978, Tuvalu separated from what became Kiribati. The GEIC's trust fund was retained in its entirety by Kiribati, and Tuvalu received no share of it. As an isolated, resource-poor country consisting of nine small islands in the South Pacific, Tuvalu depended on annual foreign aid allocations. In the mid-1980s it convinced three aid donors to establish a trust fund modeled on that of Kiribati, and funded at its inception by donor aid. The TTF is administered by a board chaired by the Minister of Finance of Tuvalu, with representatives from the three initial donor states (United Kingdom, Australia, and New Zealand), and with the Tuvalu Permanent Secretary of Finance as the secretary of the board. Two private investment firms manage the portfolio. The initial fund corpus based on donor aid has grown through reinvestment and by additional revenues derived in part from Tuvalu's licensing of its top-level Internet domain, <.tv>. Tuvalu uses the Australian dollar as its currency.

**Investments:** The TTF invests about 70% of its assets in stocks and about 30% in bonds, though the board has moved towards a greater balance between the two asset classes. About two-thirds of fund investments are in Australian-dollar-denominated assets, all of which are located outside of Tuvalu.

**Payout:** The Tuvalu Trust Fund consists of two accounts, commonly called the "A" and "B" accounts. The "A" account is the corpus of the fund, and the "B" account has a holding status. Earnings from the "A" account sufficient to compensate for inflation are deposited back into the "A" account; remaining earnings go to the "B" account. The Tuvaluan parliament is authorized to make transfers from the "B" account to the general fund when there are budget deficits. Whenever the Tuvalu budget is in surplus, the surplus funds are deposited into the "B" account.

**Sources:** Michael Pretes, *Renewing the Wealth of Nations*, unpublished PhD dissertation, Department of Human Geography, The Australian National University, Canberra, 2005; Tuvalu Trust Fund, *Annual Report*, various years; Colin Mellor, "An Economic Survey of Tuvalu," *Pacific Economic Bulletin* 18(2): 20-28, 2003.



## UNITED ARAB EMIRATES – ABU DHABI

**Fund:** Abu Dhabi Investment Authority

**Current value in U.S. dollars:** Estimated between \$600 and \$900 billion

**Established:** 1976

**Source of funding:** Oil revenues. In 2005, ADIA received \$30 billion from the Abu Dhabi government.

Abu Dhabi is the largest of the seven emirates that make up the United Arab Emirates, and also the name of the UAE's capital city. The Abu Dhabi Investment Authority was created to invest Abu Dhabi's government surpluses in a diverse portfolio of asset classes. At a time when governments limited their investment to very low-risk assets such as gold and short-term credit, ADIA's asset allocation was groundbreaking.

Like several other sovereign funds, ADIA keeps most details regarding the agency's investments confidential, including the total assets under management. Approximately 70 to 80% of these assets are managed by outside firms, while 1,300 employees in Abu Dhabi and London manage the balance. Most employees are residents, but middle and senior management include some of the best investment talent available in the world.

**Investments:** Global stocks, bonds, real estate, private equity and alternative assets, including hedge funds and commodity trading advisers (CTAs). While ADIA has held significant stakes in corporations in the past, the current policy is to keep ownership of companies below 5% to avoid reporting requirements and preserve the confidentiality of ADIA's investments. However, the recent purchase of 4.9% of Citigroup for \$7.5 billion made headlines around the world.

**Payouts:** Unknown

**Sources:** Sudip Roy, "Money and Mystery: ADIA Unveils Its Secrets," *Euromoney*, April, 2006; Edwin M. Truman, "A Scoreboard for Sovereign Wealth Funds," *Peterson Institute for International Economics*, Oct. 19, 2007; Eric Dash, "Citigroup to Sell \$7.5 Billion Stake to Abu Dhabi," *The New York Times*, Nov. 27, 2007.



