

# Sovereign wealth funds returning to health

By HEIDE B. MALHOTRA  
Epoch Times Staff

WASHINGTON—Sovereign wealth funds (SWFs), or government-owned investment funds, have risen in prominence in recent years among oil and cash-rich nations as a way to invest in foreign businesses.

"There are two primary reasons for the rapid appearance and growth of SWFs: the rapid increase in oil prices and the accumulation of large balance-of-payments surpluses," according to a recently released Wharton Leadership Center study.

The researchers suggest that until the end of 2006, the existence of sovereign funds were unknown in financial circles. Beginning with 2007, a flurry of activities brought SWFs on the radar screens of the investment community.

But with little real investment experience, the fund managers made investment decisions that resulted in large losses for the funds. The Abu Dhabi Sovereign Wealth Fund lost \$125 billion during the financial crisis in early 2009 because of investing in financial institutions, reported the Creditwritedowns website.

Gulf States Saudi Arabia, Kuwait, Qatar, and Abu Dhabi's sovereign wealth fund assets dropped by \$350 billion in total because of the global financial crisis.

"The financial meltdown did not just devastate Western economies.

It also took large bites out of the sovereign wealth funds and inflicted some harsh lessons on those charged with running these funds, many of whom have solid careers behind them as bureaucrats and bankers rather than as mainstream investment managers," said Anthony Harrington in an article on the QFinance website.

percent plunge, but recovered in 2009, moving up 14 percent. Norway is the owner of the world's second-largest sovereign wealth fund, the Norwegian Government Pension Fund.

"The financial crisis had a significant impact on the Government Pension Fund. However, the losses from 2008 were to a large extent recovered in 2009, faster than many had expected," said Sigbjorn Johnsen, Norway's Minister of Finance, in a recent statement.

Johnsen credits this recovery to a transparent process and the Ministry's sound investment strategem. The fund remained relatively healthy during the economic upheaval, as it does not have any liabilities.

Norway's Council of Ethics monitors closely the fund's investments, and the Sovereign Wealth Fund Institute (SWF Institute) lists 29 companies the fund may not invest in, including Wal-Mart Stores Inc., the Boeing Company, Honeywell International Inc., General Dynamics Corp. (all U.S. companies), and the Rio Tinto Group in Australia.

"The guidelines restrict investment where there is a risk that a company is involved in activities that can contribute to violation of human rights, corruption, environmental damage or other particularly serious violations of fundamental ethical norms," according to the SWF Institute website.

Norway's Labor Union Landsorganisasjonen i Norge called for Norway's SWF to divest itself of all Israeli securities. In response, the Norwegian Ministry of Finance stated in a June 4 press release that it will not consider such action, as its ethics rules do not require that a company be excluded because of location or nationality, as such action would make the fund a political tool.



WEALTH MANAGER: Sheikh Hamed bin Zayed al-Nahayan, who was named to head the Abu Dhabi Investment Authority in April, attended the Cityscape exhibition in the Emirati capital Abu Dhabi on April 18, 2010. Sovereign wealth funds have risen in prominence in recent years among oil and cash-rich nations as a way to invest in foreign businesses. KARIM SAHIB/AFP/GETTY IMAGES

In 2009, SWFs were perking up, but fund managers avoided real estate acquisitions and curtailed investments in the financial sector, dropping from 49 deals worth \$71.7 billion in 2008 to 28 transactions worth \$10.2 billion last year.

Out of 33 SWFs, 18 funds committed to 113 investments valued at \$68.8 billion in 2009, dropping by 40 percent from 2008, according to a recently released report "Back on Course: Sovereign Wealth Fund Activity 2009" by Monitor Group, an advisory and consulting firm, and Fondazione Eni Enrico Mattei, a nonprofit research institute based in Milan, Italy.

"While the number and value of SWF transactions for the first two quarters of 2009 was the lowest for

more than half a decade, by Q3, SWFs had realigned investment strategies with long-term goals, rethinking their approach to risk," said William Miracky, senior partner at the Monitor Group, in a recent press release.

Favoured industry sectors for investment tilt toward energy, raw materials, and sectors that involve technological advances. In 2009, SWFs favoured investments in Asia Pacific, followed by Europe, and then the Middle East.

North America lost out on the investment luster, garnering only 16.8 percent of SWF investment funds during that year. The Qatar Investment Authority was the most active with 14 investments worth \$32 billion.

"SWFs have emerged with long-term strategies around investments,

focusing on a wider range of markets and avoiding the financial sector," said Bernardo Bortolotti, executive director of Fondazione Eni Enrico Mattei, in the Monitor group study.

## SOVEREIGN WEALTH FUNDS AT A GLANCE

"A Sovereign Wealth Fund is a state-owned investment fund composed of financial assets such as stocks, bonds, real estate, or other financial instruments funded by foreign exchange assets," according to the SWF Institute website.

