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Advisory | Institutional Investors

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A United States Sovereign Wealth Fund: First Impressions

On February 3, 2025, President Donald Trump issued Executive Order 14196 (the "**EO**") directing the Secretary of the Treasury and the Secretary of Commerce, in coordination with the Assistant to the President for Economic Policy, to develop a plan for the establishment of a United States sovereign wealth fund. With the aim of promoting the "the long-term financial health and international leadership of the United States," Treasury Secretary Scott Bessent called the creation of a US fund an issue "of great strategic importance" that President Trump foresees becoming one of the largest in the world. "The Saudi Arabia fund is on the larger side," noted President Trump, "but eventually we'll catch it."

This GT Advisory analyzes the EO, considers the place of a US sovereign wealth fund within the architecture of the United States Government, and explores the fund's likely purposes, sources of funding, investment thesis, potential structure, and important governance and other operational considerations.

I. The Executive Order

The EO is one page in length and light on details. It states that US policy is to "maximize the stewardship of our national wealth for the sole benefit of American citizens," and recognizes the nation's interest in:

- promoting fiscal sustainability;
- lessening the burden of taxes on American families and small businesses;

- establishing economic security for future generations; and
- promoting US economic and strategic leadership internationally.

The EO calls for the development of a plan that includes recommendations for funding mechanisms, investment strategies, and governance, as well as an evaluation of the legal considerations for establishing and managing the fund, including any need for legislation. The plan is due in 90 days from the date of the EO.

A copy of the EO is attached as an Appendix to this article.

II. Background on SWFs

A. *SWFs in the United States*

The idea of a federal sovereign wealth fund for the United States is not new. President Trump promoted the creation of a sovereign wealth fund ("**SWF**") during his presidential campaign, and President Biden expressed interest in such an initiative during his administration. A bill was even introduced in the House of Representatives last year (H.R. 9543) to explore the creation of a SWF.

Moreover, other SWFs within the United States already exist. More than 20 states, including Alaska, New Mexico, North Dakota, Texas, and Wyoming, have SWFs, some of which date back to the 19th century. Several Native American tribes and Alaska Native Corporations also have established (or are themselves) funds similar to SWFs.

The federal government is already an active investor in private enterprises through In-Q-Tel, the Central Intelligence Agency's venture capital arm, and International Development Finance Corporation, an agency of the United States that invests in development projects abroad. The United States also supports domestic and international investment – via equity, debt, mezzanine financing, loan guarantees, grants, and other measures – through the Small Business Investment Company (SBIC) program of the Small Business Administration, US Agency for International Development, US Trade and Development Agency, the Defense Innovation Unit of the Department of Defense, the National Institute of Health, and the Export-Import Bank of the United States, among others.

B. *Proliferation of SWFs Globally*

Should the United States decide to form a SWF, it will join the ranks of more than 60 countries with SWFs, some of which have multiple funds at both national and provincial levels. Seven new funds were formed in 2024, and five were established in 2023. Collectively, SWFs worldwide hold over $13 trillion in assets.

SWFs take many forms, including stabilization funds, savings funds, development funds, pension reserve funds, reserve funds, and strategic investment funds formed for one or more diverse purposes, including:

- to manage a country's foreign reserves (e.g., Singapore);
- to manage a country's surplus revenues from the exploitation of natural resources (e.g., Kuwait);
- to help a country meet the cost of future pension obligations (e.g., Australia);
- to finance infrastructure and other national projects (e.g., Indonesia);
- to own and manage government assets (e.g., Malaysia);

- to provide a cushion against economic volatility (e.g., Chile);
- to accumulate savings for future generations (e.g., Norway);
- to support national economic growth and employment (e.g., Ireland); and
- to help achieve greater economic diversification (e.g., Saudi Arabia).

III. Purposes of a US SWF

While the exact direction of a federal SWF is currently uncertain, initial public statements from President Trump and others in his circle suggest it will be a blend of a savings, development, and strategic investment fund:

- As a savings fund, it would seek to accumulate and preserve wealth for future generations.
- As a development fund, it would seek to invest in projects and initiatives that promote economic growth and development within the country.
- As a strategic investment fund, it would aim to achieve specific policy objectives or support industries deemed important for national interests.

