

1. The Aurora Sovereign Wealth Fund (ASWF) of the fictional country Eldoria is a state-owned investment vehicle established to invest the country's surplus oil revenues. ASWF manages USD 700 billion in assets and is focused on diversifying Eldoria's wealth away from reliance on the country's natural resources. A sizable portion of the fund's portfolio is allocated to alternative investments, particularly in direct infrastructure projects, private equity (PE), and private debt.

ASWF's core investments include:

- Direct infrastructure investments: ASWF owns stakes in Eldoria's national highway system, a fiber-optic broadband network across Southeast Asia, and renewable energy assets in wind and solar power in South America.
- Infrastructure funds: ASWF has invested in several global infrastructure funds that hold assets in airports, utility grids, and water management systems across Europe, North America, and Oceania.
- Private equity: ASWF holds direct investments in health care technology startups within Eldoria and participates in established PE co-investments in clean energy companies, biotechnology firms, and logistics networks in Asia.
- Private debt: ASWF has substantial allocations to private debt funds focused on real estate and small-to-medium enterprises (SMEs) in emerging markets. It also engages in co-investments in real estate-backed private debt in North America.

ASWF aims to balance the high returns offered by alternative assets with Eldoria's goals of long-term financial stability and economic growth. However, the high concentration in these alternative investments presents unique financial and nonfinancial risks that require careful management.

Question 1 of 4

Identify two financial risk exposures in the Aurora Sovereign Wealth Fund's portfolio strategy.

Discuss how these risks might impact ASWF's objectives of growing Eldoria's wealth in a prudent manner.

2. Question 2 of 4

Discuss *one* method specific to ASWF's portfolio that the fund employs to manage the risks associated with its long-term direct investments, particularly in infrastructure and private equity.

Identify and **discuss** *one* new method ASWF could adopt to enhance its risk management framework.

Provide a specific example from ASWF's portfolio that could apply to the new method identified.

3. Question 3 of 4

Identify the type of sovereign wealth fund that ASWF most appropriately exemplifies from the choices listed below.

(Budget Stabilization Fund, Savings Fund, Development Fund)

Justify your answer. For the type of sovereign wealth fund named, include a brief description of its typical asset allocation.

4. Question 4 of 4

Describe *two* types of legal and/or regulatory constraints that sovereign wealth funds (SWFs) face when investing.

Show how these constraints impact the funds' governance and investment strategies.
