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SOVEREIGN WEALTH FUND APPLICATIONS IN TURKEY AND THE WORLD*

*Seçkin ARSLAN** - Ayberk Nuri BERKMAN*** - Tuğba KAYIKCIOĞLU*****

ABSTRACT

In the study, general information on Sovereign Wealth Funds (SWF) which are applied in many world countries and have been increasing rapidly since the year 2000 is provided. The examples of Norway, Abu Dhabi, and China, which are in the first three ranks regarding the size of the fund, are included, and Azerbaijan and the recently established Turkey's SWFs are examined. Upon examining the given examples, it is tried to determine the similarities or differences between Turkey's SWFs and conventional SWFs in terms of objectives and resources.

SWFs, in general, are expressed as public savings of the countries that are allowed to be invested abroad using transferring a considerable part of current account/budget surpluses, natural resources as well as privatization revenues to future generations for them to live more comfortable lives.

It is seen that Azerbaijan, Abu Dhabi, and Norway provide resources for the fund by using oil revenues, while China utilizes non-commodity sources as the means of funding. Turkey, on the other hand,

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** Dr. Öğr. Üyesi, Niğde Ömer Halisdemir Üniversitesi İ.İ.B.F. Bankacılık ve Finans Bölümü, E-posta: seckin_arslan@hotmail.com

*** Dr. Öğr. Üyesi, Niğde Ömer Halisdemir Üniversitesi İ.İ.B.F. Bankacılık ve Finans Bölümü, E-posta: aberkman@ohu.edu.tr

**** Yüksel Lisans Öğrencisi, Niğde Ömer Halisdemir Üniversitesi, Sosyal Bilimler Enstitüsü, İşletme Bölümü, Unvan Kurum, E-posta: tgb.kayikcioglu@gmail.com

prefers resources such as privatization revenues and public revenues. Regarding funding resources, 57% of SWFs are based on oil and gas revenues, and 43% are based on non-commodity revenues.

Consequently, the recently established TSWF might be providing Turkey with crucial opportunities for achieving its targets over the years 2023, 2053 and 2071; for performing its mega projects, along with development and improvement of the country. Moreover, it is thought that international investors would invest in Turkey with the effective operations of TSWF and contribute to the growth of the Turkish economy along with the revenues.

STRUCTURED ABSTRACT

The SWF model, which has become increasingly important in the world throughout recent years, is seen as an option for achieving Turkey's economic and foreign political goals. SWFs were established by countries to convert savings and foreign exchange surpluses into foreign investments and to transfer the proceeds to future generations. Turkey's SWF (TSWF) is established with the aim of foreign borrowing to finance the internal markets. Upon investigation of the leading SWFs in the world; it is seen that Azerbaijan, Abu Dhabi, and Norway provide resources for the fund by using oil revenues, while China utilizes non-commodity sources as the means of funding. Turkey, on the other hand, prefers resources such as privatization revenues and public revenues. Regarding funding resources, 57% of SWFs are based on oil and gas revenues, and 43% are based on non-commodity revenues.

SWFs, in general, are expressed as public savings of the countries that are allowed to be invested abroad using transferring a considerable part of current account/budget surpluses, natural resources as well as privatization revenues to future generations for them to live more comfortable lives (Aykın, 2017: 2).

The main characteristics of SWFs include being established by a state and being under control of the state, Containing important amount of foreign currency, being able to tolerate high risks, making international investments, the long-term nature of the investments made, and having investment policies and objectives different than foreign currency reserves (Beck and Fidora, 2008: 6; TSPAKB, 2008: 7).

The goals of the increasingly vital and increasingly important part of the international financial system are economic growth and transfer of national welfare to future generations, financial stability through macroeconomic policies and economic development. These funds, which aim to provide financial stability, are able to protect the economy against internal and external shocks. Countries using SWFs in order to support economic development also make social investments such as health and education to strengthen human capital as well as infrastructure investments in transportation, energy, communication and strategic sectors. SWFs are special purpose investment funds or assets established to create various investment strategies for the control, management, and development of the state-owned assets (Turkiyevarlikfonu, 2017). SWFs are separated into commodity-based and non-commodity-based according to their sources of capital. The export revenues of oil, natural

gas, and natural resources are mostly in the forefront of commodity-based SWFs. Non-commodity-based SWFs are composed of resources such as high budget surplus, current account surplus and privatization revenues (Aykın, 2011: 3). Countries such as Saudi Arabia, Kuwait, United Arab Emirates, Qatar, Norway and Russia have the largest current account surplus rates in the world's largest oil-funded funds through high exports, while countries such as China, Hong Kong, and Singapore have funds consisted of non-commodity sources (Karagöl and Koç, 2016: 9-10).

It is seen that many developing countries that have not had oil revenues and current surpluses during the recent period have also established SWFs. Today's SWFs have spread to a wide geographical area from Latin American countries to African countries and they have started to be established with the aim of supporting development, evaluating international aids and developing such sectors in which they have invested (banking, finance, infrastructure, real estate and transportation) (Kayıran, 2016: 62). The importance of SWFs is increasing every day in the world, and they are increasing rapidly in number. Although dating back a long time, SWFs have grown strongly due to reasons such as oil prices increase or the rise in international trade and financial globalization, especially within the last 10-15 years (Bayar and Yıldırım, 2013: 68).

There are approximately 80 SWFs in more than 40 countries in the world. These include the Norway Government Pension Fund Global which was established with oil revenues as the world's largest SWF. The largest SWF ever established with non-commodity resources is China Investment Corporation. It is thought that it is necessary to establish a SWF in Turkey because of the reasons such as the non-existence of liquidity problems in countries with SWFs, less influence from the fluctuations in the economy and constant increase in fund size. The draft law on the establishment of SWF is approved by the Parliament on the 19th of August 2016, is issued by the Law No. 6741, and is published in the Official Gazette dated 26th of August 2016 (Kayıran, 2016: 69).

As a result, the recently established TSWF would provide Turkey with significant opportunities for reaching its targets of the years 2023, 2053 and 2071; for carrying out its gigantic projects, and for development and improvement of the country. Furthermore, it is thought that international investors would invest in Turkey with the effective operations of TSWF and contribute to the growth of the Turkish economy along with the revenues.