IV. Funding Mechanism

An important question for a prospective SWF is the source of its funding. Most nations fund their SWFs with budget surpluses, foreign exchange reserves, or commodity exports. These sources are largely unavailable to the United States, for several reasons.

A. *Fiscal Constraints*

First, the US federal government budget has run a deficit each year since 2001, and since 2016 spending increases have outpaced the growth of federal revenue. As of February 7, 2024, the US national debt was $36.22 trillion, and in 2024 alone the US spent $882 billion in debt service. Nearly $1 out of every $5 in taxes collected pays interest on prior borrowings. Raising taxes to fund a SWF is inconsistent with the EO's stated goal of lessening the burden of taxes and is unlikely under a Republican-controlled Congress; meanwhile, tariffs proposed by President Trump are estimated to raise only $20 billion in revenue in 2025 according to the Committee for a Responsible Budget, a non-profit public policy organization.

Second, while the US holds foreign currency reserves, those reserves are relatively modest. Because the US dollar is the world's primary reserve currency, the United States has less need than most to hold large amounts of foreign currency. According to the International Monetary Fund, as of 2023, US foreign currency reserves were around $234 billion, a stark contrast to the reserves held by countries like China, which surpass $3 trillion. Nor does the United States enjoy the trade surplus that is the source of funding for some countries.

Third, the US Government does not own oil and gas companies the way some countries do. Although the United States has substantial land and offshore areas rich in natural resources, the exploitation of such properties is generally handled by private companies via leases for exploration and production. The revenue from these leases is directed into the Treasury's general fund and, when applicable, shared with state governments where extraction takes place. This revenue supports a variety of federal government activities and programs, such as conservation and reclamation projects, and contributes to the overall federal budget.

Such revenues would need to be redirected from the currently supported expenditures in order to fund a SWF.

Finally, it is worth noting that the United States already faces challenges in funding its obligations to future generations of retirees. In roughly a decade, on current trends, social security will face a shortfall without changes to benefits or fresh funding.

Thus, given its fiscal constraints, the United States would need to approach SWF financing creatively.

B. *Monetizing the Balance Sheet*

Treasury Secretary Bessent suggested that a federal SWF could be funded by monetizing the asset side of the US balance sheet. Indeed, according to a White House Fact Sheet, the federal government directly holds $5.7 trillion in assets, and a far larger sum indirectly (including through natural resource reserves). For instance, US gold reserves alone are massive. The Treasury Department estimates that the US owns 261.5 million troy ounces, enjoying a fair market value of approximately $762.5 billion (based on a spot price of $2,916 as of February 12, 2025). The US owns billions of dollars of real estate and also holds 207,000 bitcoin – worth over $20 billion based on current valuations – which could help seed the nascent fund.

The SWF may need to liquidate these largely illiquid assets in order to monetize them. With an Administration intent on shrinking government, one could envisage the privatization of federal buildings, land, and other assets to raise capital, though that process is complex, regulated, time consuming, and potentially fraught with legal challenge. Other countries (such as Australia and New Zealand) have funded their SWFs through the privatization of government resources.

Alternatively, a SWF could achieve liquidity by borrowing against its balance sheet, although the fund's ultimate legal structure, regulatory requirements, and other factors will impact the likely availability of this avenue. Unlike the issuance of government bonds which are backed by the "full faith and credit of the US Government" – a promise rooted in the strong creditworthiness of the United States and historical record of meeting its financial obligations – a loan by a SWF structured as an entity separate and apart from the government may require it to use its assets as collateral. Access to liquidity would permit the SWF to do more than merely steward existing assets.

