
Oxford Sovereign Wealth Funds Project



Gordon L. Clark

Ashby H. B. Monk

School of Geography and the Environment

University of Oxford

<http://oxfordSWFproject.com>

Eckart Woertz, Program Manager Economics at the Gulf Research Center

We are pleased to welcome Eckart Woertz, Program Manager Economics at the Gulf Research Center. While Dr. Woertz' views are his own, his perspective helps to further debate and facilitate understanding.

Ashby Monk: It is a pleasure to have you with us today, Eckart. As someone who lives and works in Dubai, what's your impression of how the recent financial turmoil is impacting GCC SWFs?

Eckart Woertz: The Saudi Arabian Monetary Agency (SAMA) did well as they are mainly invested in bonds. Additionally they are mainly in US-dollars, so they profited from this dollar squeeze of recent months, which will be short lived in my opinion. All the others got hurt, sometimes presumably very badly. Abu Dhabi Investment Authority (ADIA) and Kuwait Investment Authority have over 50 percent of their assets in equities and alternatives, they have also been over weighted in Asia and emerging markets - it must have been carnage. The performance of the younger funds like Dubai International Capital and Qatar Investment Authority has probably been even worse as they were leveraging their equity and real estate acquisitions.

Ashby Monk: With oil prices coming down as well, do you see GCC countries drawing down on SWF assets any time soon?

Eckart Woertz: With oil prices at \$50 dollars fiscal surpluses of the GCC countries are meagre to non-existent; Citibank has recently argued that in 2009 they will face even deficits at these levels. So they will need to take recourse to savings - not only for bailing out local banks and prop up local stock markets but for their normal ongoing expenditures and operations. KIA apparently has already withdrawn over \$3 billion according to a Reuters report. The idea of Gordon Brown that they could spare "hundreds of billions" for the IMF is ludicrous. At least they do not have such sums in liquid form. Even if they were willing, which they are not, does Mr. Brown want them to sell Western bonds and equities into oblivion just to move the gained liquidity to the IMF? However, I believe that oil prices will be back to \$100 over the next three years, tight supplies and dollar printing will overwhelm demand worries even in a recessionary environment.

Ashby Monk: Since it looks like some GCC SWFs will be investing more in domestic markets, I'm curious how foreign vs. domestic investment plays to GCC citizens and media?

Eckart Woertz: You do not have the same amount of public scrutiny and transparency in the Gulf as you have in the West, where the state is supported by society via taxes and owes it some sort of accountability in exchange. The rentier states of the Gulf support themselves and the society through the redistribution of oil rents - no taxation and no representation. Oil prices and oil savings are high enough to keep this social contract for the foreseeable future.

Still, the impact of the global financial crisis is now being felt and the various forms of nascent political participation (e.g. majlis ash-shoura) and a more outspoken press will start to ask questions about the performance of public funds and their usage, especially in Kuwait where you have a very vocal parliament. People expect the governments to bail out local banks first, not foreign ones.

Ashby Monk: In a paper with John Sfakianakis of the Saudi British Bank, you noted that the KIA, ADIA, the QIA, and the various Dubai investment companies are all “sophisticated fund management houses, employing in-house experts with rich backgrounds in finance and investment banking.” How have these funds managed to recruit this talent and get beyond the civil service mentality that is evident in some other SWFs?

Eckart Woertz: I am not sure whether some boring civil service mentality can be pretty performance enhancing in these markets, but once you make the decision to go beyond conservative central bank reserve management and invest in other vehicles than government bonds you basically need to offer enough money and a liveable place. Saudi Arabia and Kuwait are more difficult to live for expats but they have outsourced the sophisticated parts of the portfolio to outside money managers anyway. Otherwise the CVs of sacked bankers from New York and London are piling up on their desks these days. They can choose if they wanted to, but overall the financial sector in the GCC is probably not a net-hirer anymore.

The reason why they have moved beyond conservative reserve management and Asian countries only to a limited extent, lies in their different economies and liability structures: The Gulf countries’ assets are clean equity with no strings attached, a transformation of below ground capital into above ground capital, kept for future generations and current diversification drives. The Asian foreign assets come from sterilizing dollar export revenues and have a liability in local currency standing against them. Additionally their asset allocation is a function of a mercantilist policy of export led growth and a concomitant undervalued exchange rate - if the dollar should become worthless one day Asia would still have the capital stock that has resulted from the mercantilist policy, the Gulf would stay there with nothing. That’s why risk adjusted returns and capital preservation are much more important to the Gulf than to Asia.

Ashby Monk: GCC SWFs are frequently held up as some of the most secretive. Why do you think this is the case? Is there any credence to the argument that these funds keep asset allocation and investment portfolios secret in order to avoid any local fallout from investments in companies that could be seen to go against cultural or religious beliefs?

Eckart Woertz: Do you know the detailed financial statements of Bechtel, Bosch or other large, privately held companies in the Western world? Of course not, and they would not be eager to part this information with you for various reasons. So why should the Gulf SWFs tell you? After all they are “sovereign”. Never talk about your positions especially when they are large and you may follow strategic acquisitions here and there. And rich people tend to be secretive whether they live in the Gulf or in Switzerland.

But most of the secrecy probably stems from local politics and the above described social contract of the rentier state: bluntly put, you are paying off the constituency with welfare transfers and public sector jobs and in return they should be grateful and not demand participation. If the times are good you do not want them to know and demand too much. If they are bad, you do not want them to blame you for mismanagement. Maybe it is as simple as that. I do not think that religion or culture plays a role; I am not aware of debates in this regard. If you mean Islamic banking, it is overrated. Its similarities with conventional banking are larger than its differences. It is basically giving interest a different name by various legal constructs of “profit sharing” plus some ethically forbidden investments in alcohol, pork and gambling. In any case it is mainly in the retail market where Islamic banking plays some role, not so much in project finance or large internationally operating funds.

Ashby Monk: Thanks, Eckart, for your candid responses. Very interesting.

Christian Braun, Creator of SWF Radar

We are pleased to welcome Christian Braun, creator of [SWF Radar](#). While Mr. Braun's views are his own, his perspective helps to further debate and facilitate understanding.

Ashby Monk: It is a pleasure to have you with us, Christian. I think anybody reading this today will agree that SWF Radar has been a phenomenal resource. I'm curious, what sparked your interest in SWFs and led to the idea for the site?

Christian Braun: In 2001 I helped launch a magazine on corporate responsibility and related topics. This introduced me to the issue of the use of non-financial investment criteria, specifically social and environmental criteria, by public pension funds, something in which I have had a keen interest ever since. When the debate about SWF investments kicked off in 2007, I saw parallels with earlier arguments about public pension fund investments. So I decided to track news stories about SWFs to observe how the debate and the issues evolved. SWF Radar was the upshot of this.

Ashby Monk: To the extent that you can talk about your readership, who is interested in SWFs?

Christian Braun: Often the networks that sent the most visitors on any given day were those of the big financial firms that provide investment services for SWFs. The readers who visited the site most regularly came to a great degree from these firms. The site had regular visitors from all sorts of different firms and institutions, though, from SWFs and central banks through to small organizations without an identifiable network location.

Ashby Monk: I can't imagine anyone has followed SWF news more than you. How have perceptions changed over the past year?

Christian Braun: Looking just at the United States, SWFs were treated with suspicion by the administration and by official agencies such as the S.E.C. until a few months into 2008. By around June 2008, though, the U.S. Treasury in particular had started switching the focus away from any potential risks associated with SWF investments toward the need to avoid protectionism. This probably helped tone down the rhetoric about SWFs in the press. But it will take another wave of SWFs investments to test exactly how perceptions and attitudes have changed since last fall and winter. The fact that the launch of the IMF's GAPP guidelines was pretty much ignored by the press does suggest, though, that the perception of SWFs as something threatening may have eased. It will be interesting to see what happens under the Obama administration, especially given that Lawrence Summers, who is one of Obama's top economic advisers, helped kick off the present SWF debate with his piece in the Financial Times in July 2007 on how SWFs, as he saw it, "shake of the logic of capitalism."

Ashby Monk: Do any news stories stand out in your mind as being critical to the shaping of the SWF debate over the past few years?

Christian Braun: The Lawrence Summers piece I just mentioned, though not a news story, was important. This spelled out several of the central issues and even pulled the likes of Gazprom, a state-owned enterprise, into the debate about the investment of sovereign wealth. Another thing that was itself newsworthy was 60 Minutes' interview with Gao Xiqing, general manager of the China Investment Corporation, broadcast in April this year. The CIC had been vilified by certain parts of the U.S. media, notably by Lou Dobbs on CNN. So seeing its soft-spoken, self-effacing investment chief give a candid interview in fluent English to a major U.S. current affairs program I think did a lot to blunt the criticism and reduce the scaremongering. One news piece that had little resonance but that I think was extremely important was the Financial Times' report in September this year that claimed that China's State Administration of Foreign Exchange had used its funds to push Costa Rica to sever ties with Taiwan and establish relations with China. I saw you brought this up in the Q&A you published earlier in November with the OECD observer to the IMF's International Working Group.

Ashby Monk: Do you think the media has done a good job of covering SWFs? In what way has coverage been lacking?

Christian Braun: As I mentioned earlier, there was almost no coverage of the launch of the IMF's GAPP guidelines. I'm not sure how much coverage these guidelines deserve, and I wrote at length on a couple of occasions on SWF Radar about why I think the GAPP will not work. But I still found it strange that there was such a lack of coverage. That is the one thing I'd point to and say that coverage was not what it maybe should have been.