Keywords: Sovereign Wealth Funds, Savings, Economic Growth

TÜRKİYE'DE VE DÜNYA'DA VARLIK FONU UYGULAMALARI

ÖZET

Bu çalışmada; dünyada birçok ülkede uygulanan ve 2000'li yıllardan itibaren sayıları hızla artış gösteren Ulusal Varlık Fonları hakkında genel bilgiler sunulmaktadır. Fon büyüklüğü açısından ilk üç sırada yer alan Norveç, Abu Dabi, Çin örneklerine yer verilmekte, Azerbaycan ile kısa süre önce kurulan Türkiye Varlık Fonu

incelenmektedir. Verilen örnekler incelendikten sonra Türkiye Varlık Fonu ile geleneksel varlık fonları amaç ve kaynaklar açısından karşılaştırılarak, benzerlik veya farklılıkları saptamaya çalışılmıştır.

Ulusak Varlık Fonları genel olarak, cari fazla, bütçe fazlası, doğal kaynaklar ile özelleştirme gelirlerinin büyük bir bölümünü gelecek nesillere aktarmak ve genellikle fon fazlalarını yurt dışında yatırım yaparak değerlendirmek amacıyla kullanılan kamu tasarrufları olarak ifade edilmektedir.

Dünyadaki varlık fonu örnekleri incelendiğinde; Azerbaycan, Abu Dabi ve Norveç petrol gelirleriyle fona kaynak oluştururken, Çin emtia dışı kaynaklardan elde edilen gelirlerle fona kaynak oluşturmaktadır. Türkiye ise özelleştirme gelirleri ve kamuya ait gelirlerle fona kaynak sağlamaktadır. Fon kaynakları açısından Ulusal Varlık Fonunun %57'lik kısmı petrol ve gaz gelirlerine %43'lük kısmı ise emtia dışı gelirlere dayanmaktadır.

Sonuç olarak, kısa süre önce kurulan Türkiye Varlık Fonu, Türkiye'nin 2023, 2053 ve 2071 hedeflerine ulaşabilmesi, dev projelerini gerçekleştirebilmesi, ülkenin kalkınması ve gelişmesi açısından önemli fırsatlar sunacaktır. Ayrıca Türkiye Varlık Fonu'nun etkin işleyişinin sağlanabilmesiyle uluslararası yatırımcıların Türkiye'ye yatırım yapması ve elde edilen gelirlerle Türkiye ekonomisinin büyümesine katkıda bulanacağı düşünülmektedir.

Anahtar Kelimeler: Varlık Fonları, Tasarruflar, Ekonomik Büyüme

1. INTRODUCTION

The funds with the aim of transferring a large portion of current account or budget surpluses, natural resources and privatization revenues to future generations by means of overseas investment, are referred to as Sovereign Wealth Funds (SWFs). Dating back in the 1950s, SWFs have gained more and more importance over time in the international financial system, especially after the 2008 crisis. Being initially established by countries with natural resources such as oil and natural gas, these funds have recently been established by countries with no oil revenue or current account surplus. The efforts in the establishment of SWFs in Turkey is completed on 26th of August in 2016**.**

Along with the establishment of Turkey's SWF, it is aimed to increase the stability of the economic system in the country, to contribute to the development of the country's economy by efficient management of public assets and to create a stronger Turkey for future generations. This study aims to give information about SWFs in Turkey and the World. In order to better analyze SWF, this study first introduces conceptual information about the definition, objectives, characteristics, types and development of SWFs, and then to examine SWFs in Norway, Abu Dhabi, China and Azerbaijan, as well as information on the establishment, objectives, resources, and economic and political necessity for Turkey's SWF.

2. THE SOVEREIGN WEALTH FUNDS

Wealth, in general, is a compound of entities and objects subjected to market value under possession (Gürsoy, 2007: 26). Fund, however, is defined as banknotes, coins, deposit money or electronic money (Şimsek, 2015: 3).

SWFs, in general, are expressed as public savings of the countries that are allowed to be invested abroad using transferring a considerable part of current account/budget surpluses, natural resources as well as privatization revenues to future generations for them to live more comfortable lives (Aykın, 2017: 2).

In other words, SWFs are the total amount of state-owned or state-controlled financial assets (Truman, 2008: 1). SWFs are investment instruments based on foreign assets, mostly by rich countries in Asia and the Middle East with oil, natural gas, and high trade surplus, but are managed separately from other assets and aim to evaluate the state-owned national savings (Vural, 2008: 14).

2.1. Characteristics of the SWFs

Being under the control of a state government is the most important feature that differentiates SWF from other well-known collective investments such as hedge funds (Akbulak, 2008: 4). SWFs are funds outside the official reserves consisted of foreign currencies and gold which have been accumulated in the central banks. These state-owned and state-controlled funds are not managed by the Central Bank or the Ministry of Finance. The main characteristics of SWFs can be summarized as follows (Beck and Fidora, 2008: 6; TSPAKB, 2008: 7):

- Being established by a state and being under control of the state,
- Containing important amount of foreign currency,
- Being able to tolerate high risks,
- Making international investments,
- The long-term nature of the investments made,
- Having investment policies and objectives different than foreign currency reserves.

2.2. Objectives of the SWFs

While the aims of countries to set up SWFs would differ, the most important of these aims is the utilization of acquired budget surplus. Especially the prosperous countries with oil and various natural resources aim to make profits by managing their liquidity surpluses in the best possible way. Other reasons for the establishment of these funds with the ability of self-source funding are to protect the country's economy from the volatility of revenues and prevent the negative impacts on the government expenditures or the country's economy during periods of growth and contraction (TSPAKB, 2008: 7). It is seen that countries tend to invest their exports and budget surpluses, that is to say, non-commodity sources abroad along with these diversified funds.

The goals of the increasingly vital and increasingly important part of the international financial system are economic growth and transfer of national welfare to future generations, financial stability through macroeconomic policies and economic development. These funds, which aim to provide financial stability, are able to protect the economy against internal and external shocks. Countries using SWFs in order to support economic development also make social investments such as health and education to strengthen human capital as well as infrastructure investments in transportation, energy, communication and strategic sectors (Karagöl and Koç, 2016: 10). SWFs which are established for one purpose at the beginning, varied over time (Akbulak, 2008: 5).