SWFs are independent from a country's foreign currency reserves according to the U.S. State Department. The funds are separated into commodity and noncommodity funds. Commodity funds are generally earned from taxing commodity exports, including oil or gas products, and noncommodity funds originate from excessive foreign exchange reserves.

The funds are generally invested in stock, bonds, and fixed assets that could be public companies. Each fund was created for different reasons, and the grounds for a SWF's existence could be as different as night and day from one country to the next.

The true number of existing SWFs is not known, given the lack of transparency in a number of countries. The Sovereign Wealth Fund Institute publishes the most extensive list, holding 50 named funds.

Some SWFs are politically motivated, while others are set up as a cushion for future generations, and some to fund macroeconomic projects.

The largest fund was set up by Abu Dhabi. The Abu Dhabi Investment Authority was established in 1976 from excessive oil earnings and is worth around \$627 billion. The third largest is the SAMA Foreign Holdings SWF owned by Saudi Arabia, which is valued at around \$415 billion.

# Kevin Costner sells oil separation machines to BP

By IAN RITZ  
Epoch Times Staff

Academy Award winning actor and environmentalist Kevin Costner recently struck a deal with BP, which has agreed buy his new oil cleaning devices. BP agreed to purchase the machines that Costner had developed along with his attorney and a team of engineers. The devices will be used in the ongoing efforts to clean up the largest oil spill in history.

By next week, the BP oil spill will be into its second month of non-stop oil flow.

A recent posting by All Headline News confirmed Costner's deal with BP. The deal is reported to have been reviewed by the House Committee On Science.

Costner explained that his oil separation devices as being similar to other centrifuge oil separation machines that are used for cleaning vegetable oil.

"It may seem an unlikely scenario that I'm the one delivering this technology at this moment in time, but from where I'm sitting, it is equally inconceivable that these machines are not already in place," Costner said to the House Committee On Science.

Kostner unveiled his oil separation devices to local media in Louisiana at the end of last month. The machines are said to be able to remove 97 percent of oil that is mixed into water.

NORWAY'S SWF RECOVERING NICELY  
In 2008, Norway's SWF took a 15

INVESTMENT ACTIVITIES  
PERKING UP

# AT&T under FBI investigation for security breach

By SONYA BRYSKINE  
Epoch Times Staff

Dallas, Texas-based AT&T Inc., the largest wireless provider in the United States, is under FBI investigation into a security breach that leaked over 100,000 e-mail addresses of its Apple iPad customers.

The breach occurred when a group called Goatse Security hacked AT&T's Apple iPad subscriber data. The lists obtained included information of several celebrities, corporate executives, and politicians.

According to Gawker Media's Valleywag website, which obtained the data from Goatse Security, around 140,000 e-mail addresses were compromised.

Among those affected was that of New York Mayor Michael Bloomberg, who downplayed the incident.

"We live in a world where information is available all over the place, and there's going to be security breaches every day all over the world," Bloomberg said. "That's what happens when you have information," reports NBC news.

The problem had to do with the



SECURITY BREACH: AT&T Wireless is under investigation due to a leakage of Apple iPad customers' e-mail addresses. GREG WOOD/AFP/GETTY IMAGES

way AT&T's website prompted iPad users to log onto their AT&T accounts.

"The FBI is aware of these possible computer intrusions and has opened an investigation to address the potential cyberthreat," FBI spokesman Jason Pack said.

AT&T, which has exclusive U.S. rights to carry the iPad and the popular iPhone smartphone, has acknowledged the security breach but said it had corrected the flaw and that only e-mail addresses were exposed to hackers who

identified a security weakness.

Charlie Miller, an analyst with Independent Security Evaluators, argued that the breach had nothing to do with the iPad's security.

"The actual vulnerability is pretty basic, but the loss of data is not serious, in my opinion. The data on the iPad and the devices themselves were never compromised or vulnerable," Miller said via e-mail in a Reuters report.

George Kurtz, chief technology officer for security software

company McAfee Inc., also downplayed the severity of the breach.

"I would guess that this application vulnerability gained so much attention because, after all, it is Apple we are talking about," Kurtz wrote in a blog post.

"The hype around Apple products—like the new iPhone and iPad—is amazing. However, the reality is this type of vulnerability isn't really news and happens all day long," he wrote.

Apple has sold more than 2 million iPads since releasing the device in April. Together with the popular iPhone, it will form a pivotal part of the company's international growth strategy. The launch of the devices helped Apple surpass Microsoft in May to become the world's most valuable technology company by market capitalization.

AT&T is the largest provider of broadband in the United States with more than 17.5 million high speed Internet subscribers.

It is also the nation's largest Wi-Fi provider, now offering customers access at more than 125,000 hot spots spanning countries around the world, with the addition of approximately 7,000 Starbucks locations.