Ashby Monk: SWF Radar is great in part because it amalgamates the news without extensive commentary. Can I coax a bit more commentary out of you now? Are you at all concerned by the rapid growth in SWFs? Why or why not?

Christian Braun: I am not at all concerned. I would, though, be very concerned about a move toward protectionism. This is not to say that I think SWFs are necessarily a good thing, especially since their inability to engage in governance-related activism for fear of triggering political alarm bells may be a drag on the corporate governance movement, of which I am a keen supporter.

Ashby Monk: What's next for you?

Christian Braun: SWF Radar eventually started taking up much more of my time than I anticipated, so I'm now pleased to be able to focus more closely again on my freelance work in corporate publishing and corporate communications. I'll be devoting some of the time I've now freed up to the book I'm writing on private property and money. It's something I've been working on for a while now, and I expect to have the first draft finished by April 2009.

Ashby Monk: Thanks, Christian, and good luck in your future endeavors. We're all grateful for your work on SWFs to date. Keep in touch...

Zhang Ming, Scholar at the Institute of World Economics and Politics

We are pleased to welcome Zhang Ming, Scholar at the Institute of World Economics and Politics within the Chinese Academy of Social Sciences. While Mr. Zhang's views are his own his perspective helps to further debate and facilitate understanding.

Ashby Monk: It is a pleasure to have you with us today, Ming. Part of what we are trying to do is canvass all points of view on the topic of SWFs. With this in mind, what is your reading of the internal Chinese debate on SWFs and the CIC?

Zhang Ming: Since the establishment of CIC in September 2007, there are 3 hot issues in internal debate. First, why CIC is independent from both PBOC and Ministry of Finance? This point raises two questions: Is 200 billion USD CIC's capital or its liabilities? Why should CIC pay the interest of special government bonds? Second, why did CIC merge Central Huijin as its major subsidiary? Third, whether the poor performance of CIC in the last year is due to the fluctuations of international financial market, or due to CIC's poor decision-making process? The people have not formed consensus about these questions yet.

Ashby Monk: That's interesting. Based on my discussions with Western policymakers, many were also interested in understanding the CIC's decision-making process so as to better gauge its intentions. Officially, the CIC intends to achieve higher returns on foreign exchange reserves. Unofficially, do you see any scope for using the CIC to advance broader Chinese goals, such as helping domestic companies move overseas or extracting political concessions?

Zhang Ming: In my personal opinion, I think that CIC is trying to behave as a pure financial investor. However, the Central Huijin, one of CIC's subsidiaries, is a typical strategic investor. For example, Central Huijin is the major shareholder of China Development Bank, and the latter is responsible for facilitating Chinese state-owned enterprises to do overseas investment. In the last year, China Development Bank offered a huge loan to Aluminum Corporation of China to help it to buy shares of Rio Tinto. Therefore, if Central Huijin is still the subsidiary of CIC, CIC will continue to be treated as a strategic investor by host countries.

Ashby Monk: Jamil Anderlini of the FT reported in September the State Administration of Foreign Exchange used its assets to extract political concessions from Costa Rica. What's your reaction?

Zhang Ming: Frankly speaking, every country has been using its domestic resources, including foreign exchange reserve, to maximize its national interest. I don't know why foreign media have paid so much attention to this issue.

Ashby Monk: Many inevitably ask about the CIC's internal governance. Can you give us some idea as to how investment decisions are made within the CIC? What is the process, as you understand it?

Zhang Ming: There are a board of directors, a Chinese Communist Party committee, and a management team in CIC. According to the related laws and regulations about Chinese state-owned enterprises, the Party committee is responsible for ideology-related issues and will not interfere with operations. Therefore, it is the management team which forms an investment decision. Before it is implemented, the decision should be passed by the board of directors. If the scale of investment is very large or the implication of investment is very complicated, the final decision might be made by upper government, for example, the State Council. However, the above process is only based on my speculation.

Ashby Monk: By some accounts, the CIC is in enviable position since most of its capital is still sitting in cash. Given the fund has been in existence for well over a year, why has so little of its capital been invested?

Zhang Ming: I don't think most of the asset of CIC is located in cash. One third of 200 bn USD was used to purchase Central Huijin. Another 20 bn was injected into China Development Bank. As for the rest, most of them have been invested in US government bonds, money market funds, etc. Why is so little of its capital been invested? The historic per-

formance of CIC was so bad, and now the market is so volatile. Due to the uncertainties and the pressure from upper government, CIC is very cautious in making new investment decisions, maybe over cautious.

Ashby Monk: What has the reaction in China been to the Santiago Principles? Do you see the CIC fully implementing them? How about SAFE?

Zhang Ming: At first, CIC did not actively participate in the establishment of good practice for SWF. However, CIC had changed its attitude toward global governance of SWF, and we saw that CIC had joined the making of the Santiago Principles. I think that CIC will try to implement them to improve its overseas investment environment and to gain the trust of host countries. SAFE does not think that it is a SWF, therefore SAFE will not implement the Principles.

Ashby Monk: Thanks, Ming. Very interesting insights.

Kathryn Gordon, Senior Economist at the OECD

We are pleased to welcome Kathryn Gordon of the OECD, and the OECD observer to the International Working Group on SWFs. While Mrs. Gordon's views are her own, her perspective helps to further debate and facilitate understanding.

Ashby Monk: Thanks for joining us today, Kathryn. Your work at the OECD deals with preventing investment protectionism. (See the OECD Observer report on its SWF work.) In your view, has the OECD project and the IMF's project with SWFs (for which you were an observer) muted the national level trend towards SWF investment protectionism?

Kathryn Gordon: The OECD and a group of SWFs have developed two sets of guidance - the OECD's is for recipient country policies toward SWFs and the SWFs' is for their own governance and transparency practices (the Santiago Principles). These two sets of guidance are flip sides of the coin in the trust-building process. But trust-building is an ongoing process and now both groups will want to redouble their efforts to make good on their commitments. The OECD countries would be both pleased and honored to continue collaborating with SWFs on this task.

You ask about the direction of the trend on protectionism - there is no one single direction, rather a mix of eddies and cross currents. Right now, policy makers are genuinely afraid that a protectionist backlash will spook markets even more. Furthermore, I am sure that most OECD countries would welcome with open arms SWF investments, especially in finance. However, as real economy impacts start to bite, protectionist impulses become much harder to resist.

Governments should resist these impulses. In periods of crisis, protectionism is the easy way out. It gives policy makers

and their constituencies the false comfort of thinking that they are dealing proactively with issues. What's really needed now are: 1) palliative measures to assuage, where possible, the genuine suffering caused by this upheaval; and 2) international collaboration to re-build our financial and economic institutions on more solid foundations. Lashing out at foreign investors, including SWFs, doesn't help us on either of these two fronts.

Ashby Monk: What, in your view, is it about SWFs that lead some nations to consider protectionist policies? Are there any specific SWFs that are of concern to OECD members?

Kathryn Gordon: For the record, it is worth noting that the vast majority of measures taken by OECD countries to block foreign investments have been directed against investors from other OECD countries. For the most part, SWFs have deliberately avoided high-profile investments that might attract unwanted political attention. It is true that their recent forays into the financial sector attracted a great deal of attention, but these were actively sought out by recipient countries and are widely agreed to have had a stabilising effect on OECD markets, even though they turned out to be (at least for now) bad investments for the SWFs and their home societies.

To answer your question, I would note that OECD societies are like any other - they are afraid of what they don't know and don't understand. Furthermore, many OECD countries are used to dominating international markets and receiving significant investments from new non-OECD investors (from SWFs or others) takes a little getting used.

These fears and suspicions are not backed up by the historical record - there have been no known problems associated with a SWF investment in the OECD area. And, SWFs can do much to allay fears by explaining their missions, investment strategies and risk management practices. This is what the Santiago Principles encourage them to do.

Ashby Monk: It was recently reported that China's State Administration of Foreign Exchange used its assets to extract political concessions from Costa Rica. As I understand it, this is a case where a SWF has used its financial capital for political ends, which is the primary concern of Western policymakers. What's your view? Given your job is to try to minimize protectionist policies, is this investment an impediment to ensuring unfettered markets?

Kathryn Gordon: I have no specific knowledge concerning the truth of these allegations, but, in general, it is true that mixing geo-political objectives with financial objectives creates a bad name for government-controlled investments. Governments, and not just China's, have a long history of mixing business and politics in foreign investment. If governments are involved in business transactions at all, one can assume that political objectives will creep in at some point.

This is not necessarily a problem. Political objectives lie in a continuum between acceptable and unacceptable goals. On the acceptable side, most people would agree that governments have a legitimate role in helping their citizens to save for retirement and that public pension funds are a legitimate tool for pursuing this objective. Who would wish to prevent public pension funds from availing themselves of the diversification possibilities offered by foreign investment? Governments also pursue other policy goals through international investment. For example, an Abu Dhabi SWF recently in-

vested in a Japanese health care facility with a view to securing treatment capabilities for health problems (such as diabetes) that are commonly found in Middle Eastern populations. This investment helps Abu Dhabi achieve a political objective in the area of public health. Again, this political objective - protecting public health - has broad acceptance in all societies.

The challenge for government controlled investors, including SWFs, is to: 1) be transparent about their policy purpose; 2) adopt governance arrangements that minimise the scope for inappropriate political interference while also allowing for necessary political accountability. The SWFs' new principles contain guidance to help them do this. OECD countries would welcome an opportunity to explore with SWFs and others the question of the "grey zone" between acceptable and unacceptable political objectives - what policy objectives are in this zone and how do we manage possible conflicting policy interests between home and recipient countries?

