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Sovereign wealth funds pull $90bn from asset managers

State-backed investment vehicles grapple with low commodity prices and disappointing returns

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OCTOBER 9, 2016 by: Attracta Mooney

Sovereign wealth funds have pulled almost $90bn from asset managers over the past two years, as state-backed investment vehicles grapple with low commodity prices and disappointing returns.

The outflows mark the longest sustained period of redemptions, adding pressure to asset managers already smarting from a low-yield environment and volatile markets.

According to eVestment, the data provider, sovereign wealth funds withdrew at least $86.5bn from investment houses during the two years to the end of June. In the last quarter alone, sovereign funds pulled a net $15.8bn from asset managers — the second-highest level of quarterly redemptions since eVestment began gathering data in 2006.

Ian Smith, a partner focusing on investment management at KPMG, the consultancy, said: "There has been a lot of flows out [of asset managers from state funds] because of the lower oil price and the repatriation of assets for

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activities domestically."

Some governments in oil-rich countries have been forced to raid their wealth funds in response to the decline in the oil price, which has more than halved in price since mid-2014.

The Norwegian government has tapped the Scandinavian country's $890bn oil fund, the largest sovereign wealth fund in the world, for almost $6bn this year.

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Moody's, the rating agency, has predicted that sovereign outflows would be at least 25 per cent higher in 2016 than in 2015, due to the low oil price.

There are now hopes that an agreement between the world's biggest oil producers to cut production, which was reached last month, will help drive up the price of oil. This could help slow down or end redemptions by some sovereign funds.

Peter Laurelli, vice-president of research at eVestment, said: "[State funds] face a diverse set of unique factors impacting their decisions related to external asset managers. Over several years, we have seen a positive relationship between commodity prices, particularly oil, and [state fund] flows to external managers.

"It is normal to be concerned when large investors are persistently redeeming assets."

The eVestment figures are based on data supplied by asset managers on their sales and redemptions. Some asset managers, including BlackRock, the world's largest fund house, do not disclose their dealings with sovereign funds.

Michael Maduell, president of the Sovereign Wealth Fund Institute, the research provider, said the low oil price was not the only reason state-backed investment vehicles had reduced their reliance on investment managers in recent years.

"Bad performance" by fund houses, a shift in asset allocation and a need for liquidity were also factors, he said. "In some cases, [state funds are] looking to have more cash on hand for opportunistic deals."

Some sovereign funds are also taking back cash from asset managers to manage it themselves, Mr Smith added.

Additionally, there are signs that sovereign wealth funds are redeeming money from asset managers in an attempt to diversify their investment portfolios. Research by Invesco, the US fund manager, earlier this year found that state funds are piling into property at an unprecedented pace as they seek higher returns.

Sovereign funds including the Qatar Investment Authority, the ninth-largest sovereign fund in the world, have made a spate of high-profile property investments over the past year. The Qatar fund purchased Asia Square Tower 1 in Singapore's Marina Bay business district in June.

According to eVestment, gross new money flowing to asset managers from

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state-backed investors has fallen to its lowest level since at least 2011. "That speaks to the breadth of redemption pressures," said Mr Laurelli.

The consistent outflows since mid-2014 are a sharp reversal of the investment pattern of previous years. State-owned funds allocated more than $50bn to asset managers during 2011 and 2012.

A study by Bocconi University in Milan earlier this year also found that sovereign wealth funds are investing less money directly than at any time in the past few years, marking the end of the safety net whereby state-backed vehicles mopped up assets in times of market stress.

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