

SUMMARY REPORT

The UK as a leading centre for international sovereign wealth funds

This economic research examines a financial services sub-sector that is often surrounded by a certain mystique: sovereign wealth funds (SWFs). The full report, 'The UK as a leading centre for international sovereign wealth funds', sheds light on a particular class of fund renowned for its relative lack of disclosure of data, examining the scale and segmentation of SWF assets under management and considering SWFs as critical providers of global capital.

- While SWFs have existed for over 100 years, their profile has risen considerably over the past 30 years. The substantial size and high liquidity of SWFs' assets have turned the government sector into an important international investor group, and these funds are an increasingly important source of global capital.
- According to our calculations based on data from the Sovereign Wealth Fund Institute, assets under management of SWFs increased by an average of 8% annually from 2010 to 2019. However, assets under management declined by 21%, to \$6.4trn, in 2020 on account of the economic impact of the Covid-19 pandemic, together with the related volatility in commodity prices.

SWF assets under management

Source: TheCityUK estimates based on SWF Institute and Preqin data



- SWFs typically adopt a long-term approach to investing. In the current low-yield environment, some SWFs are looking to new industries and asset classes in emerging and developed markets to generate higher returns and diversify portfolios. Seventy-eight percent of SWFs held bonds in 2018, down from 82% in 2016, as SWFs reallocated their capital into stocks and alternatives.
- Some SWFs are increasingly interested in emerging and or high-growth sectors like low-carbon infrastructure. Environmental, Social and Governance (ESG) issues are of particular and growing importance and interest to SWFs.
- SWFs also engage in direct investments and are increasingly participating in co-investments with private equity funds, pension funds and specialist advisers, although the percentage of asset allocation in SWFs' direct investments has trended downwards in recent years.
- North America and Europe are the major regions for SWFs' public equity, real estate and hedge fund investments, while SWF investment in emerging-market infrastructure, natural resources and hedge funds is particularly strong. The UK is an important destination for foreign investment generally, and SWF investment in particular. This means that SWFs can potentially play an important role in the UK's post-pandemic economic rebuilding.

The UK as a centre for SWFs

The UK is one of the largest and most open markets in the world for fund management. London, as well as other cities such as Aberdeen, Birmingham, Cardiff, Edinburgh, Glasgow, Liverpool and Manchester, are important fund management centres.

London in particular is an important centre for SWFs as a clearing house and location from which some of these funds are managed. In addition, the UK's role as a key destination for inward foreign investment and SWFs' role as providers of global capital means that the potential for stronger and deeper partnerships between the UK and SWFs is significant.

At this time of economic and geopolitical upheaval, there is renewed debate about the UK's competitiveness as a global financial services centre. But as SWFs continue to open international offices, the potential for the UK to continue its leading role as a host to some of the world's largest and most important international investors remains undiminished.

Advantages of the UK as a centre for fund management

- A strong and responsive regulatory environment that is effective, fair and focused on the future.
- A demonstrated commitment by the government to the sector.
- A vibrant and supportive sector cluster in asset management and related professional services; the UK remains one of the leading locations for asset management and is the top jurisdiction in Europe for funds under management, enjoying sustained growth.
- A deep talent pool that supports all aspects of the asset management value chain.
- A strategic geographical location.
- State-of-the-art support services in front, middle and back office across the regional centres allowing cost efficiencies and access to a diverse talent pool.
- An innovative ecosystem that promotes innovation and product development, e.g. Islamic Finance, renminbi trading, etc.

Click [here](#) to read the full version of the 'The UK as a leading centre for international sovereign wealth funds' report