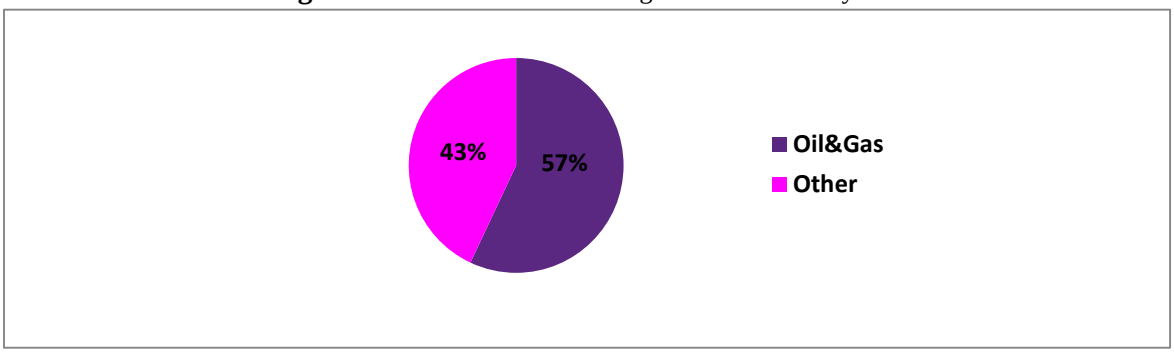
2.3. Types of the SWFs

SWFs are special purpose investment funds or assets established to create various investment strategies for the control, management, and development of the state-owned assets (Turkiyevarlikfonu, 2017). SWFs are separated into commodity-based and non-commodity-based according to their sources of capital. The export revenues of oil, natural gas, and natural resources are mostly in the forefront of

commodity-based SWFs (Karagöl and Koç, 2016: 9). Non-commodity-based SWFs are composed of resources such as high budget surplus, current account surplus and privatization revenues (Aykın, 2011: 3). Countries such as Saudi Arabia, Kuwait, United Arab Emirates, Qatar, Norway and Russia have the largest current account surplus rates in the world's largest oil-funded funds through high exports, while countries such as China, Hong Kong, and Singapore have funds consisted of non-commodity sources (Karagöl and Koç, 2016: 9).

When funding sources are analyzed, it is seen that 57% of SWFs are composed of oil, and natural gas revenues and 43% are of non-commodity revenues.

Figure 1: Distribution of Sovereign Wealth Funds by Source



Source: http://www.swfinstitute.org/sovereign-wealth-fund-rankings (08.17. 2017)

SWFs are subject to various classifications regarding their purposes, and they are categorized into two groups as "stabilization funds" and "savings funds." The International Monetary Fund (IMF), however, has separated the SWFs in accordance with their purposes of the establishment into five groups such as stabilization funds, savings funds, reserve investment companies, development funds and pension reserve funds, respectively (Aykın, 2011: 4; IMF, 2007: 46):

i. Stabilization Funds: These are the funds that protect the budgets and economies of the prosperous countries regarding rich natural resources from the changes in commodity price (usually oil) volatility.

ii. Savings Funds: These funds aim to pass the countries' wealth over future generations. For prosperous countries with rich natural resources, savings funds transfer non-renewable resources to future generations through diversification with portfolios of international financial assets or allow them to reach long-term goals.

iii. Reserve Investment Companies: These companies aim to reduce the negative transportation costs created by reserve holdings or to monitor investment policies that provide high returns.

iv. Development Funds: These funds refer to resources for financing the prioritized socioeconomic projects such as infrastructure.

v. Retirement Reserve Funds: These funds generate resources against the unexpected payment obligations that may arise in the state budget.

2.4. Development of the SWFs

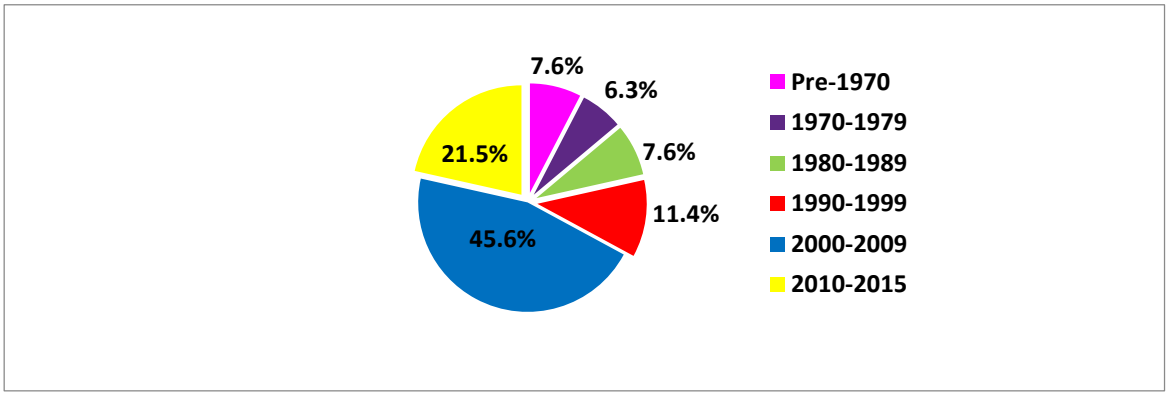
The ongoing debate on SWFs dating back to the 1850s has increased since 2005. Founded in 1854 in Texas, the Texas Permanent School Fund was recognized as the first application of SWFs in the world. However the Kuwait Investment Fund, established in 1953, is now recognized as the first fund with a considerable size. In 1974, TEMASEK Holding was established in Singapore. The Abu Dhabi

Investment Fund, which occupies the second rank with a size of 828 billion USD today, was established in 1976 (Aykın, 2011: 4).

The number and volume of SWFs, which are initially established to evaluate the income or foreign currency surplus obtained by countries with natural resources such as oil and mines through exporting them, have increased over time and reached considerable sizes. SWFs have not only increased in number and volume but have also been diversified in terms of funding sources and investment areas (Kayıran, 2016: 59-62).

It is seen that many developing countries that have not had oil revenues and current surpluses during the recent period have also established SWFs. Today's SWFs have spread to a wide geographical area from Latin American countries to African countries and they have started to be established with the aim of supporting development, evaluating international aids and developing such sectors in which they have invested (banking, finance, infrastructure, real estate and transportation) (Kayıran, 2016: 62).