Ashby Monk: Thanks, Kathryn, for taking time out of your busy schedule to answer my questions. Your insights are enlightening.

Roger Urwin, Global Head of Investment Consulting at Watson Wyatt

We are pleased to welcome Roger Urwin of Watson Wyatt. While Mr. Urwin's views are his own, his perspective helps to further debate and facilitate understanding.

Ashby Monk: Thanks for joining us today, Roger. Can you briefly explain what it is Watson Wyatt does, and how you've come to be interested in SWFs?

Roger Urwin: Watson Wyatt is the investment adviser to large institutional funds across the world. We have around 500 people in teams located in the major financial centres: London, New York, Chicago, Hong Kong, Shanghai, Sydney and elsewhere. Our work spans asset allocation, manager selection and monitoring services. We are also experts in investment governance and how to structure the investment function. This is essentially about how to deploy a combination of investment committee, directly employed staff and outside firms.

We are advisers to a number of the sovereign funds across the world. They are often the most interesting: sophisticated, have a wide agenda, in the public eye, complex problems to address.

Ashby Monk: What impact is the current financial crisis having on SWFs? Has their behaviour changed over the past few months?

Roger Urwin: As I speak, equity markets this year are down close to 40%, most other asset classes are down in the range 10% to 25%. This has proved a very severe investment bear market and there are no obvious signs yet we are emerging from it. The obvious catalyst is the crisis in confidence in banking and credit, and the spectre of a deep protracted global recession. Of course the SWFs all have very long time horizons so they have been among the calmest voices in the industry. Many of the conversations I've had with them have been about ways to exploit new opportunities. But that said they have to keep their stakeholders onside and this climate is difficult to present in a positive light when you expect to perform well at all times.

It's an interesting point as to how their behaviour has changed. Certainly, they are doing much more thinking on risk and in some cases some re-framing of risk has taken place. I'd say their macro view of what are the key drivers in the investment landscape has changed somewhat. But I have not seen much change in asset mixes beyond a limited degree of rebalancing.

Ashby Monk: As a global leader of the investment consulting business at Watson Wyatt, I'm interested to hear what advice you've been giving your SWF clients lately. Can you share this with us?

Roger Urwin: Our clients are getting both barrels from us on this crisis. We see it as a seminal moment for change in both practice and strategy. Most times it's a combination of these three points.

First of all, the crisis is a financial system failure with several contributory causes and we should become more aware of this inter-connectedness of all things issue. But two things stand out as explanations: that we had developed far too much leverage in the financial system and we have outrun our ability to cope with financial complexity. Much of our advice is about leverage control and managing complexity.

Second, funds need to have a macro view of risk which blends both a quantitative model with a qualitative overlay. No models are powerful enough at present to deal adequately with regime changes so this overlay is critical. Better models and presentations of risk are certainly high up our sovereign funds' agendas.

Third, while it is inevitable that size of certain risk premia have begun to look interesting, the visibility of most beta returns remains poor. Uncertainty is way up relative to classic risk measures. For most funds this does not yet suggest increasing risk. For most it means that they should stay put with current allocations.

Ashby Monk: Since we both also share a keen interest in pension, I'm curious to see if the current crisis has significantly impacted funding levels? Were pension funds better prepared for this crisis than they were the 'perfect storm'?

Roger Urwin: Your reference to the perfect storm was the 2000 to 2003 period when global funding levels were hit simultaneously by falling asset prices, falling bond rates and increases to longevity. In three years funding levels fell around 40%. The fall this year is only happening from one of those causes - the falling asset prices given pension fund

strategies average 56% in equities. The funding level fall during 2008 is as we speak closer to 30% but it's a much quicker change. I view it as pretty harmful. Both corporate funds and public funds are not that resilient to deal with these new deficits. Previous answers have generally been to look for additional investment return to fill the gap, but there is a limit to how much this source can produce. I'm quite worried.

Ashby Monk: You've written a lot about the governance of pension funds [see [here](#) and [here](#)]. To what extent do you think pension fund governance principles offer lessons for SWFs?

Roger Urwin: My work has been on the governance of all types of institutional funds including SWFs. This subject has not attracted much air-time in the past. If you do a Google search on 'great investment managers' you get hundreds of hits. If you do the search for 'great investment committees' you get one solitary item [linked to the research](#) I've done with [Professor Gordon Clark](#) of Oxford University.

There are a lot of lessons I think. Let's start with the fact that governance is difficult to change because of agency issues, board members' agendas and lack of conclusions about good organisational design. But, encouragingly, our best practice models of governance are gaining some traction.

The biggest feature of this best practice model is that good fund boards, and their executive teams, operate with clearly defined areas of responsibility and authority. It pays to be very clear on who does what. Funds are not hugely complex in concept, but all the same it is very easy to have overlaps and problems with roles occurring. Preferably, the executive team has the active role, the Board has oversight and high level influence. This also leads to better accountabilities - the executive is accountable for their performance to the Board, the Boards need to measure their own results and be accountable for these results.

I'd also mention the need for having and following explicit decision-making processes. The quality of decision-making is obviously critical, and good boards work very hard - just like managers - to formalize, streamline, make as efficient as possible their decision-making.

Lastly it's about alignment of governance budget to investment arrangements. Funds have to work out their competitive advantages and act accordingly. Good funds see governance as an enabler that can be varied significantly over time but few funds think of it this way. It was our research that defined the concept of 'governance budget' as a measurable resource based on time, expertise and organisational effectiveness.

Ashby Monk: So what does the future hold for SWFs?

Roger Urwin: We addressed that in our [Defining Moments](#) paper early this year. We set out in that paper the complex factors that drive the investment industry and the increasingly influential role played by SWFs. We think these funds are at the nexus of many of the critical aspects of our financial world: globalisation, effective governance, demographics. I think they can do a number of positive things to ease the inter-generational issues that we will encounter. Our 21st cen-

ture society desperately needs them to be effective.

Ashby Monk: Thanks, Roger, for taking time out of your busy schedule to chat with us today. We really appreciate your insights.

Zheng Bingwen, Senior Research Fellow at the Chinese Academy of Social Sciences

We are pleased to welcome Zheng Bingwen of the Chinese Academy of Social Sciences. While Dr. Zheng's views are his own, his perspective helps to further debate and facilitate understanding.

Ashby Monk: Thanks for joining us today, Bingwen. You recently argued that the China Investment Corporation has sparked a “new round of the China investment threat theory”. Why? What is it about the CIC that makes some foreign governments uncomfortable?

Zheng Bingwen: When the CIC was set up at the end of 2007, many governments and international organizations expressed their concerns and suspicion. For instance, the U.S.-China Economic and Security Review Commission held a hearing on February 7, 2008 entitled: “The Implications of Sovereign Wealth Fund Investments for National Security”. Over dozens of invited speakers expressed suspicions about the CIC. I interpreted the testimony to suggest that SWFs from small city states that are allied with the United States are likely to generate fewer concerns than funds from countries with aspirations to be global or regional powers (such as China). While this is only one example of suspicion, it was apparent during the testimony.

Ashby Monk: You were recently quoted as saying that SWFs breed suspicion because they are unregulated. Can you explain what you meant by this?

Zheng Bingwen: Some months ago I was interviewed by Reuters on this topic. As I said then, SWFs cause concerns not simply because they are unregulated but because they are less transparent than Sovereign Pension Funds (SPF). Moreover, their risk tolerance is much higher. It is this combination that is causing problems. I did note then (and still believe) that the supervision and regulations for SWFs are not as mature and traditional as for pension funds. So, many people are afraid that SWFs could come to Wall Street seeking mergers and acquisitions for unknown reasons. In the West, pensions have been around for almost a hundred years, so Westerners are quite used to them. In their view SPFs are angels, but SWFs are the opposite.

Ashby Monk: Given the above, you suggest that one way to overcome foreign concerns over the CIC is to launch a new fund—a sovereign pension fund—that will deflect foreign criticism. You argued that Norway’s Government Pension Fund would be the appropriate model. What are you suggesting here? Also, the implication is that the CIC is quite different from Norway’s fund. How are they different?

Zheng Bingwen: CIC is CIC. It should not copy Norway’s fund, but should maintain itself as it is now. Rather, the increasing size of China’s foreign exchange reserves suggests to me that it should be split into *several* investment funds, such as a SWF and (I hope) a SPF. By the end of last September forex reserves touched \$1.91 trillion. Moreover, forex reserves are anticipated to surpass \$2 trillion by the beginning of the coming year. So, pressure for reserves will come down and there is scope to create new funds.

Ashby Monk: What has been the response in China to your proposed sovereign pension fund?

Zheng Bingwen: Some people are interested in it. Many people read my paper on the subject in the *Journal of International Review* [[Chinese version](#)]. However, I am simply a researcher. This is my own view, and I do not concern myself with the views of policymakers on my proposal.

Ashby Monk: As a final question, I’m curious to hear what you see as the biggest weakness of the CIC? How should this be addressed?

Zheng Bingwen: I was interviewed by *Shanghai Securities News* on 2 September 2008 on this issue. The CIC’s biggest weakness is that it is confronting considerable pressure to achieve high rates of return. Because the government bonds used to finance the CIC get more than 5% per year—not to mention the expectation of an RMB revaluation—the CIC is likely facing a hurdle rate of nearly 10% per year. This requirement and the pressure to achieve high returns is the CIC’s biggest weakness.