C. *Capitalizing on US Research & Development*

Historically, the United States has not made a priority of capitalizing on the many technological advances made possible through federal research funding. The internet, GPS, fiber optic communications, human genome sequencing, and horizontal drilling and fracking are just a few of the many innovations supported by federal funding that have generated tremendous economic value but for which the US Treasury has received little to no direct financial remuneration. For instance, the total economic impact of the National Institutes of Health (NIH) research funding has been estimated in the hundreds of billions, highlighting the potential for financial returns on federal investments in research. While the existing US model of partnership with research institutions and private industry has arguably made the US the world leader in scientific innovation, the creation of a SWF that seeks to promote fiscal sustainability and create intergenerational wealth may augur a paradigm shift in thinking about how the country can monetize its support for important scientific research as well.

V. Investment Strategies

A. *Power Broker*

Little is known about what investments a proposed federal SWF will pursue, although President Trump suggested that the fund could be used to acquire a stake in a prominent Chinese social media platform. President Trump's proposal highlights his obvious strategic aims for a SWF, while Commerce Secretary Howard Lutnick's suggestion that the United States should receive warrants and equity from government suppliers like vaccine manufacturers previews how such a fund could grow its balance sheet in non-traditional ways. By brokering transactions in exchange for equity, warrants, or other compensation – some of which may require no financial outlay of its own – a US SWF may reap the benefit of creative deal making and leveraging the US Government's considerable purchasing power. Indeed, query whether the Trump Administration would seek to tie CFIUS or other regulatory determinations to the SWF's participation in potential transactions.

B. *Infrastructure*

One area where a federal champion of deal making could be useful is infrastructure. President Trump has repeatedly promised, both as a candidate and as the nation's chief executive, to invest heavily in US infrastructure, an area of clear need in the United States that the federal government cannot tackle alone. The US infrastructure gap – i.e., the difference between the current state of infrastructure investment and the level of investment needed to maintain and improve infrastructure systems – is massive. In 2021, the American Society of Civil Engineers estimated that the United States will face a funding gap of more than $2.6 trillion by 2029 and more than $5.6 trillion by 2039 if investment trends continue unchanged. While the $4.2 trillion US municipal bond market has remained the primary vehicle for US infrastructure investment for more than a century, there is undoubtedly capacity for additional, innovative investment structures to complement this time-tested market. Many institutional investors are attracted to infrastructure as an asset class, but non-traditional asset ownership structures can be challenging for regulatory, political, and other reasons. A federal institution that could help arrange or facilitate deals may spur the investment that the US desperately needs by leveraging important government and political relationships, building public support, and catalyzing public-private partnerships.

C. *A Future Limited Partner?*

Given the illiquid nature of a portfolio of existing US balance sheet assets, the US may not – at least in the short term – be looking to compete with institutional investors for private equity or other deals. Nor does it seem likely that a federal SWF will be looking to invest internationally, given President Trump's stated economic policies of fair and balanced trade, national energy dominance, and tax and regulatory relief. Based on the little we know, and at this early stage, the plans for a domestic SWF seem more strategic than financial, and those strategic aims may be better served looking within than without.

VI. Fund Structure

Treasury Secretary Bessent stated that the Trump Administration would "study best practices done around the world," and indicated that he expects the fund to be running within 12 months. Possible structures include:

- *Government Agency*. The SWF could be a division of an existing agency (or perhaps a newly constituted agency) of the federal government rather than a separate legal entity. Personnel from an existing agency, perhaps the Treasury Department, would be tasked with managing the fund, but the assets themselves would remain on the government balance sheet as a pool of assets without separate legal personality.

- *Management Company*. A newly formed company with dedicated employees could be created to manage government assets, but the assets themselves would remain on the government balance sheet. Such a company could be a statutory corporation, established by an act of Congress, authorizing its creation and defining its purpose, structure, and powers.
- *Management Company + Holding Company*. A newly formed company with dedicated employees could be created to manage government assets, and one or more holding companies could be created to own the fund's assets. Such companies could be statutory corporations.
- *GP / LP Structure*. President Trump suggested a SWF could partner with "very wealthy people," therefore suggesting an economic sharing arrangement resembling that of a private equity fund. While it is not entirely clear what he meant, one reasonable interpretation is that a US SWF would pursue club or co-invest deals alongside private actors, or even potentially manage pooled investment vehicles. Such an arrangement could be used in conjunction with any of the structures above as a downstream vehicle for particular deals.

