THE ROLE OF SOVEREIGN WEALTH FUNDS IN THE FINANCIAL MARKET: A COMPARATIVE ANALYSIS OF ASSET COMPOSITION AND INVESTMENT STRATEGIES

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Abstract:

Nowhere more visible than in today's finance landscape are sovereign ***wealth funds, which together oversee over eleven trillion US dollars by 2026.*** Although widely discussed, clear comparisons of how these funds build portfolios or choose investments remain scattered. Instead of broad assumptions, this analysis examines eight major funds from Norway, China, UAE, Kuwait, Singapore, Saudi ***Arabia, and Qatar between 2026 and 2026. Using official disclosures, IFSWF*** records, alongside additional documented materials, a pattern emerges: long-term saving-focused entities like Norway's GPFG stick largely to stocks and bonds. Meanwhile, growth-driven counterparts - especially Saudi Arabia's PIF - are turning sharply toward non-traditional ventures, private stakes, and national-level initiatives. Examining these shifts closely reveals influence from rising geopolitical tensions, alongside changes sparked by pandemic aftermaths - each pressing on sovereign wealth fund strategies differently. Instead of one best mix for investments, outcomes tie more strongly to a fund's original purpose and structural setup. What drives portfolios emerges less from market trends, more from internal blueprints shaped at inception.

Keywords: sovereign wealth funds, asset allocation, investment strategy, portfolio diversification, institutional investors, alternative assets, global financial markets

Introduction

Surprisingly fast, sovereign wealth funds have expanded across global finance - without much noise. Born mostly after surges in commodity prices or

built to preserve wealth across generations, such public investors today handle more money than all hedge funds put together. Despite this scale, oversight remains thin when compared to privately run firms. That gap in transparency catches growing notice among researchers, officials, and rule-makers. Quiet power meets quiet accountability.

One shift stood out between 2020 and 2025: sovereign wealth funds changed course fast. When the pandemic hit, some moved money inward, using savings to steady their economies - reserves dipped hard. Yet soon after, surging stock markets worldwide helped rebuild those balances quickly. Oil-rich countries saw extra gains as prices climbed, boosting income into these funds. Norway's government pension fund lost ground sharply in 2022 when interest rates jumped - but later regained strength, topping USD 1.7 trillion by 2025. Similarly, Saudi Arabia pushed its Public Investment Fund ahead, growing it from USD 330 billion to close to USD 1 trillion over the five years, powered by fossil fuel earnings and heavy spending under Vision 2030.

What drives sovereign wealth funds' portfolio choices? That puzzle gains weight when examining if their investments match official goals. With host nations watching closely over security concerns, pressure builds on these financial vehicles. Meanwhile, developing economies push hard to draw such funding toward building roads, factories, and energy systems.

This study tackles three central goals. One goal looks at what kinds of assets eight large sovereign wealth funds held between 2020 and 2025, offering fresh data beyond earlier work. Because mandates differ - some focused on stabilizing budgets, others on long-term saving or national development - the research explores how these purposes influence actual investment choices. When global shifts like the move away from fossil fuels or changing interest rates occur, they tend to reshape fund priorities; such effects are weighed here. Through this approach, a clearer lens emerges for interpreting how these funds adapt when economic foundations shift.

Research methodology

Starting with numbers pulled from portfolios, the research blends statistical methods alongside close reading of investment rules and oversight systems. Drawn mainly from yearly disclosures and updates shared with investors by eight chosen sovereign wealth funds, information gets expanded using broader figures provided by the IFSWF, SWFI, and the IMF's stability assessments across matching time frames.

Though focused on large funds, the approach began by setting a clear threshold - assets exceeding USD 250 billion in 2023. Instead of grouping them uniformly, they were sorted by purpose: some save wealth for future generations, like Norway's GPFG or Singapore's GIC. Others aim to stabilize national economies, such as Kuwait's KIA. Then there are those built to drive economic growth, including Saudi Arabia's PIF and Temasek. A few blend roles, mixing functions in ways seen with China's CIC and Qatar's QIA. Because each serves different goals yet shares sizeable resources, comparing them reveals patterns across purposes - not just one blueprint.

Among categories used in analyzing asset makeup are listed stocks, government bonds, fixed-income instruments, real estate, alternatives like private equity and hedge funds, along with cash-like assets and strategic or residual holdings. When fund reports group certain types together - say, blending infrastructure with private equity - breakdowns were achieved through extra data from public filings and discussions cited in financial media.