## THE MARKETING CORNER

# Making sense of retail

By ADELE LASSERE

Many retailers are asking the question, "Are we there yet?" Well, consumers are awakening from their slumber and are taking cues from what is happening around them. Many consumers are starting to feel that the worst part of the economic downturn is over and are starting to spend again—cautiously. Now, there are some caveats to this, of course. Several factors could adjust the consumer mindset, such as the following:

- Rising energy costs: what's happening in the Gulf Coast region could impact fuel cost
- Higher taxes: many local, state, and federal legislators are discussing increased taxes in areas of property, sales, and personal or business income
- Job losses: assuming if the recession has a relapse

While consumers have painted a picture of a better tomorrow, many do believe that retailers have stepped up to the plate with offering more sales and discounts. Of course, we know that there is always a price associated with these discounts. Retailers may have to make sacrifices on staff and/or carrying fewer inventories on hand in order to offer discounts to consumers. It is important to note that

shopping behavior has changed too.

Many consumers are shopping at particular stores based on the perceived "value" received—meaning that some stores consumers are shopping at may not have been on their list prior to the downturn in the economy. However, one can expect consumers to maintain this behavior even though their outlook on their personal finance becomes more stable.

Many consumers are going online first before making a trip to visit a store. Plus, social networking is all the buzz on where to get hard-to-find items, the best deal and/or type of service one can expect. Be sure that your business is cast in the best light in the social-media world by training your staff to be knowledgeable and polite.

Consumers are influenced to buy by what they see online. Ensure that your website provides detail price, product, and store location information. Remember that online advertising offers a small business a low-cost option to market your business and your products.

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## BUSINESS IN BRIEF



A Tesla Motors Model S  
JUSTIN SULLIVAN/GETTY IMAGES

## AUTOMOTIVE

### Tesla prepares for \$167 million IPO

Electric car maker Tesla Motors Inc. will raise up to \$167 million in an initial public offering stock sale slated to begin late this month. The company, in a Securities and Exchange Commission filing this week, said that it would sell 12.8 million shares for between \$14 and \$16 per share. Toyota Motor Corp. will purchase around \$50 million worth of the

stock in a private placement transaction, giving the Japanese firm a 4 percent ownership in the California-based carmaker. Currently, Tesla is testing its Model S all-electric sedan, which will retail around \$55,000.

## TECHNOLOGY

### IBM buys web analytics firm Coremetrics

International Business Machines Corp. this week struck a deal to purchase Coremetrics, an online marketing and analytics firm for an undisclosed amount. According to a Reuters report, Coremetrics employs around 200 people and offers companies analysis on social networks and site viewer marketing data to optimize online marketing and promotions. "Banking, travel, and transportation ... these aren't traditional retail but people these days do all those things online," IBM Senior Vice President

Steve Mills said in a statement. "We think we can make it a much bigger business as part of IBM."

## ENERGY

### BP downgraded six notches

Fitch Ratings has downgraded the debt of energy giant BP Plc by six notches this week, to BBB, as the potential cost of its Gulf of Mexico oil spill and related future litigation liabilities put the company's future in question. The rating of BBB is only two grades above "junk" status. "The recent claims by U.S. state and federal authorities that BP escrow significant sums pre-emptively, ahead of any agreed claims process, represent a material change in approach," Fitch said in a statement announcing the action. Fitch is one of the largest credit ratings firms in the world.

—Epoch Times Staff

# Global recovery 'Unlikely to be derailed,' says Fed's Bullard

By ANTONIO PEREZ  
Epoch Times Staff

St. Louis Federal Reserve Bank President James Bullard said that the global economy will continue to expand despite an unraveling sovereign debt crisis in Europe and possible asset bubbles in China.

"While the sovereign debt crisis in Europe is indeed a serious matter, the global recovery at this point looks very strong and seems unlikely to be derailed," said James Bullard in a speech at the Institute of Regulation and Risk North Asia in Tokyo this week, published on the St. Louis Fed website.

Bullard said that increased deficit spending to fund stimulus packages in European nations have rapidly increased the debt to GDP ratio in some European nations,

but it is not likely to impact the financial markets at large.

"For some countries, starting from weak economic conditions, the increase in borrowing was so large as to call into question their ability and willingness to repay in international financial markets," said Bullard. He said that fears that the debt crisis would destabilize the financial systems are unfounded. U.S. and European lawmakers have already decided to bail out many of the largest banks, and it seems remote that they would abandon the industry in the face of a new crisis.

Bullard sees Asia as a growth engine of the global economy, but cautions against overheating in the face of volatile property prices and stock markets, especially in China.

"With Asia as a leader in the

global recovery, a risk is that the Asian economies might falter in some way, causing global growth to slow appreciably," he said.

## BULLISH ON U.S. ECONOMY

Bullard, who votes on the U.S. interest rates, believes that the U.S. economy will grow to pre-recession levels by the third quarter of 2010, an extremely optimistic view among economists.

"U.S. real personal consumption expenditure has already surpassed its previous peak, which occurred in the fourth quarter of 2007," Bullard said.

He conceded that the recent growth in the U.S. economy has been due to productivity gains made by U.S. companies, not a real gain on jobs—and much of the economic recovery rides on employment figures.