Figure 2: Breakdown of Sovereign Wealth Funds by the Year of Establishment (%)



Source: http://www.swfinstitute.org/sovereign-wealth-fund-rankings/ (08.17.2017)

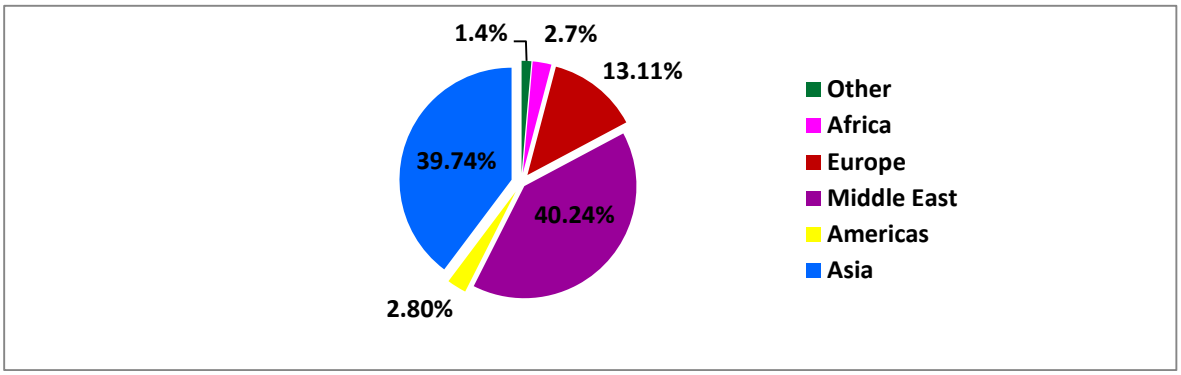
Upon analyzing the above data, it is observed that 33% of SWFs are established before the year 2000, and 67% are established after the year 2000.

3. SOVEREIGN WEALTH FUNDS THROUGHOUT THE WORLD

The importance of SWFs is increasing every day in the world, and they are increasing rapidly in number. Although dating back a long time, SWFs have grown strongly due to reasons such as oil prices increase or the rise in international trade and financial globalization, especially within the last 10-15 years (Bayar and Yıldırım, 2013: 68). Especially during the period following the 2008 global economic crisis, SWFs and their roles became very important (Karagöl and Koç, 2016: 9).

There are approximately 80 SWFs in more than 40 countries around the world. Upon considering the global distribution, it is seen that the funds are concentrated in the Middle East and Central Asia due to abundant natural resources and the Far East due to export and finance centers (Karagöl and Koç, 2016: 11). The total size of SWFs, which reached 7.4 trillion USD by March 2017, is comprised of approximately 4.2 trillion USD generated from natural resource-based funds and 3.2 trillion USD from non-commodity funds (Swfinstutie, 2017). SWFs, which have a growth rate of 21.5% between 2010 and 2015, are expected to reach a size of 15 trillion USD with 21 new wealth management funds expected to be established by 2020 (Karagöl and Koç, 2016: 9).

Figure 3: Breakdown of Sovereign Wealth Funds by Region



Source: http://www.swfinstitute.org/sovereign-wealth-fund-rankings/(08.17.2017)

When the distribution of the World's SWFs by region is examined as of June 2015, it is seen that 40.24% are in the Middle East, 39.74% in Asia, 13.11% in Europe, 2.8% in America, 2.7% in Africa and 1.4% in other regions. In the regional sense, 79.98% of the funds are from the Middle East and Asia (Aykın, 2011: 8).

Table 1: The Biggest 20 Sovereign Wealth Funds in the World

ROW	COUNTRY	FUND NAME	ASSETS (USD-Bil)	INCEPTION YEAR	SOURCE OF FUNDS
1	Norway	Government Pension Fund-Global	922.11	1990	Oil
2	UAE- Abu Dhabi	Abu Dhabi Investment Authority	828	1976	Oil
3	China	China Investment Corporation	813.8	2007	Non-Commodity
4	Kuwait	Kuwait Investment Authority	524	1953	Oil
5	Saudi Arabia	SAMA Foreign Holdings	514	1952	Oil
6	China- Hong Kong	Hong Kong Monetary Authority Investment Portfolio	456.6	1993	Non-Commodity
7	China	SAFE Investment Company	441	1997	Non-Commodity
8	Singapore	Government of Singapore Investment Corporation	359	1981	Non-Commodity
9	Qatar	Qatar Investment Authority	320	2005	Oil&Gas
10	China	National Social Security Fund	295	2000	Non-Commodity
11	UAE- Dubai	Investment Corporation of Dubai	209.5	2006	Non- Commodity
12	Singapore	Temasek Holdings	197	1974	Non-Commodity
13	Saudi Arabia	Public Investment Fund	183	2008	Oil
14	UAE-Abu Dhabi	Mubadala Investment Company	125	2002	Oil
15	UAE-Abu Dhabi	Abu Dhabi Investment Council	110	2007	Oil
16	South Korea	Korea Investment Corporation	108	2005	Non-Commodity
17	Australia	Australian Future Fund	99.4	2006	Non-Commodity
18	Iran	National Development Fund of Iran	91	2011	Oil&Gas
19	Russia	National Welfare Fund	72.2	2008	Oil
20	Libya	Libyan Investment Authority	66	2006	Oil

Source : http://www.swfinstitute.org/sovereign-wealth-fund-rankings/_ (08.17.2017)

Table 1 shows that Norway, the United Arab Emirates-Abu Dhabi and China loom large among the world countries in terms of fund size.

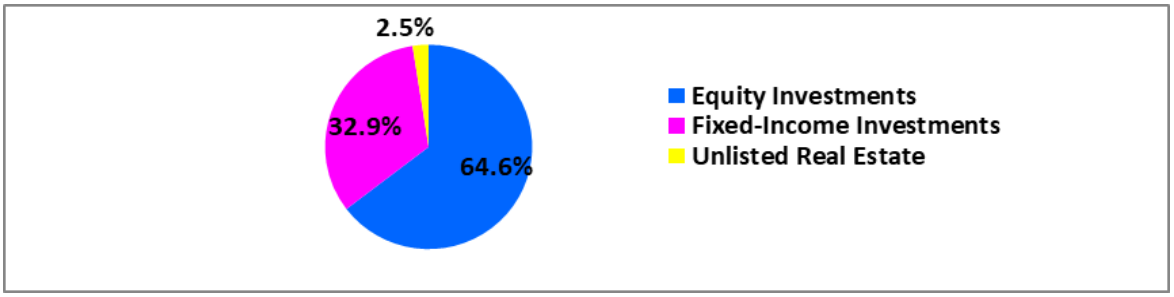
3.1. Examples of Selected SWFs in the World

There are approximately 80 SWFs in more than 40 countries in the world. These include the Norway Government Pension Fund Global which was established with oil revenues as the world's largest SWF. The largest SWF ever established with non-commodity resources is China Investment Corporation. In this part of the study, the funds from Norway, Abu Dhabi, China, and Azerbaijan are briefly introduced.