If China follows my advice and sets up a SPF, a trust investment-style should be taken in order to lower the pressure of returns for the Fund. (The ‘trust investment-style’ means that the central bank would outsource investment management of foreign reserves.) Otherwise there is a possibility that high return strategies could result in higher, unnecessary risks. This, in turn, could raise concerns abroad about a ‘China-threat’.

Ashby Monk: Thanks, Bingwen, for taking time out of your busy schedule to chat with us today. We really appreciate getting the Chinese perspective on these issues.

Yu-Wei Hu, Consultant on Chinese Pensions at the OECD.

We are pleased to welcome Yu-Wei Hu of the OECD. While Dr. Hu's views are his own, his perspective helps to further debate and facilitate understanding.

Ashby Monk: Thanks for joining us today, Yu-Wei. What is the OECD's interest in SWFs? How does the project at the OECD differ from the project at the IMF?

Yu-Wei Hu: Thank you for your invitation to participate in this exciting debate.

The OECD is interested in issues relating to SWFs largely due to the potential impact of investment from SWFs on national economies within (key) OECD countries as well as that on the global economy, which has been highlighted by the recently intensified attention and debate on this subject - particularly against the background of the current global financial turmoil. In saying so, the OECD is an appropriate organisation to address these issues in that it has long been regarded as a foremost inter-governmental body in developing and setting internationally accepted rules on cross-border investment and capital movements.

Upon the request from the G7 finance ministers in the autumn 2007, the OECD and the IMF started to work on the SWFs issues albeit from different but complementary perspectives. The OECD mainly focuses on the recipient countries, specifically on providing guidance for these countries towards investment from SWFs. Main topics in which the OECD is interested and has worked on include a) SWFs and recipient country investment policy; b) SWFs and public pension reserve funds; c) SWFs and state-owned enterprises.

In contrast, the IMF's work concentrates on the SWFs themselves, i.e. developing a voluntary code of conduct for SWFs in the areas of legal framework, governance structure and investment strategies. This was reflected by the recent release of the General Accepted Principles and Practices (GAPP) of SWFs in Santiago in October 2008.

Ashby Monk: Based on your extensive research on the Chinese pension systems, I wonder if you have some insight as to why the CIC has attracted so much attention in the West vis-à-vis other Chinese investment funds.

Yu-Wei Hu: Yes, in addition to the CIC the Chinese government also owns and controls several other big investment vehicles, e.g. the National Social Security Fund (NSSF) and SAFE (State Administration of Foreign Exchange) Investment Company. However, it is the CIC which has received the most media coverage and political attention since its creation in 2007. I think there are three reasons for it.

First, it is a new and large SWF. It is new in that it was created just one year ago, therefore no record of history is available to evaluate its performance and particularly its real objectives and investment strategies. It is large, as reflected by

its mere size of USD 200bn assets under management and its potential to expand to a much larger fund given China's fast growing foreign reserves (which is currently approaching to USD 2 trillion).

Second, owing to the fact that the CIC is wholly owned by the Chinese government, the Western countries - particularly the United States are worried that the Chinese government may use the CIC to achieve their geopolitical strategy, thus threatening the national security and interests of the West.

Thirdly, if we look at this issue from a broader perspective, I think this concern in fact lies on the traditional West's perception on China as a potential threat. In other words, the CIC is just one of the many Chinese things Western politicians are suspicious about.

Ashby Monk: In terms of investment policies, governance and financial decision-making, how is SAFE different from CIC different from the NSSF?

Yu-Wei Hu: As noted in a [recent OECD paper](#) (Blundell-Wignall, Hu and Yermo 2008) and by Prof. Clark earlier in this series, there are different types of government-controlled investment vehicles, which is also the case for China. The three major ones in China are SAFE, CIC and NSSF, which, however, demonstrate differences in several areas.

In terms of legal framework, the SAFE is a governmental department within the Chinese central bank and in charge of administering and managing foreign reserves. However, it is noted that in 1997 the SAFE Investment Company was established in Hong Kong, and its principal objective is to invest in (overseas) equities, largely due to dissatisfaction of the government on the conservative investment strategy, i.e. mainly on treasury bonds in the past.

The CIC was established in the same purpose as the SAFE Investment Company but different in the sense that it reports directly to the State Council, rather than the central bank. Meanwhile, it has an independent legal status as an incorporate entity, i.e. not a governmental department. Its board of directors consists of senior officials from various ministries, and the Ministry of Finance is playing a much bigger role than others. In terms of investment strategy it is relatively aggressive for two reasons. First, it has a real pressure to pay back huge amount of interests to the Ministry of Finance, which is approximately USD 9bn annum. Second, good profits earned by its wholly owned subsidiary, i.e. Central Huijin Company allow the CIC to focus on fundamental and long-term investment.

As China's strategic pension reserve fund the NSSF was created in 2000. Although supervised by both finance and labour ministries the National Council of Social Security Fund (NCSSF) - administrator of the NSSF reports directly to the State Council. Therefore the NCSSF is equivalent to the ministerial level. NSSF's investment strategies were initially rather conservative; however, in recent years it has started to invest in risky assets, including equities, foreign assets and now it is also considering investment in private equities.

Ashby Monk: The CIC reports directly to the State Council. This seems to be an idiosyncratic hierarchy within Chinese political establishment. Why do you think this is?

Yu-Wei Hu: It is idiosyncratic in the sense that it should be currently the only firm in China which directly reports to the State Council. Although in China there are many other large state-owned financial institutions or enterprises, where heads of these firms are frequently considered as equivalent to the ministerial level (indeed most of them were senior government officials), they are normally subject to supervision of relevant governmental agencies which in turn report to the State Council, e.g. the China Banking Regulatory Commission (CBRC) on regulation and supervision of the Chinese banking industry, including the largest state-owned banks.

On the other hand, this arrangement, however, might be sensible due to the crucial importance of a well-functioning CIC for the performance of China's huge stock of foreign reserves (particularly if more reserves are transferred to the CIC in the future) and potential relationship with the outside world.

Ashby Monk: Some have suggested that CIC's human resources policies have left it without the industry's top talent. What's your view?

Yu-Wei Hu: According to the current governance structure of the CIC, all members of the top management - including the chief investment and chief operation officers, were senior government officials, and mainly from the Ministry of Finance and the central bank. However, it was noticed that rather than relying on junior government officials the CIC is recruiting from the wider job market for its various key positions, e.g. investment, analysis and research. It is at least a good start at the right direction for this new institution which I believe will try to attract the talented candidates - if not for the top management team, though.

Ashby Monk: How has the recent financial turmoil affected the CIC?

Yu-Wei Hu: The CIC so far has two well-known investments in the US market, one in Blackstone Group and the other one in Morgan Stanley. However, due to the current global financial crisis both investments have suffered significant losses. This has prompted criticism in China regarding CIC's investment strategies and risk management mechanism, which therefore is likely to lead to a hold-off of further large investment abroad in the near term. Meanwhile, the sensitivity of buying the US or other Western financial institutions by SWFs at this moment could also arouse further protectionist reactions. Thus, the CIC alongside other SWFs might be more sensible to take a wait-and-see position on its overseas investments in the near term, although it was noticed that the CIC is considering slightly increasing its shareholding in Blackstone.

As far as I'm concerned loss per se is not a problem particularly given that the CIC is a long-term institutional investor, and it should be more concerned about the fundamental values of a firm and less about the temporary market volatility. However, what most matters is whether the internal decision making process is prudentially and professionally sufficient, i.e. not influenced by factors other than financial considerations. Unfortunately in terms of governance structure, transparency etc the CIC underperforms when compared to some other SWFs. It is hoped, however, that the active par-

icipation of the CIC in the IWG of SWFs and the recent release of the Santiago Principles will help it in becoming a “world-class investment institution” as being committed by the CIC.

Ashby Monk: Thanks, Yu Wei, for taking time out of your busy schedule to chat with us today. We really appreciate getting the Chinese perspective on these issues.

Vidhi Chhaochharia, Professor of Finance at the University of Miami

We are pleased to welcome Vidhi Chhaochharia of the University of Miami School of Business. While Prof. Chhaochharia's views are her own, her perspective helps to further debate and facilitate understanding.

Ashby Monk: Thanks for joining us today, Vidhi. Can you briefly explain how you came to be interested in SWFs, and where they fit into your research agenda?

Vidhi Chhaochharia: My research interests have generally focused on the impact of corporate governance regulations on valuation and managerial compensation. I have also done some research on extending these ideas to an international setting. Some of my research has focused on corporate governance norms and practices around the world and its impact on firms decisions. My interests in corporate governance and international finance together drew me towards SWFs which have gained prominence in the recent years. These funds have huge asset bases and are investing in companies around the world. At the same time, for many of them transparency is weak, and we don't know much about their governance structure. Many articles in the popular press have expressed scepticism of these SWFs' investing motives as well as claims on whether they have strategic investments; especially in light of the present crises. These facts together drew us towards studying these funds and how they behave and whether they are different from other mutual funds etc. Their lack of transparency also intrigued us and we wanted to investigate how these investments are perceived based on transparency of these funds.

It is not clear what the effect is of SWF investments on firm value. In fact, empirical evidence to date is ambiguous about the impact of institutional ownership on firm value. Given their size and growing importance as global equity investors, SWFs could play an important role as large shareholders in monitoring firms.

Ashby Monk: Given that you recently wrote a paper on SWFs' investment strategy and performance, I'm curious as to how you see these variables changing as a result of the recent financial crisis. Are SWF investment strategies evolving?

