

# Sovereign Wealth Fund Trend Talk

## About CTPartners

CTPartners is a leading performance-driven executive search firm serving clients across the globe. Committed to a philosophy of true partnership with clients, the firm offers a proven record in C-Suite, top executive, and board searches, as well as expertise serving private equity and venture capital firms.

With origins dating back to 1980, CTPartners serves clients with a global organization of more than 400 professionals and employees, offering expertise in board advisory services and executive recruiting services in the financial services, life sciences, manufacturing, professional services, retail and consumer, and technology, media and telecom industries.

## Global growth and investment priorities of SWFs reward new talent strategies

During a period in which the global marketplace continues to grapple with the challenges of uncertainty, one trend remains clear: With more than USD 4 trillion in assets under management, bolstered by strong and stable fundamentals, the Sovereign Wealth Fund sector is a major force in the worldwide economy.

Historically, the Sovereign Wealth Fund (SWF) sector has not had an equivalent impact on the global talent landscape. That is because SWFs have tended to prefer an indirect investment model while relying upon local networks and internal development to satisfy their relatively limited talent needs.

All of this is changing, however. Today, growing numbers of sovereign wealth funds are exploring a more direct-investment focused approach, while expanding their investment purview into a variety of promising alternative asset classes, regions, and industries.

New funds are likely to launch from nations in Central Europe, Latin America and elsewhere. Meanwhile, private equity firms, investment banks, and other institutions are seeking better ways to reach out to, and serve, this increasingly important constituency.

There are major talent implications to these developing trends. Indeed, it seems likely that this financially powerful sector will play an increasingly significant role in terms of global demand and opportunities for top talent.

## Scanning the SWF Horizon

In order to understand specific talent trends relating to SWFs, it is important to appreciate the diversity of this robust and dynamic sector. The world's largest fund, the United Arab Emirates' Abu Dhabi Investment Authority, managed more than USD 620 billion in assets in October 2011, according to the Sovereign Wealth Fund Institute. At that time, Norway's Government Pension Fund-Global held more than USD 570 billion in assets. China's individual SWFs may be smaller, but together their holdings were estimated in October 2011 to be worth more than USD 850 billion (including the Hong Kong Monetary Authority Investment Portfolio).

As a truly global force, SWFs are located in regions and nations across the world. Throughout the sector, for all those whose wealth is rooted in commodities, there are others whose financial roots are tied to trade surpluses, pension funds, or government-linked corporations. Each fund has its own unique culture and mandate. Their objectives might include preserving value, enacting policy, generating returns, or achieving some combination of these goals.





Sovereign Wealth Funds are recognizing the need to recruit and retain top-quality, highly experienced global investment professionals

Some of the funds have longstanding roots: Norway's Government Pension Fund-Global was founded in 1990, while the Kuwait Investment Authority dates back to 1953. Yet many have been launched during the past decade, including the UAE's Emirates Investment Authority, and the Korea Investment Corporation. A ranking from the Sovereign Wealth Fund Institute provides a useful look at where the world's largest SWFs are based (see sidebar, "A Global Map"). In October 2011, the UAE, Norway, and China topped the list.

At one time, it might have been unusual for a sovereign wealth fund to consider working with an executive search partner in order to recruit investment professionals with specific, high-level skills relating to any particular asset class or region. Instead, funds might have encouraged search firms to come to them with an occasional, interesting recruitment possibility, if and when this may have presented itself. Seldom were search partners asked to proactively work with SWFs to clarify and address their strategic talent needs.

But that traditional approach is increasingly inadequate. In the wake of the 2008/09 global economic recession, growing numbers of funds are seeking ways to achieve more stable, predictable, and attractive returns through greater diversification into alternative assets in hedge funds, private equity, and real estate asset classes; more sophisticated risk management; better utilization of long-term asset investments; and greater exposure to emerging markets. As a result, SWFs are recognizing the need to recruit and retain top-quality, highly experienced global investment professionals.

A closer look at SWF activity during the post-2008/2009 recession period demonstrates the value of bringing onboard senior professionals with expertise in specific sectors and alternative asset classes. At many funds, for example, a review of acceptable investment instruments is ongoing and a matter of central focus. There is also an increased focus on understanding the impact of worldwide regulatory and governance trends on the financial markets and specific asset classes. Whether gradually or more aggressively, a number of firms are moving from indirect to direct investment models.

According to a Monitor Group report, "Sovereign Wealth Fund Investment Behavior," during the first half of 2010 alone, SWFs participated in at least 15 M&A deals in the energy and power sectors, valued at USD 6.9 billion; they also invested over USD 1.6 billion in mining companies. Whereas SWFs once tended to focus their financial sector investments in banks, in the years following the 2008/2009 global downturn, their plays within this sector have become more varied, necessitating a broader range of investment expertise.

On the hunt for investment return, SWFs have increasingly been drawn to utilities and infrastructure deals. The China Investment Corporation (CIC) is among a growing number of SWFs active in the private equity space; it is worth noting that CIC's recently announced performance results show that about 20% of its investments are now in alternative asset classes including private equity, real estate, and infrastructure. Commercial real estate is a huge draw, focused on marquee properties: The Qatar Investment Authority, for instance, invested in Singapore's Raffles Hotel and London's Harrods department store.

For many SWFs, high on their talent needs are investment professionals with expertise and connections in specific regions that are targeted for future investments. After all, along with today's movement into alternative investments is a growing trend toward greater SWF activity in emerging markets. Sovereign Wealth Fund investments have long spanned the globe, but now deals are cropping up in newer locations such as India, Russia, sub-Saharan Africa, and Latin America, in addition to the more traditional locations such as Europe, Asia, and the U.S. With significant pools of capital to deploy, SWFs will increasingly rely on the knowledgeable and experienced investment professionals for their success.