3.1.1. Norway Government Pension Fund Global

Founded in 1990, Norway Government Pension Fund Global is one of the world's largest and most successful SWFs. The fund is being managed by the Norges Bank Investment Management (NBIM) Company of the Norwegian Central Bank on behalf of the Norwegian Ministry of Finance (Sürekli and Yalçıner, 2015: 11). The fund is being managed by more than 550 employees from 35 countries (Nbim, 2017). This fund, which was founded on the basis of oil income, has a size of 922.11 billion USD. It carries out its activities along with the transfer of revenues to future generations, the long-term management and a stabilization fund (Karagöl and Koç, 2016: 13). 4% of oil revenues are being spent and 96% of the revenues are being invested abroad (Bloomberght, 2017). The Norway Government Pension Fund Global has invested in nearly 9,000 companies in 77 different countries in the world, with the size of the investment being 1.3% of the total size of registered companies worldwide and 2.3% of the total size of European companies (Nbim, 2017; Sürekli and Yalçıner, 2015: 11). As far as Norway Government Pension Fund's capital investments are concerned, it is seen to have shares in some of the world's leading companies such as Nestle, Royal Dutch Shell, Apple, Roche Holding, Novartis, Alphabet, Microsoft, Johnson & Johnson (Karagöl and Koç, 2016: 13). Transparency is one of the most crucial elements in the management of the fund. According to the LMT (Linaburg-Maduell Transparency) Index, Norway Government Pension Fund has the world's highest auditing score with ten full rankings (Karagöl and Koç, 2016: 14).

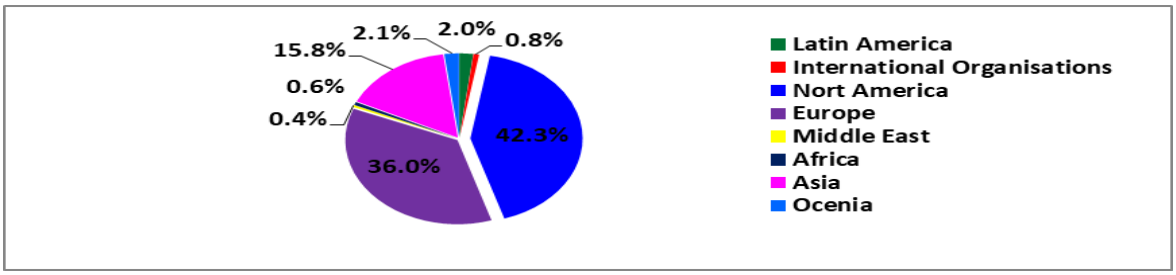
Figure 4: Areas of Investment of Norway Government Pension Fund Global (%)



Source: https://www.nbim.no/en/investments/ (07.18.2017)

When the investment areas of the fund are analyzed as of 31st of March 2017, it is seen that 64.6% of the portfolio is utilized in stock markets, 32.9% in fixed-income investment instruments and 2.5% in real estate sector (Nbim, 2017).

Figure 5: Distribution of Norway Government Pension Fund Global by Continent 2016 (%)



Source: https://www.nbim.no/ Norges Bank, Government Pension Fund Global Annual Report, p.27, 2016 (08.17.2017)

As of 31st of March 2016, 44.3% of the investments were in the United States, 36% in Europe, 15.8% in Asia, 2.1% in the Pacific Region, 0.6% in Africa and 0.4% in the Middle East (Nbim, 2016: 27). According to the data obtained from the Norges Bank, which manages Norway Government Pension Fund Global, the value of investments made in Turkey by the end of 2016 has reached 936 million USD. A significant portion of the fund's investments is utilized by some companies in Turkey. Even though the fund had merely a small share in Turkey as of 2001, its investments continued to increase as of 2008. The fund has invested a total of 112.6 million USD in Garanti Bank. The 20th largest investment among the fund's global investments is Pınar Süt Mamülleri Sanayii A.Ş. and the total amount of investment in the company's stocks has exceeded 10 million USD (TRTHABER, 2017).

3.1.2. Abu Dhabi Investment Authority (ADIA)

Abu Dhabi Investment Authority (ADIA) is a public entity established by the Abu Dhabi Government in March 1976 as an independent investment institution (ADIA, 2017). This fund, having a size of 828 billion USD, is based on oil revenues. Considering fund size, it is the second largest SWF in the world and the largest SWF in the Middle East. The fund is being supervised by the Abu Dhabi Government (Swfinstitute, 2017). The fund has two main objectives. These include diversifying the oil-based economy and establishing/supporting new sectors that would operate along with the creation of employment areas (Karagöl and Koç, 2016: 15). 70% of the country's budget surplus is being transferred to ADIA and the remaining 30% to Abu Dhabi Investment Council (ADIC) (Swfinstitute, 2017). ADIA has a disciplined investment process which aimed at delivering stabilized returns at specified risk parameters in the long-term (ADIA, 2016: 14). ADIA's mission is to sustain Abu Dhabi's long-term prosperity by cautiously increasing capital along with a disciplined investment process (ADIA, 2016: 1). Upon examining the investment areas of the fund, it is seen that they have exhibited more activities in both developed and developing countries.

Figure 6: Investment Area of ADIA Fund (%)

	MINIMUM	MAXIMUM
Developed Equities	32	42
Emerging Market Equities	10	20
Small Cap Equities	1	5
Government Bonds	10	20
Credit	5	10
Alternatives	5	10
Real Estate	5	10
Private Equity	2	8
Infrastructure	1	5
Cash	0	10

Source: http://www.adia.ae/En/pr/2016/pdf/ADIA_2016_Review_01_FULL.pdf,(15.06.2017)

Upon examining the global distribution of investments made by the fund, it is seen that the majority of investments are made in North America and Europe.