Vidhi Chhaochharia: SWFs are not required to reveal information regarding their investments etc. Except for a few funds like the Government Pension Fund of Norway, most do not reveal such information. We collect information based on news articles, SEC filings etc to create a dataset on potential investments that are made by these SWFs. For some of the funds we are unable to collect too many investments. The paper is based on all investments as of March of 2008. Many of the funds at that time were making big capital injections into the banks in light of the recent financial crisis. Since then many of these funds have been unwilling to invest more in the big banks especially in the US.

I am sure that the SWF investment strategies are evolving, and we have a sense of that from many of the articles we read in the New York Times and Wall Street Journal. In the current version of the paper we are unable to track changing strategies but we are currently in the process of updating our dataset and will then have more of an opportunity to do so.

Ashby Monk: In your paper, you uncover some pretty interesting SWF investment biases. Can you briefly explain what these are and where they come from?

Vidhi Chhaochharia: Several insights emerge from our analysis. Firstly, SWFs generally invest to diversify away from industries at home but they are biased towards countries with similar cultural origins (such as religious affinity). This suggests that their investment rules are not entirely driven by profit maximizing objectives. Cultural biases have been found to influence global capital flows and global asset allocation. For example, Guiso, Sapienza, and Zingales (2007) show that cultural variables affect portfolio and foreign direct investments. Secondly, geographic diversification is limited, with most funds exhibiting substantial home bias. Despite exhibiting cultural biases, SWFs often invest in companies that are financially constrained, thus enhancing the value of such firms. Currently we need to continue these biases more carefully since we do not have the complete equity investment coverage for each of the funds. We are working on updating our database to understand these biases better.

Ashby Monk: What are the implications of the above? You seem to be suggesting that these findings are illustrative of non-commercial objectives?

Vidhi Chhaochharia: Some of our results can be interpreted in terms of inherent cultural biases that do affect portfolio decisions. While politicians and economists have expressed concerns that SWFs invest in strategic industries, our results offer a somewhat more benign view of SWFs. We really do not have much evidence in that direction.

Given the importance of SWFs as big players in the global equity they could potentially play an important role as large shareholders in monitoring firms, but given their lack of transparency and potentially conflicting objectives they are unlikely to achieve such a role at this stage. Therefore, we agree with the view expressed by many academics and policy makers that SWFs should become more transparent about their investment holdings and strategies.

Ashby Monk: Your specialty is corporate governance. I found your [2007 Journal of Finance paper](#) on the relationship between governance and firm performance to be particularly interesting. Have you given any thought as to how governance impacts performance within a financial institution?

Vidhi Chhaochharia: Much of the research in corporate governance has focused at looking at different monitoring mechanisms and their impact on firm performance as well as other corporate decisions. Research on financial institutions like banks or other institutions show similar relations. A recent paper by Laeven and Levine (2008) show that a combination of external regulations as well as the internal governance play an important role in the risk taking behaviour of the banks. Such relations can be easily extended to other financial institutions.

Ashby Monk: Thanks, Vidhi, for taking time out of your busy schedule to chat with us today. We really appreciate it.

Q&A with Olivia Mitchell, Professor at The Wharton School of the University of Pennsylvania

We are pleased to welcome [Professor Olivia S. Mitchell](#) of the [Pension Research Council](#) and the Wharton School at the University of Pennsylvania. While Prof. Mitchell's views are her own, her perspective helps to further debate and facilitate understanding.

Ashby Monk: Thanks for joining us today, Olivia. Can you briefly describe your interest in sovereign wealth funds (SWFs) and how they fit into your research program?

Olivia Mitchell: My research on SWFs grew out of [my work](#) on public sector pensions. One reason that governments have started to amass large asset pools held by and managed for the public sector is that they argue they are holding the assets in trust for the future. This sounded to me a lot like pensions, and indeed some countries do directly link today's public saving patterns to tomorrow's pension payments. This is occurring for instance, in Japan, Australia, and Chile. Nevertheless, we haven't seen most SWF managers be very explicit about how these liabilities should and must affect investment patterns. [Our paper](#) forthcoming in the *Journal of Pension Economics and Finances* analyzes new information about 'best practice' management techniques for such publicly-managed investment pools.

Ashby Monk: How do you characterize the different types of publicly-managed asset pools out there?

Olivia Mitchell: Public investment funds are those pools of investible assets managed under the control of the public sector. In practice, these take three main forms: *foreign exchange reserve funds* held for stabilization purposes; *sovereign wealth funds* accumulated from natural resource taxes or fiscal surpluses; and *public pension funds* built up either through an explicit funded arrangement or the result of an excess of contributions over benefits during a demographic transition. Of late, however, the distinctions between these are blurring.

Ashby Monk: You've done quite a bit of research on the governance of financial institutions and specifically public pension funds. What are your views on the work being done by International Working Group on SWFs at the IMF?

Olivia Mitchell: There are many groups seeking to codify the 'rules of engagement' or governance practice of SWFs including the IMF, the OECD, and the World Bank, among others. This is valuable in that many of these public investment pools do not say much about their holdings or governance structure, a nontransparency justified on grounds that it preserves investment flexibility and protects business opportunities. On the other hand, this also means that taxpaying citizens (and researchers!) can glean little useful information about SWF asset allocation patterns. I would be even more impressed with the efforts of these international organizations if they could press the SWFs to acknowledge the liabilities they face and to manage more to these liabilities in an explicitly responsible manner.

Ashby Monk: I'm particularly interested in your work that discusses the relationship between governance practices and financial returns.

Olivia Mitchell: Our empirical analysis seeks to compare SWFs according to their governance, accountability, and investment practices, which we amalgamate into GAI scores. *Governance* refers to whether the fund avoids conflicts of interest, ensures autonomy from political intervention, and secures staff competence. *Accountability* asks about information communication and credibility, as well as process transparency. And the *investment* scores assess potential conflict of interests arising from possible market dominance. In the corporate world, there has been much work on how GAI type measures are linked to better private sector performance. But in the public sector context, there is a bit of research tying good management practice to better public sector pension performance, and essentially nothing on SWF performance. Indeed, most SWFs do not report either their investment allocations or returns, making it difficult to judge whether these public funds are invested for the public good.

Ashby Monk: What are the implications for SWFs? Is governance a problem for these funds, in your view?

Olivia Mitchell: We find some interesting links between GAI scores for several sovereign wealth funds and key indicators of national governance and political participation, human capital and business environment conditions, and demo-

graphic factors. In particular, the aged dependency ratio (population 65+/younger population) is a consistently important explanatory factor associated with good SWF management. This suggests that nations subject to the most pressure from population aging are also those that pay most attention to SWF governance. Another point I would make is that in these troubled financial times, financial protectionism is a grave worry, with a potential for worried politicians to blame SWFs for problems. Such concerns could be alleviated if these publicly-managed investment pools became more transparent, stated more clearly what their objectives are, and increased their financial accountability.

Ashby Monk: Thanks, Olivia, for taking time out of your busy schedule to chat with us today. This has been a fascinating discussion.

Victor Fleischer, Professor at the University of Illinois College of Law

We are pleased to welcome [Victor Fleischer](#) of the [University of Illinois College of Law](#). While Prof. Fleischer's views are his own, his perspective helps to further debate and facilitate understanding.

Ashby Monk: Thanks for joining us today, Victor. Can you begin by briefly explaining your interest in SWFs?

Victor Fleischer: My [research over the last five years](#) has focused on how tax policy affects institutional investment, especially in venture capital and private equity. And so I first became interested in SWFs as investors in private equity, both as limited partners in private equity funds and as direct investors in private equity sponsors. As a tax person, I was curious about how SWFs are taxed, and at that point I started to research section 892, which grants SWFs a unilateral, categorical exemption from tax. My paper on this topic, *A Theory of Taxing Sovereign Wealth*, will be published next year in the NYU Law Review. You can download it [here](#).

Ashby Monk: You note in your recent paper an interesting contradiction: On the one hand, SWFs want to be treated like any other private investor. On the other hand, the U.S. treats them (for tax purposes) as “sovereigns acting to further political, diplomatic or humanitarian agendas...” Can you give a brief explanation of the benefits afforded sovereigns under the U.S. tax code, and how this affects SWFs?

Victor Fleischer: Historically, foreign governments were exempt from tax in the United States according to the international law principle of sovereign immunity. Over time, the international law doctrine narrowed to exclude commercial transactions. But the relevant tax provision, section 892, has never been revised appropriately, and sovereign wealth funds continue to enjoy a unilateral, categorical exemption for tax for non-controlling investments. Private foreign in-

vestors, by contrast, face withholding taxes as high as 30% on dividends and other forms of periodic income. This actually isn't quite a big deal as it seems, as a lot of a foreign investor's portfolio income, like interest and capital gains, is exempt from U.S. tax. The big difference is for dividends. One concern is that by allowing SWFs to avoid the withholding tax on dividends, the tax code could create a "clientele effect" that crowds out private investment in dividend-paying stocks.

Ashby Monk: The Joint Committee on Taxation recently published a report on this issue. They argued that, "it is difficult to conceive of any reasonable justification for modifying the existing rules to treat SWFs, or foreign governments more generally, less favorably than foreign corporations." Do you agree with this conclusion?