## UNITED STATES - ALABAMA

**Fund:** Alabama Trust Fund

**Current value in U.S. dollars:** \$3.1 billion as of September 30, 2007

**Established:** 1986

**Source of funding:** A total of 99% of all oil and gas capital payments received by the State of Alabama from drilling operations in Mobile Bay. Of the royalties received, 65% go to the Alabama Trust Fund, and the balance is deposited in two sub-funds.

The Alabama Trust Fund was created by public referendum in 1985. Originally a permanent fund, it is now a special revenue fund which allows for the spending of principal equal to the previous year's unrealized gains. Its purpose is to provide a current stream of income, targeted at a minimum of \$100 million annually, while also increasing the fund's corpus in anticipation of the eventual decline of oil and gas royalties to the state.

**Investments:** Global stocks and global investment grade and high-yield bonds

**Average payouts:** Investment income of the fund is distributed as follows: 70% to the state's general fund, 10% to counties, 10% to cities, and 10% to the Forever Wild Fund. In 2007, the fund paid out \$169 million.

**Sources:** [www.treasury.alabama.gov](http://www.treasury.alabama.gov); [www.comptroller.state.al.us](http://www.comptroller.state.al.us); Alabama Treasury Department staff.





## UNITED STATES – ALASKA

**Fund:** Alaska Permanent Fund

**Current value in U.S. dollars:** \$39 billion as of January 2008

**Established:** 1976

**Source of funding:** At least 25% of all mineral royalties received by the State of Alaska are deposited into the Permanent Fund

The Alaska Permanent Fund was created by public referendum in 1976 to save a portion of Alaska's oil wealth to benefit current and future generations. The Alaska Permanent Fund Corporation was created in 1980 to manage the Permanent Fund separately from the state's Treasury Department. The Fund's foundation is in the Alaska Constitution, which specifies that the principal of the fund may not be spent. Realized earnings remain with the fund as directed by Alaska State Law, and are available for appropriation by the Legislature. Currently, the only significant use of earnings is to provide for annual dividends to eligible Alaska residents. In the fall of 2007, the dividend was \$1,654 per person.

**Investments:** Global stocks, bonds and real estate, as well as private equity, absolute return and global infrastructure investments

**Payouts:** The dividend program payout is half of the five-year average of the fund's realized income. In the fall of 2007, the Permanent Fund paid out \$1 billion.

**Source:** [www.apfc.org](http://www.apfc.org).



## UNITED STATES – LOUISIANA

**Fund:** Louisiana Education Quality Trust Fund

**Current value in U.S. dollars:** \$1.1 billion as of June 30, 2007

**Established:** 1986

**Source of funding:** A portion of revenues earned since 1978 from offshore leases on Gulf of Mexico oil and gas tracts

In 1978, the U.S. Congress directed the federal government to begin sharing oil and gas revenues from Gulf Coast off shore leases with coastal states. Initially the revenues were held in escrow, and in 1986 Louisiana received \$540 million with the promise of additional royalty earnings to come.

The Louisiana Education Quality Trust Fund was created by referendum to save and invest these off shore revenues to provide education funding for Louisiana schools, from prekindergarten classrooms to state universities. The LEQTF is divided into two sub funds, a Permanent Fund and a Support Fund. The Permanent Fund receives 25% of the investment and royalty income and 75% of the net capital gains. The Support Fund receives 75% of the investment and royalty income and 25% of the net capital gains.

**Investments:** U.S. bonds, U.S. stocks

**Payouts:** Each year the balance of the Support Fund is divided equally between the Board of Regents (for post-secondary education) and the Board of Elementary and Secondary Education. In FY07 the LEQTF paid out \$65.1 million. Since inception, the LEQTF has paid out \$1.1 billion.