As the United States explores its options, it would be wise to examine the examples set by SWFs in other countries and the US states. Each offers a potential model for the US to adopt and/or adapt.

VII. Legal Considerations for Formation and Management

There are three principal legal considerations for the formation and management of a US SWF: (i) the legal framework; (ii) governance; and (ii) transparency.

A. *Legal Framework*

It is important to consider how a SWF would function within the apparatus of the US Government, and to what extent Congressional involvement would be necessary or desirable for its formation, organization, and funding. The answers to many of these questions are uncertain, particularly as the Trump Administration has demonstrated a more expansive view of executive authority.

Nevertheless, a Congressional role for a US SWF is likely in at least a few areas:

1. Appropriation of Funds

Congress likely would need to appropriate the necessary funds to establish and maintain a SWF or choose funding options outside of the annual appropriations process, such as establishing a dedicated funding source based on taxes or fees that pays into the fund, much like the many federal government trust funds that are available to fund mandatory programs. Congress's spending power is a fundamental aspect of its legislative authority as outlined in the US Constitution, granting Congress the power to levy taxes, borrow money, and allocate federal funds to various programs and initiatives. Its "power of the purse" means that Congress is responsible for approving the federal budget, appropriating funds, and overseeing government expenditures.

Thus, legislation would be needed to authorize funding, or at least annual appropriations would need to be secured from Congress, giving the legislative branch considerable leverage over how any SWF would be designed and function.

2. Legislative Authority

Creating a SWF may require new legislation to define its structure, governance, and objectives. Congress would be responsible for drafting and passing such legislation.

3. Oversight

Congress would likely play a role in overseeing the SWF to ensure accountability and transparency in its operations, aligning with the broader principles of checks and balances within the US Government.

B. *Governance*

Governance refers to the processes, structures, and systems that a US SWF would use to make decisions, manage resources, and ensure accountability. It encompasses the overall framework within which the organization would operate, including its policies, procedures, and practices.

When considering best practice for governance, the Trump Administration may consider the Santiago Principles, a set of 24 voluntary guidelines prepared by the International Forum of Sovereign Wealth Funds to promote good governance, accountability, and transparency in the management of SWFs. These principles call for a well-defined governance framework that ensures the SWF operates independently from political interference. According to these principles:

- Its governance structure should be clearly set out in legislation, a charter, or other constitutive documents.
- It should establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.
- Members of its governing body should be appointed in accordance with clearly defined procedures and possess oversight over the fund's operations.
- Those tasked with operational management should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.

As the Trump Administration wrestles with these questions, it will be interesting to see who is tasked with management. Will it be persons from the Treasury, some other existing department, or persons appointed to a new department or legal entity altogether? Who will have oversight over the managers and operators – will it be a board of directors, and if so how will they be appointed? Most SWFs have a board of directors or trustees that provide oversight. They often operate with varying degrees of independence from direct government control, although they remain accountable to the state. To whom would such a body report, and what role might Congress play with respect to oversight?

Critically, a SWF will need to establish safeguards against improper influence and interference. A SWF is at risk of politicization; many public-sector actors, including within the United States, face considerable political pressure around their investment decisions. How might a SWF ensure its decisions are purely financial ones – or indeed, will that even be the standard? If the SWF is primarily strategic in purpose, then traditional financial investor considerations around asset diversification and so on may be less important – and indeed, any set of fixed parameters would not give the Trump Administration the likely flexibility it craves to use a SWF as a tool for its ambitions. Some countries use their national wealth as a tool for global influence, and it may be the Trump Administration seeks that, too. If so, hard and fast rules around portfolio construction and governance independent of executive branch policymakers may not be compatible with the administration's goals for the SWF.

Moreover, as a practical matter, it would be prudent to consider the role of any SWF within the context of overall US fiscal and monetary policy. Coordinating the operations of a SWF with fiscal and monetary policy – especially with Treasury and the Federal Reserve – can help ensure that its activities align with broader goals of economic stability, long-term fiscal health, and risk management.