Figure 7: Global Distribution of ADIA Fund

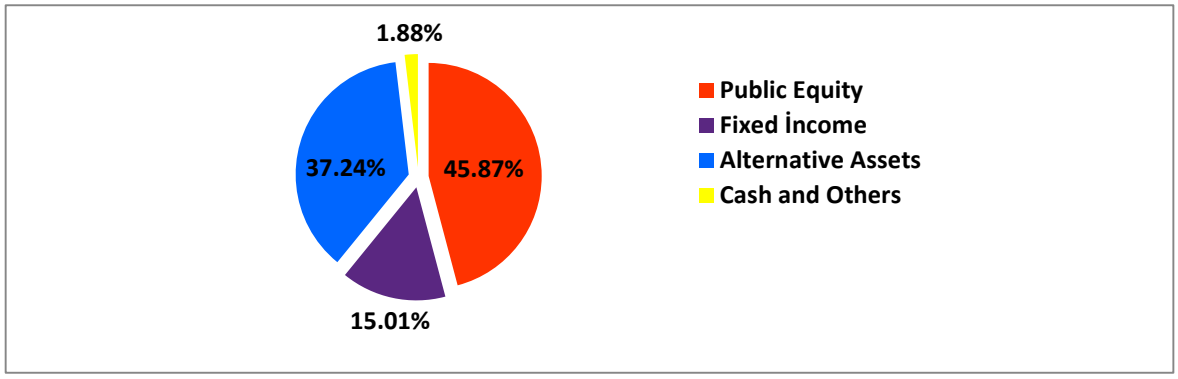
	MINIMUM	MAXIMUM
North America	35	50
Europe	20	35
Emerging Markets	15	25
Developed Asia	10	20

Source: http://www.adia.ae/En/pr/2016/pdf/ADIA_2016_Review_01_FULL.pdf,(15.09.2017)

3.1.3. China Investment Corporation (CIC)

The People's Republic of China is a country with a total of four SWFs, namely, SAFE Investment Company founded in 1997, National Social Security Fund founded in 2000, China Investment Corporation and China-Africa Development Fund both founded in 2007. Among these funds in China, China Investment Corporation (CIC) is the largest SWF (Swfinstitute, 2017). CIC is the largest fund which is founded with non-commodity resources having a size of 813.8 billion USD (Karagöl and Koç, 2016: 14). This fund, established with an investment of 200 billion USD on the 29th of September 2007, was declared to abide by the Santiago Principles in 2008 (China-Inv, 2017). CIC serves as an instrument of obtaining maximum return within the acceptable risk tolerance for the shareholder and diversifying foreign currency assets (China-Inv, 2017). The People's Republic of China has taken the example of *Government* of *Singapore Investment Corporation* for its state investment funds (TSPAKB, 2008: 12).

Figure 8: Investment Portfolio Distribution of China Investment Corporation (CIC) (%)



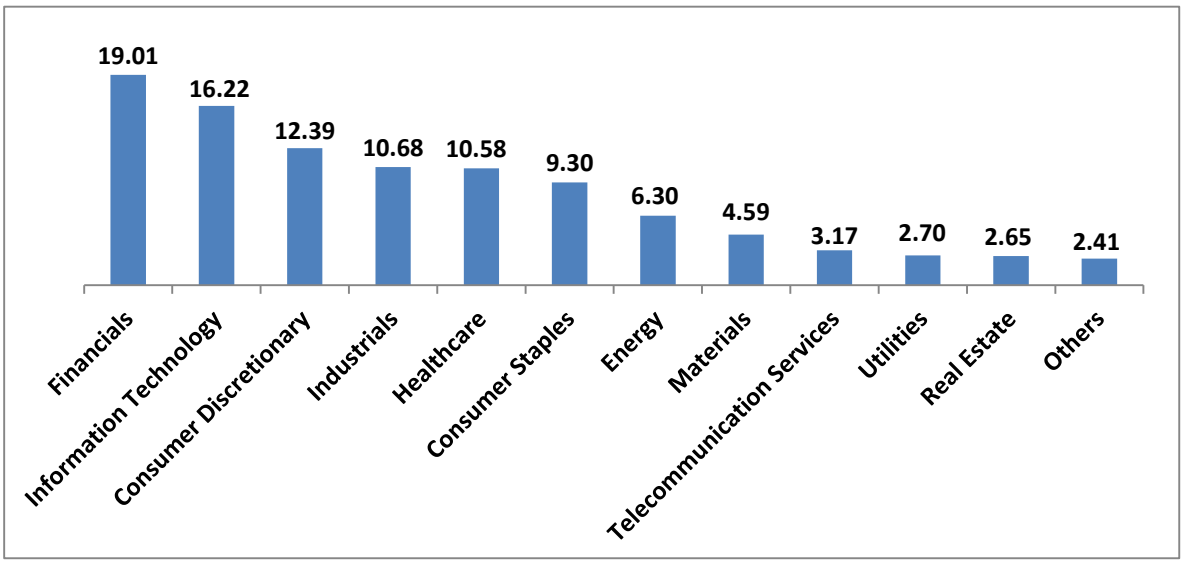
Source: http://www.china-inv.cn/wps/portal/ (08.17.2017)

The management and board of directors of CIC are directly affiliated with the President of the People's Republic of China (TSPAKB, 2008: 15). More than half of 200 billion USD capital is devoted to CIC's global investments. CIC's global investment activities are being conducted by both CIC International and CIC Capital, while the fund's national investment activities by the Central Huijin (Sun, Li, Wang and Clark, 2014: 657). CIC International was established in September 2011 to conduct and manage overseas investments (China-Inv, 2017). In 2003, Central Huijin Investment Corporation was established to manage the investment activities of the Central Bank of the People's Republic of China (TSPAKB, 2008: 15). Its overseas investments and contributions to its state-owned companies made by the country's existing financial institutions along with its foreign currency-based nature and being managed directly by the State Council strengthen the position of CIC (Şimşek, 2017: 56).

China's SWF also has investment partnerships with other funds. In 2012, Russia-China Investment Fund partnership was established with The Russian Direct Investment Fund. In 2014, the partnership of China-Mexico Fund was also effectuated (Karagöl and Koç, 2016: 14).

As of 31st of December 2016, 45.87% of the investments are made regarding public investments, 22.16% of the long-term investments, 15.01% of fixed-income investments, 37.24% of alternative investment instruments and 1.88% of cash and other investment instruments. Also, it is seen that 33.89% of the investments are realized domestically, and 66.11% of the investments are realized abroad by the end of 2016.