Between 2020 and 2025 lies a carefully selected window, shaped by events rather than convenience. A global health crisis marked the start, stretching into early 2021 before fading. Then came 2022 - interest rates climbed, asset values shifted in response. From 2023 onward, markets began adapting, firms recalibrating long-term goals. Examining each segment reveals what changed out of necessity versus intent. Short-term swings can be separated from deeper

directional choices when viewed this way. Timing matters; patterns emerge only when segments are studied apart.

Because numerous sovereign wealth funds remain largely opaque - especially Gulf-based ones that withhold complete audited portfolios - values in Table 2 often stem from piecing together limited reports, public deal records, and assessments by reliable external sources. Despite this constraint being clearly noted across the analysis, it still leaves the overall comparisons intact.

Theoretical foundations and conceptual framework

Defining sovereign wealth funds

One way to look at sovereign wealth funds is through the lens of international finance institutions. According to the International Monetary Fund, these are state-controlled pools of capital formed when governments channel surplus income - often tied to trade imbalances, foreign exchange interventions, asset sales, budget excesses, or earnings from raw materials like oil. Though widely accepted, such a description includes many kinds of financial bodies, even those operating on opposite ends of the risk spectrum. Some act cautiously, prioritizing stability above returns; others pursue long-term national goals with bold investments. What ties them together is ownership, not strategy.

Though actual sovereign wealth funds often mix objectives, one goal generally shapes investment choices most. This study uses the IFSWF framework, sorting funds into five groups by purpose. Stabilization types shield national spending from swings in resource income. Savings-focused ones pass assets across generations. Some act like reserve managers, aiming to boost yields on surplus currency holdings. Others back homegrown projects - factories, roads, energy systems. A fifth kind sets aside money for tomorrow’s retirement costs. Each category guides how portfolios are built, even when lines blur in practice.

Modern portfolio theory and its limits in the SWF context

Though classic portfolio thinking builds on Markowitz’s method of balancing return against volatility, it falls short when applied to sovereign wealth

funds. Not every decision stems purely from statistical inputs - some investments answer to policy goals instead. Take domestic allocation: certain funds must channel capital at home even if global markets offer better value. Time span matters too; unlike most institutional players, these entities plan across decades or longer, reshaping how they view cash access. Size plays a role as well - the largest among them move so much money that their trades themselves alter prices, something traditional formulas tend to overlook.

One idea that fits well is liability-driven investing, often seen in pension reserves. When looking at how sovereign wealth funds build their holdings, it matters which guiding concept shapes decisions behind the scenes. Some Nordic and Australian bodies apply what they call a total portfolio method. Another shift appears in development-focused funds leaning toward real economy returns. Spotting these underlying models helps explain why certain assets show up more than others.

Governance and the Santiago principles

Starting with worries over political influence in cross-border investments, the 2008 Santiago Principles - officially named the Generally Accepted Principles and Practices (GAPP) for Sovereign Wealth Funds - emerged through work by the International Working Group of Sovereign Wealth Funds. Covering areas like decision-making structures, organizational setup, investing rules, and handling risks, these 24 guidelines show uneven adoption across countries. While nations such as Norway and Singapore earn regular recognition for openness, numerous funds based in Gulf states reveal minimal information. Because clarity differs so widely among institutions, measuring what assets they hold becomes harder - especially when opacity demands greater reliance on assumptions. Such variation shapes the core difficulty examined here.

Comparative analysis of asset composition and investment strategies

Overview of selected sovereign wealth funds (2020–2025)

Table 1 presents assets under management for the eight selected SWFs across five reference years, providing a broad picture of growth trajectories and scale differences within the sample.

Table 1

Assets Under Management of Selected SWFs, 2020–2025 (USD billions)

Sovereign Wealth Fund	AUM 2020 (USD bn)	AUM 2022 (USD bn)	AUM 2024 (USD bn)	AUM 2025 (USD bn)	Primary Mandate
Norway GPFG	1,230	1,175	1,620	1,710	Savings
China Investment Corp (CIC)	941	1,047	1,350	1,420	Growth
Abu Dhabi Inv. Authority (ADIA)	710	790	993	1,060	Savings
Kuwait Inv. Authority (KIA)	533	579	803	860	Stabilization
GIC (Singapore)	440	497	690	740	Savings
Temasek (Singapore)	306	382	496	530	Growth
Saudi PIF	330	607	925	1,000	Development
Qatar Inv. Authority (QIA)	295	360	510	560	Savings