**Sources:** Louisiana Education Quality Trust Fund FY96 and FY07 Annual Reports; LEQTF staff.



## UNITED STATES – MONTANA

**Fund:** Permanent Coal Tax Trust Fund

**Current value in U.S. dollars:** \$742.6 million as of June 2007

**Established:** 1978

**Source of funding:** Severance taxes on coal

The Montana Permanent Coal Tax Trust Fund (PCTTF) was established in 1978 in order to diversify, strengthen, and stabilize the economy of the state. Initially it received 50% of all severance taxes levied on coal extraction; since 2004 that amount has been reduced to 12.5%. The PCTTF consists of six sub-funds, of which the Permanent Fund is the largest, with assets of \$537.1 million. The fund is managed by the Montana Board of Investments. The fund principal is inviolate and can only be appropriated by a three-quarters vote of both legislative houses.

**Investments:** The PCTTF currently invests about 64% of its portfolio in bonds (mainly those backed by the U.S. government); 29% in investments within the state, such as loans to local businesses; and 7% in cash and cash equivalents. The state has authorized approximately one-quarter of the fund's assets to be invested in-state in order to stimulate the local economy. These investments have included loans to schools, communities, businesses, and economic development organizations, as well as loans to the Montana Department of Justice in order to pay the cost of a lawsuit to recover Superfund cleanup costs.

**Payout:** Fund earnings are transferred to the Permanent Fund Income Fund, where they are held until periodically transferred as needed to the state's general fund.

**Sources:** Montana Board of Investments, *Fiscal Year 2006 Annual Report*, Helena; State of Montana, *Montana Budget*, [http://mt.gov/budget/budgets/2007\\_budget/b16\)%20Coal%20Trust%20Fund%20Interest%20Earnings%20Oct%202004.pdf](http://mt.gov/budget/budgets/2007_budget/b16)%20Coal%20Trust%20Fund%20Interest%20Earnings%20Oct%202004.pdf).



## UNITED STATES – NEW MEXICO

**Funds:** Land Grant Permanent Fund and Severance Tax Permanent Fund

**Current value in U.S. dollars:** Land Grant \$10.8 billion, Severance Tax \$4.7 billion, both as of September 2007

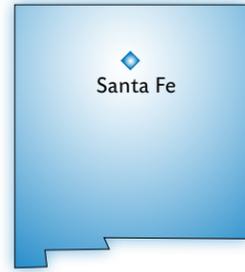
**Established:** Land Grant 1910, Severance Tax 1973

**Source of funding:** Land Grant from royalties on state lands and income from state land sales, Severance Tax from severance taxes on minerals

New Mexico maintains two large trust funds, the Land Grant Permanent Fund (LGPF) and the Severance Tax Permanent Fund (STPF). The former derives its corpus from leasing fees on 13.4 million acres of mineral lands and on 8.8 million acres of surface lands, as well as on the proceeds of state land sales. The latter derives its corpus from the residue derived from severance taxes on minerals extracted in New Mexico, after the debt on severance tax bonds has been serviced. Both funds, along with the Tobacco Settlement Permanent Fund, are managed by the State Investment Council, a non-cabinet level agency reporting to the governor. Since 1982, these funds are considered endowments and are protected by the state constitution from legislative expenditure.

**Investments:** The Land Grant Permanent Fund invests about 61% of its portfolio in stocks, 20% in bonds, and the remainder in a hedge fund pool, real estate, alternative investments, and economically-targeted investments within the state of New Mexico. The Severance Tax Permanent Fund invests about 59% of its portfolio in stocks, 12% in bonds, and the remainder in the same types of investments as the Land Grant Permanent Fund. State legislation also allows the Severance Tax Permanent Fund to invest in New Mexico's film investment program, which is a state project designed to attract the film industry to New Mexico.





## UNITED STATES – NEW MEXICO (CONTINUED)

**Payout:** Earnings of the Land Grant Permanent Fund are distributed among New Mexico schools, universities, and other beneficiaries, with public schools receiving by far the largest share of the payout. Severance Tax Permanent Fund earnings are deposited into the state's general fund.