Figure 9: Public Equity in Global Portfolio by Sector (%)



Source: http://www.china-inv.cn/wps/portal/ (08.17.2017)

Upon analyzing the distribution of the investment areas of CIC, the finance sector is seen to take the first rank with 19.01%. The finance sector is followed by information technology, luxury goods (non-essential goods) and health services, respectively.

3.1.4. The State Oil Fund of the Republic of Azerbaijan (SOFAZ)

The source of the State Oil Fund of the Republic of Azerbaijan (SOFAZ), which was established with the Presidential decree on the 29th of December 1999, consists of revenue derived from oil and natural gas. It is a fund that was established to effectively manage revenue from natural sources such as oil and natural gas, to ensure economic development in the country and to improve the living standards of the people (Dış Ekonomik İlişkiler Kurulu [DEİK], 2013: 32). The main income sources of revenue of SOFAZ can be summarized as follows (Aras, Süleymanov, and Zeynalov, 2014: 19):

- Revenues obtained from the sale of Azerbaijan's share of oil and natural gas production,
- The price paid by the shareholders to SOFAZ and the competent state organs related to the oil and natural gas agreements,
- Payments made by the investors for the production of oil and natural gas reserves to benefit from the agreement,
- Azerbaijan's share of profits in the realization of oil and natural gas projects,
- Revenues obtained from oil and natural gas transportation through Azerbaijani territory,

- Revenues derived from assets given by shareholders to The *State Oil Company of the Azerbaijan Republic* (SOCAR) or to competent state institutions within the framework of oil and gas agreements,
- Revenues derived from the placement and management of the fund's assets.

The most important income sources of the fund are the revenues derived from Azeri-Çırak-Güneşli oil reservoir and Şahdeniz natural gas reservoir.

The fund has earned 98.9 billion USD in revenues from the Azeri- Çırak-Güneşli oil reservoir since 2001. The income derived from oil and natural gas revenues is used for financing social and infrastructure projects and international energy projects in which Azerbaijan is a partner. Approximately 58 billion USD had been transferred to the state budget between 1999 and the first quarter of 2014. As of 2006, it contributed 372 million USD for Azerbaijan to pay its share in the construction of Bakû-Tbilisi-Ceyhan (BTC) oil pipeline and 108 million USD for SOCAR to attend to Azeri-Çırak-Güneşli consortium. The fund that supplies other projects besides BTC within the Azerbaijan-Turkey partnership has spent 458 million USD for the Bakû-Tbilisi-Kars railway project and 465 million USD for the construction of the Star oil refinery in İzmir Aliağa. A significant amount of money has been also contributed to improve the level of social welfare of the Nagorno-Karabakh immigrants as resident owners, to construct the new waterline from Oğuz and Gebele regions towards Baku, to restructure the Samur-Absheron water channel and to implement the state education program abroad for the Azerbaijani youth between 2007-2015 (Haberler, 2017). When the investments made by SOFAZ by the end of 2015 are examined, Europe is seen to be ranked first with 43.93% and Asia second with 26.58%. Africa is ranked as the last one with 0.01% (Oilfund, 2015: 23). Furthermore, 82.1% of the fund assets were in fixed-income instruments, 10.2% in the stock market, 3.1% in gold and 4.6% in the real estate sector (Oilfund, 2015: 5). SOFAZ has obtained 126 billion USD in revenue over a 17-year period (Dunyabulteni, 2017). This fund, which was established as an off-budget institution (DEİK, 2013: 32), has a size of 33.1 billion USD by the year 2017 (Swfinstitute, 2017).

4. TURKEY'S SWF (TSWF)

It is thought that it is necessary to establish a SWF in Turkey because of the reasons such as the non-existence of liquidity problems in countries with SWFs, less influence from the fluctuations in the economy and constant increase in fund size. The draft law on the establishment of SWF is approved by the Parliament on the 19th of August 2016, is issued by the Law No. 6741, and is published in the Official Gazette dated 26th of August 2016 (Kayıran, 2016: 69). The initial capital of Turkey's SWF (50 million Turkish Liras) has been covered by the Specialization Fund (Resmigazete, 2017). The fund is affiliated with the Prime Ministry and is subject to private legal provisions as a joint-stock company governed by professional management principles (Turkiyevarlikfonu, 2017). The chairman and the board of directors consisting of at least five people, as well as the general manager, are appointed by the Prime Minister. The chairman, the board of directors and the general manager are required to have at least 5-year experience in at least one of the fields such as economics, finance, law, public finance, and banking. The 3-year strategic investment plan which includes Turkey's SWF (TSWF) and the sub-funds to be established within, is to be prepared by the Board of Directors and would be enacted by the approval of the Council of Ministers (Remzigazete, 2017). Being subject to the provisions of private law with the provisions of Law No. 6741, Turkey's Wealth Fund Management Company (*Türkiye Varlık Fonu Yönetimi A.Ş.)* is capable of carrying out all kinds of money market transactions, commercial and financial activities, project development, Project-based resource creation, external project loan provision and other methods of resource allocation transactions in both national and international secondary markets. It is also eligible to buy and sell shares of domestic and foreign companies, derivative instruments, rent, and real estate certificates, specially designed foreign investment instruments; to participate in national investments and investments to be made in other countries and/or foreign companies in international areas (Resmigazete, 2017).

TSWF, while setting its operations transparently, needs to implement its governance principles based on globally accepted professional management principles. The decisions to be taken by the fund on determining investment strategies for its assets should be sustainable in the long- run. Also, it should identify and regularly report the risks that may arise about operations and fulfill its responsibilities by the founding law and relevant legislations **(**Türkiyevarlıkfonu, 2017).

TSWF and its affiliations to be established are subject to independent auditing. The annual financial statements and activities approved by the independent auditing are to be inspected by at least three central auditing specialists (experts in such fields as capital markets, finance, economics, public finance, banking, and development) assigned by the Prime Minister in compliance with independent auditing standards. The inspection report is to be submitted annually to the Council of Ministers and the reports, financial statements and activities belonging to all companies and sub-funds to be operated are to be audited annually by the Parliamentary Planning and Budget Commission (Karagöl and Koç, 2016: 19).

When the countries that have established their SWFs are considered, it is seen that these countries are basically energy-exporting countries with more savings. Also, considerable amounts of foreign currency reserves and foreign currency inflows regarding natural resource exports exist in these countries. The need for utilizing the foreign currency surplus in higher yielding areas and the eagerness for investing them abroad are stated as the grounds for the establishment of SWFs. Turkey, on the other hand, as an energy-importing country that incurs current account deficits in savings, has no foreign currency surplus. The purpose of establishing TSWF mainly involves external borrowing to provide financing the internal markets.