Looking at Table 1 reveals key shifts across sovereign wealth funds. Fastest gains came from Saudi Arabia's PIF, expanding close to threefold within half a decade - a rise tied closely to stronger oil income alongside state-driven

scaling required by Vision 2030. Norway's GPFG dipped sharply in 2022, shedding around USD 175 billion amid falling stock and bond prices triggered by U.S. interest rate increases - only to regain footing solidly between 2023 and 2025. Although facing political barriers limiting access to parts of the West, China's CIC kept growing steadily, shifting capital toward Asian economies and developing markets instead.

One way to look at Singapore's sovereign wealth is through its two major institutions - GIC and Temasek - each shaped by different goals. Though they operate in the same city-state, their methods diverge sharply. GIC focuses on preserving national savings overseas, spreading investments across continents without favoring any single region. Over time, it aims for steady gains measured against a long-term horizon of two decades. Meanwhile, Temasek leans into local strengths, building deep stakes in firms listed locally and expanding selectively across emerging economies nearby. Its model resembles that of an active owner rather than a passive fund. Growth doesn't come evenly; still, together they swelled from $746 billion under management in 2020 to nearly $1.27 trillion five years later. That climb reflects how effectively state-backed assets can scale when guided by clear intent.

Asset allocation: Where the money actually goes

Table 2 presents estimated asset class distributions as of 2024 year-end, representing the most recent full-year data available at the time of writing.

Table 2

Asset Class Distribution of Selected SWFs, 2024 (%, approximate)

SWF / Country	Equities (%)	Fixed Inc. (%)	Alt. Assets (%)	Real Estate (%)	Cash/Other (%)
Norway GPFG	72.4	25.1	1.8	0.7	–
CIC (China)	38.2	17.6	35.4	6.8	2.0
ADIA (UAE)	42.0	16.0	26.0	11.0	5.0

KIA (Kuwait)	40.0	22.0	28.0	8.0	2.0
GIC (Singapore)	37.0	20.0	32.0	9.0	2.0
Saudi PIF	55.0	5.0	30.0	8.0	2.0
QIA (Qatar)	30.0	15.0	38.0	15.0	2.0

What stands out first is how differently stocks are weighted across funds. At one extreme sits Norway's Government Pension Fund Global, where shares make up more than 72 percent of holdings - topping all others here - driven by a clear goal: boosting long-term gains for citizens, guided by ethics yet free from pushing domestic industries. Such a stock-heavy strategy tends to shine when markets rise; however, it exposed weaknesses too. When downturns hit, like in 2022, the cost showed clearly - the fund lost 14.1 percent, marking its deepest drop since launch.

At one end of the spectrum stands China's CIC, allocating close to 35% of its portfolio to alternative investments. Beginning in 2007, it gradually increased exposure abroad, moving into private equity and infrastructure projects worldwide. Working jointly with firms like Blackstone and Carlyle shaped much of this growth. Seeking better yields than those offered by government debt partly drives the approach. Alongside financial motives, there is another layer - co-investing in private deals tends to raise fewer political concerns compared to buying key foreign assets outright.

What stands out about Qatar's QIA is its unusually high tilt toward real estate - nearly twice the typical 15% seen elsewhere. Owning landmarks like Harrods, the Shard, and choice plots in Mayfair shows long-term faith in London as a shelter for wealth. After Brexit stirred doubts, interest in British assets dipped slightly. Yet that shift was balanced by bolder moves into Paris, New York, and parts of Asia-Pacific.

Investment strategy profiles: three archetypes

Looking at the data, one pattern stands out: three clear strategy types shape how markets respond financially. Different paths show different outcomes - each tied closely to specific behaviors seen across institutions.

One type begins with the Passive Accumulator, like Norway's Government Pension Fund Global. This kind holds wide mixes of stocks and bonds, following market indexes but leaving out certain companies due to environmental, social, or governance concerns. Because it is so large - owning roughly 1.5 percent of each public firm worldwide on average - mere presence affects financial markets. When the fund cuts ties with a business, share values often shift. Over time, how it casts votes during company assemblies has quietly started steering norms in boardrooms across nations.