Victor Fleischer: I disagree. I think, at a minimum, Congress should repeal section 892 and treat SWFs like private investors. Under current law, the tax code subsidizes state-controlled investment to the detriment of private investors. Allowing private investors to compete on a level playing field would dampen any potential clientele effect. There are also reasonable arguments for imposing a higher rate of tax on SWFs. In my paper, I talk about the range of negative externalities that follow from SWF investment, including encroaching on the autonomy of U.S. enterprise, limiting our foreign policy options, and encouraging U.S. companies to partner with autocratic regimes. I don't think that SWF investment should be prohibited, but there is a pretty good case for imposing an excise tax on SWF investment in U.S. equities. The tax could have a conditional exemption for funds that meet best practices of transparency, accountability, and professionalization.

Ashby Monk: If I'm not mistaken, you are of the opinion that SWFs are investing to achieve political goals. Where do you see evidence for this?

Victor Fleischer: SWFs invest out of mixed motives - they seek financial returns, but fund managers are subject to the influence and oversight of political leaders. So it's not that most SWF managers have a political axe to grind, but rather that, when push comes to shove, foreign governments are more likely to influence fund managers to pursue non-financial motives than regular market investors.

The big concern isn't that most current investment is politically motivated. Rather, it's that China or Russia or Abu Dhabi or some other state that we are currently friendly with will accumulate strategic positions in U.S. companies ... and in 10 or 20 years we find ourselves enemies with that country. Obviously that may compromise our foreign policy options.

Ashby Monk: What should Congress do?

Victor Fleischer: The most important step is to support the efforts of the IMF to establish best practices of transparency, accountability, and professionalization of the funds. Tax policy is of secondary importance, but it's also worth pursuing. Congress should repeal section 892, and it may want to consider backstopping the IMF efforts with an excise tax on funds that do not comply.

Ashby Monk: Thanks, Victor, for taking time out of your busy schedule to chat with us today.

Victor Fleischer: My pleasure, and keep up the good work here - I have found this blog to be a wonderful resource.

Rachel Ziemba, lead analyst for oil exporting economies and China at RGE Monitor

We are pleased to welcome [Rachel Ziemba](#) of RGE Monitor. While Ms. Ziemba's views are her own, her perspective helps to further debate and facilitate understanding.

Ashby Monk: Thanks for joining us today, Rachel. It's clear from some of [your writing](#) over at [RGE Monitor](#) that you have taken a keen interest in SWFs. Why?

Rachel Ziemba: It's wonderful to join you - For us at RGE Monitor, the management of [sovereign wealth](#) (investment funds, central bank reserves, state investment vehicles) epitomizes a very important macro and financial trend- the change in capital flows from developed to developing countries - a reversal from a decade ago - which has made many sovereign investors key actors in the global economy. Shortly after I joined RGE, my [work](#) with Brad Setser (now of [CFR](#)) tracking petrodollars, and later China's reserves, plunged me into the study of the sovereign wealth universe. While sovereign funds are not new, the growth in their [assets under management](#) and evolution of investment strategies have given them a higher profile. Many take private sector models like endowments, pension funds and private equity, increasing their risks and adding exposure to [commodities](#) etc. In the last year, with some private actors on the sidelines, they took a major role in [recapitalizing global banks](#). Some of the largest new flows now come from countries that are competitors to the U.S. and Europe - though the U.S. allies in the Gulf still account for some of the largest flows today after China - and these are countries with a large state role in the economy - has led to some unease from recipients. Furthermore, sovereign wealth fund investment exposes key issues of [corporate governance](#), asset management strategy and economic policy at home and abroad.

The more we (collectively) learn about sovereign funds, the more they have to be assessed individually - and the more their asset allocation (in aggregate) resembles those of other institutional investors or alternative asset managers. Sover-

eign investors are one of many pools of capital seeking to increase risk to meet future liabilities, increasing exposure to equities, alternative asset classes, making more direct investments and commodities.

Ashby Monk: What's your view of the IMF International Working Group on SWFs? Are you encouraged by the recent accord in Santiago?

Rachel Ziembra: Well the accord details haven't been made public yet, so its hard to assess its impact. Its likely to be a relatively loose set of principles, perhaps an extension of those agreed upon by the US, Singapore and Abu Dhabi last fall, so the process itself may bear more fruit than the principles themselves. Hopefully this was an opportunity for sovereign funds to (in some cases) improve risk management. The fact that it took place amid wealth destruction in the global markets, in which sovereign funds were unlikely to have survived unscathed, probably added to the pressure to improve risk management. The IMF process is only one prong of a policy regime being pursued by recipients - the other involves national level responses. The other involves national level responses in which foreign investment, tax and other policies are being assessed.

We are in the midst of a crisis triggered in part by inadequate regulation and transparency, so more information about all actors is beneficial in my view - and I think many funds are discovering that a bit more transparency pays off. We may see a number of funds issuing annual reports in the next few months. The other major outcome has been the release of some aggregate data on sovereign funds collected from the 20-some members of the working group - for example how many invest in leveraged funds.

Ashby Monk: Much of the concern voiced about SWFs revolves around the issue of investment objectives-whether SWFs are investing to pursue commercial or strategic ends. As someone who knows a great deal about SWF investment targets, what's your view on this debate?

Rachel Ziembra: In my view, sovereign wealth funds are commercial actors, pursuing commercial objectives. However the commercial objectives of say Abu Dhabi Inc or China Inc are different from a public company. In other words there is a fine line between commercial and strategic aims when a nation state is involved, particularly one that is not subject to democratic oversight. A strict financial return on an equity stake might be only one of the hoped for objectives - others might include jump starting a local sector, perhaps the sports or financial sector- meaning an investment in an exchange might be intended as a way of increasing market share, gaining expertise etc. The direct investments of government investment companies like Mubadala and the investment arms of Dubai World include investments in sectors prioritized for economic development at home, a fact that poses some conflict of interest worries. However, it probably makes them better partners for those that receive their funding. But many sovereign funds could face pressure to support the foreign investment of domestic companies abroad.

We can't have it both ways - one part of being a commercial actor is that these funds will seek out good returns and they

are unlikely to invest for good will alone. Sovereign investors flight from U.S. Agency bonds is a good example seen in July and August. We can't expect foreign governments to keep on buying assets that might lead to a loss.

Furthermore, as ostensibly long term investors, these funds could be the ideal investors, not subject to redemptions, willing to take a long-view, increasingly seeking out partnerships. But on the other hand, the willingness of some to be passive investors may weaken the role of other stakeholders.

Ashby Monk: Are you worried about a protectionist trend emerging in response to SWFs?

Rachel Ziembra: I think we are already seeing a protectionist trend - and with the global economy slowing, such backlash against trade and investment flows would not surprise me. A few dozen countries are engaged in a reassessment of foreign investment regimes - the U.S. Canada, Australia and many European countries included. Many developing countries are also protectionist - having obstacles to investment and blocking off some sectors. Despite the sell off in Asian equities, everyone wants to invest more in Asia, given its growth rates - however, its not clear that Asian countries are ready to accept more net investment, particularly if it pushes prices up. Even Europe has been wary of the effect of inflows on the euro. However as I've argued, the costs of doing business in Germany are probably a greater determinant of investment than the obstacles.

More predictability from recipient countries- rather than having loose requirements that a takeover have net benefits for the country (as the Canadian law reads) that would be a positive outcome for all investors The U.S. has been lucky in that it has been able to have incredible power to set the terms in which foreigners invest - sovereign investors have needed to place funds as much as the U.S. needed to attract funds. And much of the petro-wealth remains in dollars. But that leverage (or co-dependency) is based on the size of the U.S. market and its ability to create financial assets to recycle the revenues of oil-exporting and Asian economies.

Ashby Monk: What, in your view, is the path towards SWF acceptance in the West? Investing through credible intermediaries? Partnerships with highly respected actors?

Rachel Ziembra: I think SWFs are becoming more familiar to many officials (and vice versa) and to a lesser extent the public (they were already familiar to some regulators and asset managers). This process has eased some concerns. The six or seven Congressional hearings are part of this process - as is a willingness to meet with officials. The countries with the newest and untested funds, like Russia and China have prompted the biggest concerns. And new funds Their sovereign funds have been preceded by activist state owned enterprises - though my hunch is that Russia's national wealth fund will not resemble Gazprom when it finally diversifies its assets away from the government bonds it now holds (a new investment strategy is due to emerge in the fall, though the freefall in the Russian equities may discourage funds from investing abroad). One clear way to get legitimacy is to be more transparent about risk management., overall strategy, becoming a more predictable actor and that comes with time and building up a track record. But that doesn't mean

that all funds need to or should resemble Norway. There are about three reasons that few worry about Norway's investments 1) its purchases tend to be small 2) it discloses its holdings and asset allocation 3) it has domestic oversight, even though its risk management may have revealed some flaws in recent quarters (like private sector counterparts). While it may not seem fair, government actors are held to as high or higher standard, in part because they are political actors. Partnerships are a key way to do so they can provide political cover, investment expertise and open doors. Such benefits don't just accrue in the West, sovereign funds have been seeking out partnerships in developing countries too.

Ashby Monk: How have recent market events (collapse of Lehman and AIG) affected sovereign wealth funds and their role in the financial sector?

