The Nightly Business Report
Sovereign Wealth Funds – Friendly Investors?
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The sub prime lending crisis, credit crunch, and slowing US economy have caused some liquidity problems, notably in the financial sector.

Into the breach have come sovereign wealth funds. There are many of them globally, commanding close to 3 trillion dollars in assets. Some, like those in Abu Dhabi and Singapore, have been investing for years. But now they and others are making large, high profile investments to bolster public companies, such as Citigroup, UBS, and Merrill Lynch.

Raising capital from sovereign wealth funds has advantages. Large sums can be delivered quickly, and the funds have been passive investors.

But there is a concern. These funds are state owned. They lack transparency about investment objectives and the size and composition of their portfolios. Suppose these funds decide to become activist investors. Suppose they demand board seats or tell managements and boards what to do. Suppose they act based on the agenda of the states owning them – states whose agendas may run counter to the well-being of the companies in which they invest. This could be alarming. As a director of US public companies, I see the possibility.

One remedy: set disclosure benchmarks for sovereign wealth funds to sign onto. There is growing support for this. The IMF is taking the lead, and we should strongly support this effort.

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