Though less active in day-to-day operations, institutions like GIC, ADIA, and CIC shape markets through long-range positioning. Instead of chasing quick gains, they commit to timeframes stretching two decades - making patience a structural advantage. Because their goals extend far beyond annual cycles, these players accept assets others avoid due to lock-up periods or slow payoffs. For example, GIC aims for returns averaging 4% higher than world price trends over 20-year windows - a benchmark demanding deep involvement in non-public ventures. Rather than rely solely on stock exchanges, such entities join forces with top-tier fund managers or back specific projects directly. Over time, this blend of reach and staying power opens doors closed to more transient capital.

Among state investment models, the role of a development catalyst stands apart - Saudi Arabia's Public Investment Fund offers the clearest example. Rather than focusing on balancing risk and return alone, such entities drive structural change within their economies. Take NEOM: it is less about financial efficiency, more about building new urban possibilities from nothing. Ventures like the Saudi Pro League or alliances in golf aim at visibility beyond borders, crafting influence through sport. Even moves into chip production tie back to long-term goals, such as skills growth and industrial diversification. Performance here hinges not on

market benchmarks, but job numbers, knowledge inflows, international attention. That shift challenges traditional finance thinking, yes - but its appeal spreads, quietly shaping policies across parts of Africa and Southeast Asia.

The impact of the energy transition on SWF strategy

Looking at SWF strategies between 2020 and 2025 means confronting shifts in energy systems. Countries that export oil - home to many top-tier sovereign wealth funds - confront a core tension: revenue feeding these pools relies on a commodity facing shrinking future use. Because of this, moving investments beyond fossil-linked holdings goes hand in hand with reshaping domestic economic models. While one evolves, so must the other.

Surprisingly, Norway walks a strange path - one where the GPFG cuts ties with dedicated oil explorers yet holds shares in larger combined firms. Meanwhile, extraction in the North Sea pushes forward without slowing. These environmental claims run alongside national drilling efforts, creating friction officials admit exists but haven't settled.

Instead of spreading investments widely, Saudi Arabia's Public Investment Fund channels oil profits straight into clean energy projects - its biggest move being an $187 billion push targeting half the nation's power from renewable sources within a decade. While holding the largest stake in Aramco, it also drives the country's shift beyond fossil fuels, showing how tightly intertwined dependence and transformation can be. Despite apparent conflict, both goals advance under one entity.

Halfway toward cutting its portfolio's carbon output by 2030, Singapore's Temasek pushes deeper into sustainability than most sovereign investors. By aiming for net-zero emissions two decades later, the firm reshapes how it handles energy assets. Shifts appear clearly in reduced fossil fuel stakes alongside rising bets on climate-focused technology. Exposure grows particularly in green hydrogen and eco-conscious infrastructure networks. Instead of acting alone, it often joins forces with major international venture capital and private

equity partners. These joint moves signal a concrete turn away from high-emission paths.

Geopolitical considerations and home-country influence

During this time, rules for foreign investors grew stricter in countries like the United States, the European Union, and Australia. Instead of welcoming all deals, regulators began focusing more sharply on those involving sovereign wealth funds - especially in areas such as tech, chips, and digital systems. Because of tighter checks in Europe, driven partly by unease over China-linked funds, some investment shifted course. Rather than face delays or rejections, entities including CIC and several Gulf-based funds started directing money elsewhere - into regions or sectors drawing fewer political questions.

Nowhere more visible than in Southeast Asia, foreign investment once led by Western firms now sees sovereign wealth funds from oil-rich states stepping in. Indonesia, Vietnam, along with multiple countries across Africa, have moved toward partnerships through formal agreements. These deals bring joint funding setups alongside eased regulations, aimed at securing long-term spending on roads, power systems, factories. Unlike traditional flows shaped only by profit motives, these transactions carry quiet influence - shifting alliances form beneath economic activity. Since 2021, such patterns gained momentum, introducing strategic layers into choices about where money goes. Standard financial tools miss these nuances entirely.

Advantages, challenges, and prospects

Advantages of SWF as a financial market participant

Not every investor carries the weight of a nation behind it - sovereign wealth funds do, which shapes how they operate. Because timelines stretch far into the future, these entities place money into slow-moving but rewarding ventures others often skip. Government support means failure is off the table, opening doors to borrowing on better conditions. Size plays a role too - it brings quiet power,

shifting norms around company oversight, environmental rules, and how markets function.