For Sovereign Wealth Funds, there is an increasingly compelling logic to the strategy of bringing expertise in-house, which should help the funds work in a more coordinated fashion to align political ends to performance needs. But since SWFs tend to proceed cautiously – a strategy especially well suited for the prevailing unsettled global economy– it is not likely that any fund will aim to increase headcount among its investment professionals simply for the sake of covering all the bases.

Yet hiring is happening. In addition to recruitment in specific investment areas as relevant, some SWFs are seeking to recruit expert global macro strategists who will either effectively or explicitly serve as Chief Investment Officers. With a push for greater non-correlated returns, some funds are also recruiting global talent to lead private-equity holdings, joint ventures, and the like in new sectors and asset classes.

Meanwhile, for investment banks, hedge funds, private equity firms, and other financial firms, their success in creating and nurturing profitable relationships with Sovereign Wealth Funds will depend, more than ever, on recruiting and retaining professionals with existing SWF connections – or the ability to quickly build them. This pool of talent is quite limited. That is especially the case in certain regions, where access to key decision-makers is closely guarded and it may be difficult to build power networks. [But whether or not an investment firm decides to provide centralized or decentralized coverage of the SWF universe, demand for relevant professionals will inevitably increase.](#)

## The Talent Paradigm

Any talent situation in which there is a supply and demand imbalance is challenging, but this is especially the case among Sovereign Wealth Funds, where investment professionals must possess expertise, a strong track record, and much more. Many of the most essential skills are those that simply don't show up on any resume.

[The right cultural fit and a demonstrated sense of fiduciary responsibility are important.](#) “Star” personalities seldom work out. Meanwhile, many investment professionals cannot (or will not want to) adjust to the more cautious, hierarchical management approach that defines most SWFs. It is also worth noting that, although some funds are more transparent, such as Singapore's Temasek Holdings, others may

## A Global Map



Sovereign Wealth Funds come in all sizes, and they are located in nations across the globe, including Canada, Kazakhstan, New Zealand, and elsewhere.

For a look at where the largest funds are based, consider this list from the Sovereign Wealth Fund Institute (updated as of October 2011):

1. UAE – Abu Dhabi (Abu Dhabi Investment Authority)
2. Norway (Government Pension Fund-Global)
3. China (SAFE Investment Company)
4. Saudi Arabia (SAMA Foreign Holdings)
5. China (China Investment Corporation)
6. Kuwait (Kuwait Investment Authority)

be less so. SWFs and their search partners need to be sensitive to the subtleties of a complex talent profile when considering who might best fill a significant position.

SWF compensation levels are rising along with demand (see sidebar, “Compensation Matters”). But it's rarely the case that a candidate would choose a position with a Sovereign Wealth Fund on the basis of the financial package alone.

Rather, there are other powerful attractions, including the benefits of working within a well-capitalized and stable financial institution for which virtually all doors are open across the global marketplace. They will have an excellent view of deal opportunities shown to them by banks and other investment businesses. And SWFs are an ideal place to build valuable, long-term relationships. As SWFs play an increasingly significant role across asset classes and regions, the experience of working for a Sovereign Wealth Fund can have a major positive impact on a professional's career path.

The strongest candidates for SWF positions are often expatriate nationals who might either still maintain strong family connections within the country or people who have been working abroad with a strong desire to bring their expertise and experience “back home.” Other global executives might also be viewed

as “having the right DNA,” if their credentials include a successful stint in the country working for an international corporation or blue-chip management consulting firm. It might also be the case that a strong candidate has ties and experience within the region, if not the specific country. Certainly, a cultural connection is an important

element in enabling professionals to transition from outside the SWF to become a trusted advisor.

When it comes to talent recruitment and management strategies of Sovereign Wealth Funds, each country really does have its own culture, geopolitical challenges, investment priorities, industrial orientation(s), and other factors that must be taken into account. It is far from simple to recruit and retain key professionals, especially in an environment of rising competition for top talent.

SWFs that partner with executive search firms are well-advised to seek firms that combine global access to top talent across investment asset classes and regions with strong local expertise and connections. The right access inside and outside the country is essential. With it, a search firm must be prepared to serve as ambassador to desirable senior-level candidates less likely to have considered Sovereign Wealth Fund opportunities.

Of equal importance, well-qualified search partners can help Sovereign Wealth Funds – as well as the investment firms interested in better serving this market – to clarify strategic talent needs and put the right professionals in relevant positions. During a transformational period for this sector, time is often of the essence, since opportunities may be too rewarding to pass by.

## Compensation Matters

Compensation packages at SWFs have traditionally lagged behind those offered by other investment firms. But during a transitional period for the sector, some change is likely on this front as well.

Rising demand for top-quality, senior professionals with specific investment expertise is likely to exert upward pressure on compensation. The right search partner can be a valuable resource in this regard. At CTPartners, for example, consultants often provide guidance to SWFs about innovative compensation solutions that may best support their recruitment of world-class talent.

It remains unlikely that compensation packages will match those offered by the biggest global investment players. For certain investment professionals, that won't matter, since by other calculations, especially over the long term, the payoff from a move to a sovereign wealth fund can be highly rewarding.

As one close observer put it, “As an investment professional with a sovereign wealth fund, you are in a great position. You don't have debt, you have all the cash you need, and you are a buyer at a time when a lot of other players are facing real challenges in this economy. To top it off, the relationships that you will be able to build are pure gold.”

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