C. *Transparency*

Closely intertwined within the notion of governance is the issue of transparency. Transparency is a component of good governance and involves openness, communication, and accountability. It means that a US SWF makes information available to stakeholders, allowing them to understand decision-making processes and assess the organization's performance. While governance can exist without transparency, effective governance typically requires a certain level of transparency to ensure accountability, deter cronyism, and build trust with stakeholders.

The Santiago Principles emphasize the importance of clear and open communication about the activities and governance of SWFs. They encourage SWFs to publicly disclose relevant information about their governance, investment strategies, objectives, and financial results. The goal is to ensure that SWFs operate in a transparent manner to foster trust and confidence among stakeholders, including governments, financial markets, and the public.

VIII. Conclusion

The establishment of a US SWF presents both an ambitious opportunity and a complex challenge for the federal government. As outlined in the EO, the creation of such a fund aims to bolster the nation's long-term financial health and international leadership. However, realizing these objectives will require careful consideration of numerous factors, several of which of which the EO has identified. The US may need to navigate its fiscal constraints creatively, possibly monetizing existing assets or leveraging its robust research and development capabilities to seed the fund.

Moreover, integrating the SWF into the broader tapestry of US fiscal and monetary policy could ensure that its operations support overall economic stability and growth. This alignment could enhance the fund's effectiveness in achieving its strategic goals, such as supporting infrastructure development and promoting national economic interests. As the US Government explores options for a SWF's potential structure, it may wish to study best practices from existing SWFs globally and within US states, adapting these models to fit the unique American context.

Critical to the fund's success will be a strong commitment to governance and transparency. Adhering to the Santiago Principles and fostering an environment of openness and accountability will not only build public trust but also safeguard against potential misuse and politicization. Ensuring that the SWF operates with clear guidelines, ethical investment practices, and rigorous oversight will be essential for maintaining credibility. As the plan for a US SWF takes shape, it will be essential for stakeholders to engage in thoughtful debate and collaboration to ensure that the fund serves its intended purpose of securing economic prosperity for current and future generations. This collaborative approach should include input from diverse sectors, including academia, industry, and civil society, to craft a robust framework that reflects the nation's values and aspirations.

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Presidential Documents

Title 3—

The President

Executive Order 14196 of February 3, 2025

A Plan for Establishing a United States Sovereign Wealth Fund

By the authority vested in me as President by the Constitution and the laws of the United States of America, and in order to promote the long-term financial health and international leadership of the United States, it is hereby ordered:

Section 1. *Policy and Purpose.* It is the policy of the United States to maximize the stewardship of our national wealth for the sole benefit of American citizens. To this end, it is in the interest of the American people that the Federal Government establish a sovereign wealth fund to promote fiscal sustainability, lessen the burden of taxes on American families and small businesses, establish ecoomic security for future generations, and promote United States economic and strategic leadership internationally.

Sec. 2. *Sovereign Wealth Fund.* The Secretary of the Treasury and the Secretary of Commerce, in close coordination with the Assistant to the President for Economic Policy, shall develop a plan for the establishment of a sovereign wealth fund consistent with section 1 of this order. The Secretary of the Treasury and the Secretary of Commerce shall jointly submit this plan to the President within 90 days of the date of this order. Such plan shall include recommendations for funding mechanisms, investment strategies, fund structure, and a governance model. The plan shall also include an evaluation of the legal considerations for establishing and managing such a fund, including any need for legislation.

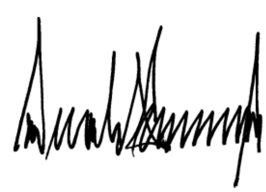
Sec. 3. *General Provisions.* (a) Nothing in this order shall be construed to impair or otherwise affect:

(i) the authority granted by law to an executive department or agency, or the head thereof; or

(ii) the functions of the Director of the Office of Management and Budget relating to budgetary, administrative, or legislative proposals.

(b) This order shall be implemented consistent with applicable law and subject to the availability of appropriations.

(c) This order is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by any party against the United States, its departments, agencies, or entities, its officers, employees, or agents, or any other person.



THE WHITE HOUSE,
February 3, 2025.