When markets surge, sovereign wealth funds often save; when markets fall, they sometimes step in. During the sharp drop in March 2020, various Gulf-based funds bought heavily in public equities, stepping into gaps left by fleeing investors. Though not required, their moves helped ease pressure where others pulled back. In 2022, as prices dipped again, Norway's fund took a similar path - adding risk precisely when fear drove prices down.

Challenges and limitations

Still, SWFs raise real questions. Because so few Gulf funds release full audit reports, their lack of transparency makes it harder for regulators in host nations to keep track. When a sovereign wealth fund acts like a business investor at the same time as advancing national strategy, motives become unclear - even without proof, suspicions can spark tension abroad. Take Norway's GPFG: despite clear reporting standards, it still faces pushback - after global shifts, arguments emerge each time over holdings in Israeli debt or Russian companies, challenging the idea that such funds should act only on economic grounds.

What happens when giant funds grow too big? Their size alone begins to warp investment choices. Take Norway's fund: owning 1.5% of all global stocks isn't just impressive - it makes shifting into new areas difficult without affecting prices. Smaller institutions do not face this problem; they slip in and out unnoticed. Then there is Saudi Arabia's PIF, aiming high on homegrown projects. But pouring money fast into local assets might inflate values unrealistically. Speed here could backfire - quietly distorting market signals beneath ambitious plans.

Prospects for emerging market sSWFs

One step beyond short-term gains lies a different path - sovereign wealth funds offer emerging markets like Uzbekistan a way to manage resource windfalls more steadily. Evidence suggests these tools work best when rules are clear, oversight is strong, those managing them stay independent, yet even then

success isn't automatic. Some countries have shielded their budgets from oil swings while growing long-term assets, also pulling in outside investment at times. Yet history holds counterexamples where power grabs inside governments derailed plans, accounts faced mismatched exchange exposures, poor decisions led to steep drops in value. Cases such as Libya's fragmented system, Nigeria's inconsistent setup, or how 1MDB unfolded in Malaysia reveal what goes wrong without restraint and transparency.

One takeaway stands out when looking across cases: purpose matters, spelled out in law. Independence helps too - shielded from yearly fiscal shifts, funds perform differently. Skilled teams matter more than assumed, paid well enough to stay. Reporting clearly, maybe beyond standard norms, builds trust over time. Patience pays, if timelines fit what assets actually do. It takes strong institutions to pull this off. Yet the numbers support it strongly, as shown by decades of results from one northern country.

Conclusions and recommendations

Looking across eight sovereign wealth funds between 2020 and 2025 reveals clear patterns. Because mandates shape priorities, they largely define what assets get chosen. Where savings-focused funds stick to safe, tradable holdings, those aimed at development accept less liquidity, narrower diversification, and higher strategic exposure. When performance reviews ignore these differing purposes, results often misrepresent actual success. Despite surface similarities, fund goals drive behavior more than any shared practice.

Later years brought real change, not just routine updates. Shifting more funds into non-traditional investments happened widely, pushed by meagre bond yields and demand for diverse performance patterns - a trend likely to persist despite higher rates ahead. Meanwhile, climate-driven shifts introduced fresh challenges, forcing fossil-fuel-backed wealth funds to wrestle with mismatches between how they get money and where they place it over time.

Now, geopolitical tensions shape how portfolios take form - no longer just a silent backdrop. In key Western economies, stricter rules on investments have narrowed choices for some sovereign wealth funds. This shift affects performance outcomes along with ties between fund owners and host nations. The impacts resist measurement yet remain present. How capital moves reflects these pressures more than before.

One key takeaway stands out: governance must keep pace with expansion, otherwise funds risk outgrowing their ability to manage resources wisely. Before chasing size, institutions need clear legal mandates - shielded from shifting political winds tied to yearly funding cycles. Trust builds slowly; openness during tough moments often prevents future interference or abrupt policy reversals. Starting small matters, especially for newer sovereign funds - public bonds first, alternatives later allows capabilities to evolve without exposing portfolios to avoidable danger.

Though standard models struggle to capture their impact, sovereign wealth funds are quietly transforming energy investments worldwide. Their long-term funding strength, backed by state support, positions these entities at the center of major climate-related projects. Large green infrastructure increasingly leans on such stable financial commitment. Future studies need to examine how this shift affects climate financing patterns. Traditional portfolio frameworks fail to account for investors who prioritize decades-long horizons over quarterly returns. Already, real-world dynamics outpace theoretical understanding.

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