The recently established TSWF has started to take place in international organizations. TSWF has been accepted as the 32nd member of the International Forum of Sovereign Wealth Funds (IFSWF), which consists of 30 different funds from 28 countries (Sabah, 2017). As of February 2017, the value of the TSWF, whose target is 200 billion USD, has reached 31.3 billion Turkish Liras (Hurriyet, 2017).

4.1. Objectives and Resources of TSWF

TSWF aims to contribute to the improvement and development of the economic stability of the country and to manage publicly-owned assets more effectively and productively; to create a stronger Turkey for future generations by adding value to the existing public wealth, to borrow money from abroad and to finance the internal markets (Turkiyevarlikfonu, 2017).

With TSWF to be established in Turkey, it is expected that the country would reach its long-term macroeconomic targets. Taking the draft statute regarding the establishment of TSWF into account, it is aimed to achieve an extra annual growth of 1,5% within the next decade, to accelerate the growth and deepening of the capital markets, to increase the employment with the investments to be realized, and to finance the huge projects that would contribute to the development of the country. In addition, as a result of a strong and transparent institutional infrastructure, international investors would be able to invest in the country, and the use of Islamic financing assets would become widespread. Foreign strategic sectors such as oil and natural gas, which are important for the country, can be directly invested without being bound by legal and bureaucratic restrictions (TBMM, 2016: 35). The main objectives of the Turkey's Sovereign Wealth Fund Company can be expressed as follows (Turkiyevarlikfonu, 2017):

- To contribute to economic growth by providing value increase in important public assets,
- To support the development of assets eligible for participation financing,
- To maintain the diversity and depth of the capital markets,
- To attract more investors' interest in Turkey and to provide capital for new investments,

- To establish and manage TSWF and its subsidiary funds in order to develop strategically important sectors and to participate in large-scale investments.

The resources of TSWF are expressed as follows (Turkiyevarlikfonu, 2017):

- The establishments/assets which are decided to be devolved on the TSWF by the Privatization High Council within the scope of privatization program, as well as cash surplus decided to be transferred from the Privatization Fund
- The excessive revenues, resources, and assets which are decided to be transferred to TSWF by the Council of Ministers,

Although TSWF was allowed to be funded with a very low level of initial capital, it is allowed to provide TSWF with resources from either privatization revenues with the verdict of the Privatization High Council or public funds and revenues with the approval of the Council of Ministers or even unlimited borrowing without permission of Undersecretariat of Treasury (Kayıran, 2016: 80).

Some of the publicly-owned companies in the Treasury and some of the companies in the privatization program are transferred to TSWF (NTV, 2017). The following institutions and resources are transferred to TSWF and are included in its portfolio (Turkiyevarikfonu, 2017):

- 49.12% of the shares that belonged to Turkish Airlines A.O.
- 6.68% (owned by the Treasury) of the shares in the capital of Türk Telekomünikasyon A.Ş.
- The entire shares (owned by the Treasury) in the capital of T.C. Ziraat Bankası A.Ş.
- 51.11% of the shares that belonged to Türkiye Halk Bankası A.Ş.
- The entire shares (owned by the Treasury) in the capital of Türkiye Petrolleri A.O. (TPAO)
- The entire shares (owned by the Treasury) in the capital of BOTAŞ.
- The entire shares (owned by the Treasury) in the capital of PTT.
- The entire shares (owned by the Treasury) in the capital of TÜRKSAT.
- The entire shares (owned by the Treasury) in the capital of Borsa İstanbul (BIST) A.Ş.
- 49% of the shares held in the capital of the Turkish Maritime Lines Inc.
- 10% share of Kayseri Şeker Fabrikası A.Ş.
- Eti Maden (Eti General Directorate of Mining Operations)
- General Directorate of Tea Enterprises
- 49-year license rights for lottery games played in cash,
- Turkey Jockey Club's license rights for domestic and international horse racing rights (for 49 years as of January 1, 2018),
- Some real estates that are properties of the Treasury in Antalya, Aydın, Istanbul, Isparta, İzmir, Kayseri and Muğla.

It is also decided that the TCDD İzmir Port will remain under the control of the TCDD until the transfer process is completed and that it will continue to be operated by the TCDD (Turkiyevarlikfonu, 2017).

4.2. Economic and Political Requirement for Establishing TSWF

Turkey's specialization in technology-intensive sectors such as software and defense industries, increasing its resilience against regional and global crises, having a steadily growing economy that would not be affected by economic fluctuations are necessary for Turkey to achieve its objectives. In order to have such an economy, the establishment of a SWF specific to the country looms large as an important option (Sürekli and Yalçıner, 2015: 15).

TSWF would play an important role to provide financing for important national projects such as increasing savings and investments; constructing highways, bridges, and high-speed railroads; and providing resources from the fund instead of loans for investments needed especially in the industry. By providing funding for projects that would be effective in reducing foreign dependency, domestic sectors would flourish, and new employment areas would be created with new projects. TSWF would enable Turkey to have more say in the international arena, allowing for expansion of maneuvering areas from economic, social and political aspects (Türkiyevarlıkfonu, 2017).

5. CONCLUSION

The SWF model, which has become increasingly important in the world throughout recent years, is seen as an option for achieving Turkey's economic and foreign political goals.

SWFs were established by countries to convert savings and foreign exchange surpluses into foreign investments and to transfer the proceeds to future generations. Turkey's SWF (TSWF) is established with the aim of foreign borrowing to finance the internal markets.

Upon investigation of the leading SWFs in the world; it is seen that Azerbaijan, Abu Dhabi, and Norway provide resources for the fund by using oil revenues, while China utilizes non-commodity sources as the means of funding. Turkey, on the other hand, prefers resources such as privatization revenues and public revenues. Regarding funding resources, 57% of SWFs are based on oil and gas revenues, and 43% are based on non-commodity revenues.

As a result, the recently established TSWF would provide Turkey with significant opportunities for reaching its targets of the years 2023, 2053 and 2071; for carrying out its gigantic projects, and for development and improvement of the country. Furthermore, it is thought that international investors would invest in Turkey with the effective operations of TSWF and contribute to the growth of the Turkish economy along with the revenues.

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