Rachel Ziemba: Since we're talking in the midst of a heightening crisis emanating from the U.S. financial sector, many people are asking what role sovereign investors will play. Sovereign funds have been virtually absent from recapitalization of key financial institutions in recent months, being in wait and see mode-sovereign investors have been present mainly in the form of central banks whose purchases provided a stream of capital to the U.S. Several reasons might explain their absence-Losses on equity and alternative assets, sufficient exposure to the global financial system and worries that this crisis is more protracted than many hoped. Furthermore despite being relatively cash rich, sovereign funds aren't really equipped to take on management roles in foreign banks. And with contagion spreading to domestic markets, many governments may prefer to invest at home - though funds would probably be better spent on developing productive capacity than propping up domestic equity markets. Furthermore, a fall in the oil price does reduce the potential future resources available for investment. With \$90 a barrel, less than half the revenues are saved by big oil exporters - and overtime the share will fall further unless the oil price reaccelerates. However the biggest implication is that the failures of these major institutions reveal how pervasive the weaknesses are in the financial system, how difficult it is to price assets and institutions and indicating how far we may be far from the bottom of this market, something that would make sovereign funds (and many non sovereign investors) reluctant to step in the water.

Ashby Monk: Fascinating stuff. Thanks, Rachel, for taking time out of your busy schedule to chat with us today.

Michael McCormack, Executive Director at Z-BEN Advisors.

We are pleased to welcome Michael McCormack of Z-BEN Advisors. While Mr. McCormack's views are his own, his perspective helps to further debate and facilitate understanding.

Ashby Monk: Thanks for joining us today, Michael. To begin, could you give us some background on Z-Ben and explain your interest in SWFs?

Michael McCormack: We're a Shanghai-based consultancy which identifies market opportunities in the Chinese market primarily for Western asset managers and financial services providers. We help identify investment and acquisition opportunities but, increasingly, we also find potential customers for our clients. As China's interest in overseas investment has grown, that has led us to assess SWFs as buyers.

Ashby Monk: Since your firm is a Chinese company doing research on the ground in China, what is your take on the reception the CIC has had in the US and the EU?

Michael McCormack: I think the initial response – the one that preceded study, dialogue or serious appraisal – was predictable: certain sections of the US legislative branch (and their think-tank armourers) sounding alarms, a consensus for caution expressed in the EU, Britain rolling out the welcome mat... Since early summer 2008, I'm pleased to see (as I'm sure CIC is) a more reasoned set of responses emerging. It's not clear to me that there are many sectors of the US or EU economies that wouldn't benefit from having access to long-term, passive capital and I think their needs are now pressing more heavily on the considerations of legislators. In my view, CIC's two decisions – to communicate much more fully and directly their intentions and to slow down the pace of their investment – have contributed enormously to the improving quality of the discussion.

Ashby Monk: In your view, will the CIC engage in 'economy supporting' or 'SOE supporting'? In other words, will it invest purely to maximize returns?

Michael McCormack: I believe CIC has taken the advice to Caesar's wife. They know that no actions could more fully poison the environments in which they hope to invest than acting as a stalking horse, silent backer or declared supporter. They will not only invest purely for profit, in my view, they will forswear investments which might be construed as SOE-supporting. This is not, in my opinion, merely the preference of CIC's upper management, although they are expressing their intent to avoid SOE-supporting investments loudly and clearly. It is also the intent of the creators of CIC: China's State Council. When discussing CIC, it is important to remember that it was created – and handed ownership of a large portion of SAFE's reserves along with a large number of China's restructuring financial companies – to

ensure just such single-minded ownership.

Ashby Monk: You suggested in a recent report that the CIC will have over \$600 billion in assets under management by the end of 2010. How did you come to that number?

Michael McCormack: Sterilised currency reserves in SAFE's hands now exceed USD1.8tr and that number continues to grow every day. Originally conceived as a defence mechanism against external speculative attacks in the aftermath of the Asian currency crises, that account's management is now creating serious problems. Bluntly, it's now considerably overfunded to meet its stated purpose and, worse, almost wholly tied up in low-yielding debt from currencies against which the yuan is likely to appreciate. CIC was created as a means of putting excess funds to better use – more fully mitigating, if not negating, currency losses through investments that can yield higher returns. So far, CIC has received only seed funding to establish its first relationships with overseas asset managers and build processes that permit a much greater volume of funds to be invested. As the reserves grow, so does the pressure to transfer them to CIC's management. Given the scale of the problem, USD600bn by 2010 may not be enough.

Ashby Monk: In terms of organizational structure and investment strategy, how do the CIC and SAFE differ?

Michael McCormack: Perhaps the easiest way to distinguish them is by considering CIC as an organization designed to pass foreign governments' sniff tests for potential sovereign investors in their equity markets. CIC is essentially a repository for government funds that invests autonomously and solely for profit. It is capable of articulating a portfolio strategy to meet its goal of maximising long-term returns and forming public relationships with the broad range of firms that will help it populate that portfolio through direct and mandated investments. It can also disclaim any interest in doing or government-mandated duty to do anything else. SAFE, by contrast, is an arm of the People's Bank of China, whose mission is to manage a liquid, low-risk and instantly-callable sterilised reserve of foreign currencies while facilitating the foreign exchange transactions of every government-owned or controlled department or company.

Ashby Monk: Should SAFE be considered a SWF?

Michael McCormack: No. Like many central banks, the PBoC is extending the range of assets it owns and is using SAFE as the buyer. I have no doubt it will continue to do so, if only to improve the management of its portfolio's risk profile. However, SAFE can have neither the pure profit-seeking portfolio design nor the clean separation from other organs of the state that CIC was created to enjoy. To my mind, that makes it likely to behave, at times, in ways that might compromise a genuine SWF's purpose.

Ashby Monk: Thanks, Michael, for taking time out of your busy schedule to chat with us today.

Gordon L Clark, Professor at Oxford University

We are pleased to welcome Professor Gordon L. Clark of the University of Oxford. While Prof. Clark's views are his own, his perspective helps to further debate and facilitate understanding.

Ashby Monk: Prof. Clark, what is your interest in SWFs? How do they fit into your research agenda?

Gordon Clark: I am very interested in the governance of financial institutions whether they be sovereign wealth funds, pension funds, or for that matter rate-setting organisations such as the Bank of England and the European Central Bank. In this respect, sovereign wealth funds are extremely important albeit new players in the global financial world. They may play a pivotal role in galvanizing resources for future investment at a time when the developed economies' financial resources are constrained as they seek to recover from the current crisis. Sovereign wealth funds are simultaneously a reflection of global economic integration and an instrument for further global economic development should they be tamed and focused upon long-term rates of return. Equally, sovereign wealth funds have the potential to be significant players in global political intrigue and hostilities.

Ashby Monk: You've done a remarkable amount of research on the governance of pension funds. Can you briefly tell us what your research tells you about how SWFs might be governed?

Gordon L. Clark: My interest in the governance of pension funds is both a theoretical question and intensely practical issue. Understanding the design and structure of such institutions and how those elements affect performance are the crucial issues involving myself but also others such as Roger Urwin from Watson Wyatt. With Roger, we have developed principles of best practice governance (see the recent paper published in the Journal of Asset Management). We are concerned with enhancing investment performance, considering how the organization of a pension fund including the allocation of roles and responsibilities may affect the rate of return as well as the long-term variance in returns. We believe a well-governed pension fund like a well-governed sovereign fund can affect the long-term performance of institutions such that nominated beneficiaries have their welfare enhanced and protected.

Ashby Monk: That raises an interesting point: we've seen a lot of different definitions for SWFs in varying literatures. How would you define a SWF, and how is it different from a public pension fund?

Gordon L. Clark: In defining a sovereign wealth fund and comparing it to pension funds lets begin with what a pension fund is and then let's work back to what a sovereign fund is and is not. In general, a pension fund is a beneficial institution, with an intended beneficiary who often claims a property right to a promised benefit or expected benefit. Furthermore, the pension fund is often underwritten by a sponsor such that the institution guarantees the payment of benefit should the pension fund fail to deliver. Pension funds are governed by boards that combine representation with expertise with an underlying fiduciary duty to the intended beneficiary. Granted, this sounds idealistic. Nonetheless, these principles are accepted as determining the intended purpose of pension funds as we know them.

By contrast, we can say what sovereign wealth funds are not. That is, they are not beneficial institutions with an intended recipient: no one, whether beneficiary or citizen, has a property right to an expected benefit, and more often than not the government sponsor does not underwrite its performance except where the sovereign wealth fund writes a private contract with other investors wherein its promised performance is in some way or other underwritten by the gov-

ernment as a commercial entity. This means that sovereign wealth funds are quite different institutions than pension funds (as we know them).

I think we can identify a number of common characteristics among sovereign funds notwithstanding the many differences. For example, sovereign wealth funds are typically an operational arm of government, held within the boundaries of the sponsoring government in some form or another. Sovereign wealth funds are often subject to government policy whether in terms of the intended purpose of specific investments or an overarching strategy as regards to the deployment of assets locally and globally. Sovereign wealth funds are often managed internally, albeit with contracts with external investment providers. Sovereign wealth funds often seek investment opportunities in the rest of the world; perhaps paradoxically, because of the transparency, security of investment, and promised rate of return of developed financial markets and economies. Sovereign wealth funds are often long term investors, operating far beyond the ups and downs of markets, market cycles, and intermediate financial crises. Nonetheless, it is difficult to determine the time horizons of sovereign wealth funds. It might be said that one reference point might be endowment funds or charities and public institutions. This issue is very important in understanding the motives and operation of sovereign wealth funds.

Ashby Monk: Take us out 10 years - what is the status of SWFs?

Gordon L. Clark: It seems inevitable that sovereign wealth funds will be much larger in terms of the volume of assets held by those institutions. Granted, their growth in assets will depend, in part, upon the price of commodities. Likewise, the growth of assets may well depend upon the global rate of economic growth and the continuing demand from the developed economies' for developing economies products and services. That a number of sovereign wealth funds have been reliant upon trade and commerce for the accumulation of foreign currency reserves suggests that there is an intimate relationship between trade, exchange, and the accumulation of sovereign wealth fund assets.