**Sources:** *New Mexico State Investment Council, Annual Report 2006, Santa Fe*; *New Mexico State Investment Council, <http://www.sic.state/nm.us/about.htm>.*



## UNITED STATES – TEXAS

**Funds:** Permanent School Fund and Permanent University Fund

**Current value in U.S. dollars:** School Fund \$26.8 billion, University Fund \$11.7 billion, as of August 2007

**Established:** School Fund 1854, University Fund 1876

**Source of funding:** School Fund from an initial appropriation of \$2 million in 1854, as well as income from the use or sale of certain state lands; University Fund from mineral royalties from certain state lands

The Permanent School Fund (PSF) was created in 1854 to help fund public education in Texas. All of the revenues earned on the PSF's investments go to the Available School Fund. Money from the Available School Fund is distributed to public schools based on the number of students in attendance. The investments of the PSF are managed by the State Board of Education.

The Permanent University Fund (PUF) was established in 1876 to receive the mineral royalties generated on state lands. These state lands, totaling about 2.1 million acres in West Texas, produce revenue from both mineral royalties and surface leases. Mineral royalties are deposited into the Permanent University Fund, while the revenues from surface leases go straight into the Available University Fund, to which PUF income also flows. Income from the fund is used to support the University of Texas and Texas A&M University systems. A total of 18 institutions benefit from the fund, though there are some units of the two university systems that do not participate in the allocation. The fund is managed by the University of Texas Investment Management Company (UTIMCO), which was formed in 1996 to manage the PUF as well as other university funds.

**Investments:** The PSF invests in global stocks and U.S. bonds and will be expanding into real estate, hedge funds and private equity. The PUF's investments include global stocks and bonds, hedge funds and real estate.

**Payout:** The PSF's payouts are based on the fund's total returns and distributed through the Available School Fund. In 2007, the PSF provided \$843 million to Texas' public schools. The PUF's earnings are deposited into the Available University Fund (AUF), which also directly receives the earnings from surface leases on state lands. The balance of the AUF is then allocated to the University of Texas and Texas A&M University systems, with the former receiving two-thirds, and the latter one-third, of the total. The PUF paid out \$401 million in 2007.

**Sources:** *Annual Report 2007, Texas Permanent School Fund*; *Permanent University Fund information page, [www.utsystem.edu/news/ReportersToolkit2.htm](http://www.utsystem.edu/news/ReportersToolkit2.htm)*; *UTIMCO, Annual Report 2007, Austin*.



## UNITED STATES – WYOMING

**Fund:** Permanent Wyoming Mineral Trust Fund  
**Current value in U.S. dollars:** \$3.9 billion as of September 2007

**Established:** 1974

**Source of funding:** Excise taxes on minerals

The Permanent Wyoming Mineral Trust Fund (PWMTF) was established in 1974 to receive the state's 1.5% excise tax (really a severance tax) on coal, petroleum, natural gas, oil shale, and other minerals. The fund receives the entirety of this excise tax revenue and holds it inviolate, though it may loan it to political subdivisions of the state. The PWMTF is managed—together with several other state trust funds such as those for schools, the state university, workers compensation, and tobacco settlements—by the Wyoming State Loan and Investment Board, part of the state treasurer's office.

**Investments:** Fund investments are commingled with those of other state trust funds. Overall, about 67% of these funds' investments are in bonds backed by the U.S. government. The remainder is in stocks, convertible bonds, and cash, as well as in in-state investment projects.

**Payout:** All PWMTF earnings are transferred to the state's general fund. At present there is no inflation-proofing provision.

**Sources:** *Wyoming State Treasurer's Office, Annual Report Fiscal Year 2006, Cheyenne*; *Wyoming Legislative Service Office, "Research Memo to Representative Harshman," Feb. 4, 2005, Cheyenne*; *RVKuhns & Associates, "Memorandum to Wyoming State Loan and Investment Board," June 30, 2006, Cheyenne*.





ALASKA PERMANENT FUND CORPORATION