There is no one-size-fits-all approach to sovereign finance

In a volatile world, the strength of a sovereign wealth fund lies in its ability to fulfil its specific, sovereign purpose. BY KHOO GUAN SENG AND ANNIE KOH

AS WE navigate the opening weeks of 2026, the global financial landscape finds itself at a curious crossroads.

While traditional markets grapple with the long tail of the "polycrisis" – the intersection of geopolitical fragmentation, climate volatility and the radical recalibration of labour markets by generative artificial intelligence – one sector stands as a monolith of comparative stability: sovereign wealth funds (SWFs).

By mid-2025, assets under management (AUM) held by these state-owned investment vehicles surged to an estimated US$14 trillion. To put that in perspective, this pool of capital is now larger than the combined gross domestic product of several Group of Seven nations.

Yet, as the sheer scale of sovereign capital grows, so too does a persistent, traditional habit among analysts, policymakers and the public: the compulsion to rank and compare these funds as if they were competing in the same race on the same track.

In the hallways of Raffles Place offices and the boardrooms of the Dubai International Financial Centre alike, the debate often centres on who "outperformed" whom. Did Norway's Government Pension Fund Global (GPFG) beat GIC in its rolling 20-year return? Is Temasek's portfolio more resilient than that of the Abu Dhabi Investment Authority?

These questions, while tempting in their simplicity, ignore a fundamental truth of sovereign finance: Sovereign wealth funds are not a monolith. They are bespoke instruments of national policy, and in the world of sovereign capital, one size does not – and cannot – fit all.

The Singaporean paradox: A tale of two engines

Nowhere is the need for context-specific appraisal more evident than in our own backyard.

Singapore is unique globally for maintaining two distinct sovereign entities – GIC and Temasek – alongside the Monetary Authority of Singapore (MAS). They are often lumped together under the "Singapore Inc" banner, yet their mandates are distinctly different.

GIC functions as the prudent custodian. Its primary mission is to preserve the international purchasing power of Singapore's foreign reserves.

Its risk appetite is dictated by its role as a "rainy day" fund, focused on long-term inflation-beating returns with a heavy emphasis on global diversification and downside protection.

Temasek, conversely, is an investment company. It owns assets. It builds ecosystems. While it seeks sustainable long-term returns, its DNA is rooted in commercial enterprise and strategic development.

When Temasek invests in a nascent biotech firm or a regional fintech unicorn, it isn't simply seeking a dividend; it is often catalysing an industry that could define Singapore's future economic relevance.

Comparing GIC's performance against Temasek's is not just comparing apples to oranges; it is comparing a shield to a sword. One is designed to protect; the other is designed to forge. To judge GIC for being too conservative or Temasek for volatility is to fundamentally misunderstand the architecture of Singapore's financial resilience.

The global spectrum: From stabilisation to transformation

As we look beyond our shores, the diversity of the SWF universe becomes even more pronounced. The drivers behind a fund's inception dictate its asset allocation and, ultimately, its definition of success.

For many emerging markets in Africa and Latin America, the SWF is a survival mechanism.

Commodity-backed funds in nations such as Chile or Botswana often operate as stabilisation funds. Their goal isn't necessarily to maximise alpha; it is to act as a macroeconomic shock absorber. When copper or diamond prices plummet, these funds inject liquidity into the national budget to prevent social collapse.

For these funds, high liquidity and low-risk assets are the priority. A 2 per cent return in a year of domestic crisis is a monumental victory, even if a private equity fund in New York would call it a failure.

Then, there are the savings funds, epitomised by Norway's GPFG.

With a demographic cliff looming, Norway's mandate is intergenerational equity: converting today's transient oil wealth into a permanent endowment for citizens of 2080. Its horizon is not the next fiscal quarter, but the next century.

This allows it to stomach short-term market drawdowns that would trigger a leadership crisis in a more politically sensitive fund.

Finally, we see the rise of the strategic development SWFs, most notably in the Middle East.

Saudi Arabia's Public Investment Fund is perhaps the most aggressive example of using sovereign capital as a tool for total national transformation. Its performance cannot be measured solely by a profit and loss statement; it must be measured by the number of non-oil jobs created, the birth of a domestic tourism sector and the localisation of manufacturing.

Comparing GIC's performance against Temasek's is not just comparing apples to oranges; it is comparing a shield to a sword, say the writers. PHOTO: BT FILE

The "polycrisis" and the new mandate of resilience

In 2026, the definition of sovereign success is shifting yet again. We are no longer in an era of "peace dividend globalisation". Today's SWFs are being asked to solve the triple bottom line: financial returns, strategic autonomy, and the green transition.

The concept of a "polycrisis" – where multiple global emergencies are inextricably linked – has forced SWFs to become the ultimate insurers of last resort.

We see this in the surge of friend-shoring and near-shoring investments. National funds are increasingly allocating capital towards securing supply chains for critical minerals, semiconductors and food security, with trusted allies and nearby countries.

When a fund invests in a domestic green hydrogen plant that might not be profitable for a decade, is that a "bad" investment? Not if it secures the energy independence of the nation. This is where traditional financial benchmarking fails. Standard metrics such as the Sharpe Ratio do not account for the value of national security or social stability.

The governance frontier

If mandates differ, so too must governance. The global community has long looked towards the Santiago Principles as the gold standard for SWF transparency. However, as funds move more aggressively into private markets – real estate, infrastructure and venture capital – the transparency debate has become more nuanced.

For a fund such as Singapore's GIC, which manages a significant portion of the nation's reserves, a certain level of discretion is a strategic necessity.

Revealing the full extent of the reserves could invite speculative attacks on the Singapore dollar during times of extreme market stress. Here, the demand for total transparency clashes with the sovereign's duty to protect the currency.

Conversely, for development funds in emerging economies, transparency is the only way to attract foreign co-investment. Without institutional-grade reporting, these funds cannot act as the bridge they are intended to be between global capital and domestic projects.

A mirror of national ambition

The US$14 trillion currently managed by SWFs represents more than a pile of capital; it is a collection of national biographies. Each fund is a reflection of a country's unique ambitions, its resource endowments and its specific fears for the future.

For the Singaporean investor or business leader, understanding this diversity is crucial.

We must resist the urge to simplify. When we see headlines decrying a particular fund's "underperformance" relative to a global index, we must ask: What was the mission? Was it to beat the S&P 500, or was it to ensure that a nation could continue to import grain during a maritime blockade? Was it to maximise dividends, or to ensure that the next generation of Singaporeans inherits a city-state that is still a global node of innovation?

In a world that is becoming increasingly fragmented and volatile, the strength of a sovereign wealth fund lies not in its ability to mimic its peers, but in its ability to fulfil its specific, sovereign purpose.

Comparison may be the thief of joy, but in sovereign finance, it is the thief of context. As we move further into this decade, let us judge our national custodians not by a single, arbitrary yardstick, but by how well they navigate the unique currents of our own national destiny.

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