That these institutions will have more assets need not translate into being effective in the global economy. Here I can see two issues that will need to be resolved. First, their influence will depend on how well they are governed and whether their governance is effective and professional as regards the rate of return or whether their governance is a product of political opportunism. If it is the latter, if political opportunism is the driving force, then I can see the rest-of-the-world putting-up barriers against sovereign wealth funds and effectively neutering their impact upon developed economies. There is a second issue that is related. Will sovereign wealth funds be incorporated into global capital markets? Here, the answer may well rest with the degree to which those institutions are able to attract and retain skilled investment professionals. If they are unable to recruit talented financial professionals, at least against the terms and conditions that drive global financial markets, sovereign wealth funds may be forced to retreat from playing an active and continuing role in the flux and flow of global finance. They will be forced into economic and political leverage which may or may not be reap the benefits intended by their government sponsors.

Ashby Monk: Thanks, Professor Clark, for taking time out of your busy schedule to chat with us today.

Jason Mosley, Senior Africa Editor at Oxford Analytica

We are pleased to welcome [Jason Mosley](#) of [Oxford Analytica](#). While Mr. Mosley's views are his own, his perspective helps to further debate and facilitate understanding.

Ashby Monk: Jason, can you give us a little bit of background about you, Oxford Analytica and explain your interest in SWFs?

Jason Mosley: Oxford Analytica is an international, independent consulting firm that does strategic geopolitical analysis for clients that range from governments to Fortune 100 firms. My role within the firm is Senior Africa Editor, which means I am in charge of all Africa related content in our Daily Brief. I'm increasingly interested in SWFs because SWFs are increasingly interested in Africa! Moreover, on a more personal level, I lived in Ethiopia for two years in the 1990s and recently returned for a two week trip. I was very interested to see the impact that some of the Gulf SWFs were having in areas where I had spent a considerable amount of time. It raised my awareness to the issue.

Ashby Monk: That's interesting. We've actually had a series of [blog entries](#) about the potential role for SWFs in African development. By the sounds of things, this is a phenomenon that you have personally seen. Generally speaking, do you think SWFs will have a large impact on African development?

Jason Mosley: Well aside from my anecdotal experience, we first need to recognize that none of the SWFs that we at Oxford Analytica list in the 'top 20' are from Sub-Saharan Africa (SSA). In fact, using a very broad definition of what constitutes a SWF, SSA only has around \$20 billion in SWF assets, which comes mainly from Nigeria and Botswana, with Uganda, Mauritania and Angola adding under a billion combined. So, this suggests that (like the investments I saw in Ethiopia), SWF investment will need to come from outside Africa. To me, this suggests we need to better understand the investment strategies of the largest SWFs — in order to evaluate to what extent the SWF phenomenon will aid/bypass the region.

Ashby Monk: Some have suggested that SWF investments in Africa could be based on political criteria. Do you see SSA bound investments by SWFs as being political or commercial?

Jason Mosley: It is interesting, the same characteristics that give Western politicians pause — the potential for non-financial factors influencing the investment decision — gives some African economies hope. Because SWFs do not have creditors, they may be willing to invest in SSA based on an investment valuation process that can be enlarged to consider financial, political, social or any other factor. As you well know, Ashby, traditional financial institutions are less flexible when making investment decisions: pension funds in particular must maximize financial returns. I don't see SWFs as being bound by such a strict level of governance (i.e. fiduciary duty). So, maybe SWFs have more flexibility to consider extra-financial factors in their valuation process? Honestly, we still don't know enough about their investment decision-making and how it will impact SWF investments in Africa...but it is interesting to think about.

That said, my personal experience and expectation is that SWFs are looking for profit in SSA. So, even though they may have more flexible valuation metrics, they will still be looking for returns. Nevertheless, Western fears about SWFs and the south-south links you mentioned in a [previous post](#) will still play into Africa's favor. I'm confident that there will be a continuing SWF presence in SSA over the medium to long term.

Ashby Monk: What is your take on World Bank President Robert Zoellick's suggestion that global SWFs allocate 1% of their portfolios to African investments?

Jason Mosley: Zoellick's call dovetails nicely with the idea that SWFs could play a role in development, and based on current estimates of SWF size, this would put \$30 billion in potential investment on the table (roughly equal to all Official Development Assistance to SSA, and nearly double FDI inflows, for 2006). This would clearly be a significant increase in capital flowing to the region. An important difference to ODA would be the commercial nature. It's not clear whether Africa suffers from a lack of finance, as its economies are relatively small compared to other regions. Nevertheless, SWF investment could stimulate sectors of the economy normally underserved by existing FDI, which is dominated by the extractive sector, and focused geographically in a handful of commodity exporting countries. In the search for returns, and with a different risk tolerance and valuation method, SWF investments could have significant knock on effects. The flip side of Zoellick's call was his interest in a role for the Bank in steering SWF investments through Bank managed funds — this points to a key bottleneck for potential SWF investment in SSA: lack of local knowledge for good investment opportunities. It's not just a problem for SWFs, and while the World Bank may be in a position to provide a steer, I'm not sure SWFs are ready to be guided (nor that they should be).

Ashby Monk: What types of investments do you see SWFs favoring in SSA?

Jason Mosley: One of the primary investment needs of SSA is infrastructure. Unleveraged, long-term investors such as SWFs are particularly suited for this type of investing. Through public-private partnerships, these investments can be particularly lucrative in politically stable countries, and even in some countries often considered slightly less stable (such as Nigeria or Angola).

One area where we've definitely seen investment has been in real estate, usually focused on serving the tourist sector. This is true in areas already associated with international tourism, such as Cape Town in South Africa, but also in less high profile destinations, including Rwanda.

Also, we've seen investment in sectors such as transport logistics in SSA, including in Djibouti and Senegal, where Dubai World has major investments in port infrastructure. In these cases, SSA countries have welcomed (in Senegal's case actively pursued) the very SWF that was blocked from investing in US ports because of US political concerns about Dubai's agenda.

Ashby Monk: Thanks, Jason, for taking the time chat with us today.

Thomas Karol of the Sovereign Investment Council

We are pleased to welcome Thomas Karol of the Sovereign Investment Council. While Mr. Karol's views are his own, his perspective helps to further debate and facilitate understanding.

Ashby Monk: Tom, what is the purpose of the Sovereign Investment Council?

Thomas Karol: The Sovereign Investment Council ('SIC'), based in Washington, DC, is an advocacy, communications and research center established to develop, analyze and distribute information about Sovereign Investors and their contributions to the national and global economies. Sovereign investors have not risen to address the chorus of fears voiced in Washington over the past year, resulting in numerous Congressional hearings and calls for action. As EU trade commissioner Peter Mandelson has said, the funds risk getting the facts right and the politics wrong. The SIC is working to ensure that the facts are better known and the politics better managed.

Ashby Monk: Why do sovereign wealth funds need a lobbyist?

Thomas Karol: Some SWFs have hired major lobbyists in DC to meet their own needs, at great expense to the funds and - as we have heard from many members of Congress - with little real impact. It is fairly unrealistic in today's climate to expect any one fund to get any special treatment in Washington, as any anticipated regulatory or legislative action will address all SWFs equally. The SIC is not representing any single SWF, but rather is working to be the trade association for sovereign investors, to promote public understanding, and otherwise advance the interests of sovereign investors and their advisers.

Ashby Monk: What are the primary issues of concern among US policymakers with respect to SWFs? How can these issues be overcome?

Thomas Karol: The primary issue of concern among US policymakers is the unsupported fear that SWFs may operate to advance political motives, rather than economic investment goals. The size and growth of SWFs - particularly in nations with fewer ties to the United States - and their relative lack of transparency feed fears that SWFs can take over US businesses, manipulate financial markets and steal technology and other national security assets. The first step in addressing these fears is to better educate US policymakers and to provide more information about how SWFs can and do operate.

Ashby Monk: Is mutual understanding and communication the key to SWF legitimation?

Thomas Karol: There seems to be a growing level of polarization between SWFs and investment receiving countries, which advances the interests of neither. There are complex issues of national pride and changing global economics that can only be addressed by education and communication. That is the central focus of our efforts. Anyone interested in more information can check out our website and [contact me](#) directly.

Ashby Monk: In your experience, are SWFs effective at communicating with investment receiving countries?

Thomas Karol: Many SWFs are beginning to see the real value of communicating with investment receiving countries, as well as companies in which investments are sought. Several have hired communications professionals, revamped

websites and begun more discussions with media. While this is positive at an individual fund level, we believe that a great deal more needs to be done at the SWF industry level. Policy makers and opinion leaders tend to take the industry as a whole and may take actions based upon their worst fears.

Ashby Monk: Take us out ten years, where do you see the current crisis of legitimacy facing certain SWFs?

Thomas Karol: Crystal ball gazing is always dangerous, but I do think it is clear that there will be far more funds in ten years and the predicted \$12 trillion in SWF assets will be surpassed. I think that SWFs and regulators will take steps back and explore more market based solutions that permit investment without the fear factors. There is always the potential for misuse and abuse by some SWFs, but we anticipate sovereign investors becoming a far more mainstream part of the financial community. Mostly, I think that there will be more market based, commercial solutions to the present issues and the SIC is focused on promoting such solutions.

Ashby Monk: Thanks, Tom, for taking the time speak with us today.